



Startup Ecosystem Report 2021

SIMODIS 
START-UP 

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Foreword



01

An Ecosystem Beyond Covid


At the beginning of every new year, we gather together, celebrate the passing of one year and hope for better as we enter a brand new one. As much as we hope for more and hope for better, no one could have predicted or prepared us for what 2020, 2021, 2022 and... would bring to the world. A pandemic created by a highly infectious virus. One whose origins are not really known, and one whose end may never come, because one day we will have to lose the masks and just learn to live with it. Hopefully life will go back to normal. But what is normal? With all of that as the background, businesses have to continue, pivot, change direction, and reconfigure themselves for the new normal. A lot of anxiety, but also a lot of excitement as we construct a new way of doing business. The intention of the 2021 Ecosystem report is to reflect on activities that took place in the startup ecosystem during 2020 and 2021. There were highs and lows, hits and misses, but once again, startups and entrepreneurs showed their resilience, and we are elated to say that our ecosystem went beyond surviving and has geared itself for a life beyond covid. The report also wishes to highlight that it takes a village of ecosystem players to raise a startup.

With the world navigating the second year of a pandemic, we knew we had to hit the ground running and do some important work in ensuring that South Africa's policies support existing startups and those which will emerge post the pandemic. Si-MODiSA, together with other organizations within the ecosystem, including Endeavour SA, SAVCA, Silicon Cape, i4Policy, Africarena, The Digital Collective and The Loudhailer, created a coalition Steering Committee that would be responsible for advocating for a Startup Act for South Africa. The SA Start-up Act Movement, which is a collective effort by startups, investors, government & academia is calling for interventions that speak directly to entrepreneurs who own high impact & scalable businesses in SA. We were able to garner support from the World Bank & the UK-South Africa Tech Hub, allowing us to host focus group sessions & release a Position Paper ([Download HERE](#)) in June 2021 that provides a holistic

overview of the challenges which hinder start-ups' ability to establish, grow & scale in SA. The Position Paper also lists recommendations from the ecosystem at large on how a #StartupAct will be valuable for South Africa. The Start-Up Act Movement initial recommendations as per the Policy Paper are: (i) Provide tax breaks and incentives to encourage investment in Qualifying Start-ups - Venture Capital Companies and appropriate incentives to increase access to capital; (ii) Remove barriers that inhibit access to skilled talent - Employment flexibility and special skills visas; (iii) Remove inhibiting regulatory barriers that hampers globalisation and investment into qualifying start-ups - Address Exchange Control Limitations; (iv) A qualifying start-up to be exempted from preferential procurement limitations - Automatic Level 1 BBBEE status for procurement and supply chain grading.

Other key highlights include an opportunity to represent the SA Start-Up Act Movement in Tunisia in October 2021 at the Africarena North Africa summit; participating in the President's ecosystem zoom call in October and having a few follow up call with the Office of the Presidency to progress some policy gaps for high growth, high impact start-ups.

The Startup Act movement is for all South Africans who wish to see progress and want an enabling environment for high growth, high impact startups to start, grow and scale globally. We wish to create a collective voice that will drive a collective effort to engage the South African government and together we build a country that attracts investments (locally and internationally), attracts and nurtures talent and create innovative enterprises that will scale, create jobs and contribute positively to our economy. We invite you all to join the movement



Matsi Modise -
Startup Act Steering Committee Chairperson





Join the Movement

www.startupact.co.za

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02

TechXit Digital Skills Optimisation Initiative



TechXit is a Digital Skills Optimisation Initiative launched by SiMODiSA, a non-profit public benefit organisation, established by high-impact entrepreneurs. It is the result of an extensive process of engagement with over 100 organisations, NPOs and stakeholders involved in the shaping, creation and delivery of digital skills in South Africa.

The TechXit initiative seeks to first and foremost understand why the digital skills supply gap is widening compared to the demand and formulate a 10 year + intervention program to stem the tide in collaboration with the broader digital skills supply and demand ecosystem. The initiative is different from others as it is led by industry and entrepreneurs who agree that the skills gap is larger than the jobs gap and are mobilising to do something about it.

Additional benefit from the initiative will include but are not limited to:

- shoring up digital skills education in schools (Phase 1 interventions)
- reducing the cost and consistency of digital skills pathways & training outcomes (Phase 2 interventions)
- the creation of a sustainable digital hub & apprenticeship infrastructure investment theses (Phase 3 interventions)
- a better marching of current and future supply and demand (Phase 4 interventions)
- This gap is driven by a number of factors including:
 - historical socioeconomic factors
 - current educational challenges, including its inability to augment and adjust curriculum in a fast-changing 4IR context
 - access to digital skills programmes, access to digital skills mentorship and apprenticeship
 - the significant increase in the demand for digital skills driven by the exponential rate of digitization in the world

- TechXit's Vision is for South Africa to become a digital skills powerhouse through ensuring that it has the right skills, at the right place and the right price to satisfy domestic and international demand at scale. The quantification of this vision is that the Techxit will develop the necessary digital skills, through programmes at a school, school-leaver, apprentice and intern level, to fill one million technology focused jobs. Achieving this target will require a re-appraisal of South Africa's current Digital Skills Value Chain.

In summary, there is currently a mismatch between the demand for digital skills and the supply of relevant, employable digital skills. Digital skills provided do not meet the expectations of employers and consequently not all of those who go through structured learning in digital skills are absorbed into employment. Employers resort to acquiring skills outside the country, (therefore importing the skills through outsourcing), learners remain unemployed or underemployed and the ROI on digital learning intervention is sub-optimised.

Balancing the Demand and Supply of Digital skills / talent requires an ongoing re-evaluation of the nature and type of Demand as technology develops and progresses at a high pace of velocity and change. It requires an ongoing re-evaluation of Supply as the sources of digital skills change and as curricula change to meet changes in Demand.

Optimising the relationship between the Supply and Demand for digital skills may require an advanced digital application or platform, capable of analysing interactions and information with built-in predictive analytics, Artificial Intelligence and Block-chain verification, to deliver actionable intelligence. This platform would allow suppliers of digital skills and skills development and employers to transact in such a way as to create an accredited marketplace for digital skills. Economic and other incentives may then be applied to optimise the necessary balance between Demand and Supply.

The issue of funding digital skills development is of critical importance. The following principles will be explored as potential ways of increasing the availability of funding for digital skills:



TechXit Digital Skills Optimisation Initiative (continued)

- Redirect existing spend to re-shore work: Working with dti, National Treasury, the Department of Labour as well as local governments to provide incentives to the formal sector to re-direct 20% of their current offshore spend on digital and professional services to an in-shoring programme. Such services (software development, QA, digital design, AI, etc.) will be delivered through the creation of new service providers as well as the enabling of existing service providers, in certified 'Centres of Excellence' (COE's).
- Allocate 20% of funds towards ecosystem support: To fund COE's with the skills required, it is proposed that 20% of the fees received for services rendered should be paid into ecosystem Digital Skills Hubs (DSHs). DSHs would enable the training and development of digital skills within schools (10%) and outside schools (10%). This would be achieved through the development and enablement of the existing 200+ digital skills ecosystem partners, within a certified digital skills framework.

The TechXit initiative supports the view that it is necessary for Industry and the Government to collaborate on the creation of a 10+ year intervention programme, enabled through collaboration amongst digital skills ecosystem players. In doing so,

the digital / technology sector in South Africa could become one of South Africa's biggest economic growth opportunities as it creates hundreds of thousands of local job opportunities and generate billions of rand in domestic earnings and revenue inflows from digital work outsourced to South Africans.



03

Creating an Enabling Environment for High Growth Scale Ups to Thrive



South African Venture Capital investors have increased investment in local start-ups and scale-ups, reaching almost R1.39bn in 2020. Even at this level of investment, it is not enough to propel high-growth SMEs to reach their full potential on a global scale. These SMEs often have to seek international capital and partnerships to support their growth and international competitiveness. Despite policy makers' engagement, and improvements in the investment landscape, local founders and their investors are still facing hurdles that inhibit their ability to contribute to the country's recovery.

The need to raise international capital is due to the limited size of the venture capital industry in South Africa and / or because of the strategic benefits that foreign investors bring, which may include access to larger overseas markets, know-how and skills development, exposure to deeper networks, and interactions with the leading technology companies (e.g. Microsoft, Google, etc.). These benefits being over and above the equity capital the investors contribute. In addition, the venture capital markets in developed regions (such as the United States and the European Union) are arguably more mature, which often results in companies fetching higher valuations than in their local markets. As such, the competition for international venture capital funding is fierce making it difficult to attract foreign capital. However, should the South African SME manage to do so, they are well positioned to scale internationally.

SAVCA, together with a number of ecosystem participants, are engaging with policy makers on the following key aspects to ease some of the regulatory burden that may prevent South African SMEs from scaling internationally:

1. The implementation of further exchange control relaxations, specifically for start-ups and scale-ups, which would allow these companies to raise international capital and report transactions to the South African Reserve Bank ("SARB") rather than obtain permission from them beforehand.
2. Reform for intellectual property exchange controls so that high-growth SMEs are not unduly restricted regarding their intellectual property and the monetisation thereof.
3. The deferral of a capital gain created on an intergroup restructure until a future date when cash is realised (termed "roll over relief provisions"), currently exist in the Income Tax Act for certain transactions, but are not available to SA Start-ups and scale ups raising international capital using a foreign holding company. This acts as a barrier to obtain international investment, as the SA investors and founders do not have the cash to settle the tax bill (on any increase in value of the business) when they raise capital. We are advocating for this tax event to be deferred until the Company is sold or a liquidity event occurs.

If South African high growth businesses are to be truly globally competitive, we need to remove red tape and create an environment for them to focus on growing their businesses and not on navigating a complex set of regulations. The more SA businesses thrive and flourish, the more we encourage entrepreneurship, which could be the single largest driver of job creation. These reforms are not a 'nice to have', but rather an imperative to start to tackle SA's unemployment crisis and ability to continue to attract foreign investment.



Thought Leadership



04

Using ESD to help Entrepreneurs Rebuild after the Pandemic



There is little doubt that small and medium sized businesses were the worst affected by the COVID-19 outbreak. The double whammy of the pandemic and the 2021 July unrest in Gauteng and Kwa-Zulu Natal, which reversed some of the gains after the hard lockdown, was devastating on emerging entrepreneurs who invariably have the least resources to cushion themselves against the far-reaching impact of such calamities.

In 2021, I AM AN ENTREPRENEUR focused its Enterprise and Supplier Development programmes on helping SMEs to rebuild and grow their businesses.

Needless to say, the impact of the pandemic was catastrophic on entrepreneurs across the country. Entrepreneurs we amongst other things, in desperate need of the following:

- Finance and Funding
- New markets and customers
- Access to large company supply chains and enabling access opportunities to the right networks to grow their business
- A solid business model.

Our ESD programmes are tailored to address the needs of the individual companies. For example, our signature Advisory Boards Programme was designed to provide SMEs across all disciplines of business management and leadership with support and mentorship. This flagship programme matches SMEs with professionals and entrepreneurs with the requisite skills and experience and capacitates these enterprises by inviting these professionals to serve as Advisory Board members in their businesses.

To date, we have used ESD programmes to positively impact the SMEs within our reach and we have been pleased with the tangible outcomes our interventions have yielded. The

positive results have manifested themselves in the form of job creation, increased productivity and enhanced economic participation and market competitiveness.

“These outcomes demonstrate how ESDs can be a catalyst to foster the growth and development of SMEs. The importance of this segment on the economy cannot be over-estimated: SMEs are the engine of economic growth and one of the biggest sources of job creation. It is therefore imperative that companies who embark on an ESD programme should not only do this for the sake of compliance and to tick the boxes, but should seek value for their investment and ensure that it has real and lasting impact.

To that end, ESD initiatives should be customised to meet individual needs of each SME. The ‘one-size fits all’ approach will not produce the desired results and will be devoid of the impact required to ensure the sustainability of SMEs. It is for this reason that with every SME we engage with, we do a needs analysis which translates into a development plan tailored for each SME,” says Keitumetse Lekaba, Managing Director of I AM AN ENTREPRENEUR.

Lekaba says ESDs has the potential to make a real difference to everyone from an economic growth point of view, but cautions that we need to take a hard look at the types of initiatives we are focusing on. “ESDs require that we continuously review their efficacy, monitor what works and build upon that, and modify and improve on areas that require enhancement,” she adds.

As we head into the new year, there is still a lot of uncertainty with regards to the potential impact of the pandemic and how the virus might mutate going forward. I believe that as entrepreneurs we have learnt important lessons since the COVID-19 outbreak and these lessons will stand us in great stead going into 2022 and beyond.



05

Experience of Resilience in Business



In the past year small businesses have had to show up in a way that they hadn't done before. Entrepreneurs were forced to immediately think and act differently to ensure that their businesses survive and they do indeed remain in operation. The saying that goes; "growth does not happen in a state of comfort" became relevant as many entrepreneurs knew that they ultimately had to grow or die.

However, the nature of growth required was a different type of growth from what businesses usually focus on. It wasn't about growing sales, profitability, staff complement etc. The type of growth required was the growth in the businesses' ability to withstand uncertainty and adversity. "Resilience" was the running theme of the year; businesses had to grow their ability to survive and overcome adversity.

Unfortunately a significant number of small businesses didn't make it and had to close down and those that remained in business had to continuously grow their resilience. The ability to withstand tough situations is what strengthens and grows many businesses.

The small businesses that displayed resilience responded differently to the adversity; some of the key things I witnessed businesses doing were:

- **Adapting to new circumstances:** accepting the situation for what it is and committing to making the best of it. An example of this is a business offering waste management services to corporate organizations due to corporate putting a hold on some of their projects and generally having less waste to process at their premises, the entrepreneur decided to develop a waste management offering for individuals residing in residential estates. The take up of the offering was great and the business was able to continue generating some income.
- **Accessing new opportunities:** entrepreneurs are identifying opportunities beyond their current reach in line with market demands. A small business providing Cloud com-

puting services, out of the frustration of not securing new clients and projects launched a social media campaign to promote their services. They deliberately made the campaign reach broad by targeting multiple African countries, which led to them landing a client in Zambia. This would not have taken place if it was business as usual.

- **Online Presence:** there is significant improvement in online presence for the businesses that adapted to the "new normal", this has resulted in improvement in market reach. There has been an improvement in the number of small businesses having social media presence.
- **Leveraging team capabilities:** small businesses that have team members have found ways to leverage the strengths of team members to develop and implement company survival strategies. Business owners that achieved resilience showed good leadership by empowering their team members to form part of the solution and collectively finding new ways of doing business in collaboration with their staff. In some cases, business owners have involved team members who are not working at full capacity in critical aspects of the business such as Sales and Marketing.
- **Financial prudence:** the businesses that managed to stay the course, were able to quickly eliminate expenses that were not immediately necessary and have adopted these principles throughout the year. This has led to many small businesses having to leverage their resources and find creative ways to ensure that their operations and service delivery is not negatively impacted.

Small businesses are vulnerable to uncertainty and constant market changes, therefore having resilient businesses is critical. The nature of small businesses in our country is shifting and we are going to experience having good quality and calibre of small businesses who understand how to adapt to any challenges that they are faced with, businesses that are built to bounce back from setbacks. Our entrepreneurship ecosystem is strengthened because of this dynamic.



Experiences of resilience in business (continued)

Top highlights of 2021:

1

The rise in the number of organizations providing funding to small and medium enterprises has been a great highlight as this addresses one of the key challenges for many small businesses in South Africa, which is the lack of access to funding. In 2021, we saw companies coming up with creative ways to provide funding in an accessible and efficient manner which includes 24-to-48-hour turnaround times for applications, flexible payment terms and quick online application processes etc. This will contribute to the growth and sustainability of many small businesses.

2

Small business having a broader market reach. A few years ago, it would have been challenges and close to impossible for a small business owner based in Tshwane to reach potential clients in Zambia. In the past year, we have seen more small businesses providing services beyond South African borders. Having the market adapt to working virtually has created opportunities for small businesses to access markets that would have taken them years to reach.

3

The development and growth in the resilience, adaptability and creativity of entrepreneurs. The entrepreneurs that have remained in businesses during this difficult period had to find creative ways to adapt their business models and operations to new market demands. We have seen more and more entrepreneurs become resilient and adjust to operating their businesses during times of uncertainty.

Hopes for 2022:

1

For more small businesses to be exposed to technology, embrace it and find ways to leverage it so that they become more efficient, profitable and competitive. I would also like to see more initiative implemented to bridge the digital divide, so that small business from the township and rural areas can be part of the digital transformation.

2

The world of work has evolved, human resources structures that were relevant just a few years ago may no longer work in today's times. There is a need for more flexible work structures where employees are able to dedicate a certain number of hours to multiple companies and for businesses not to have all their employees on a permanent basis. This would result in a need for the amendment of our South African labour legislation, to align to the new way of working, particularly for small businesses as this would benefit them greatly to have quality human capital without the burden of having to commit funds to paying full-time employees that are not working at full capacity.

3

Increase exposure and access to small business development support initiatives for small businesses based in the township and rural areas by leveraging technology.

Written by: Sibusiso Raphekwane

Designation: Simodisa Exco Member and CEO of The Transformation Legacy

Contact details:

Email: Busi@transformationlegacy.com | Tel no. 010 023 0508



06

The Experience of Tech Entrepreneurs in South Africa



Globally, tech start-ups are seeing an increase in capital investments which can be attributed to investors seeing the value in innovative and disruptive businesses models as well as forced rethinking because of Covid-19. Instead of entrepreneurs simply presenting graphs to investors, investors could see that businesses were actually growing aggressively in revenues and solving unique problems. This transition in thinking has seen more capital being invested in the tech ecosystem. It was quite interesting to see that the philosophy of those enabling platforms and protocols are the ones creating value for unicorns in fintech, with a bias towards those dealing in the crypto space. In essence, an entrepreneur did not necessarily have to create the most valuable token or NFT to capture value, they could just be an enabler in the marketplace and create value in that way.

What was positive is that in Africa and specifically South Africa, the trends were not too different. We've seen a rise in the number of unicorns coming from the continent over the past year, meaning that international investors are seeing value in what is being built in Africa and the potential thereof. Silicon Valley venture capital investors are seeing strong entrepreneurs building very innovative businesses, solving unique African problems, and in doing so, being able to disrupt very large and different industries such as banking or insurance industries. We may not be seeing too many companies coming out of the crypto space in Africa, but we are seeing a significant amount of traction in fintech as smart innovative entrepreneurs now have great incentive to apply themselves to solve problems effectively.

It is worth noting that Africans are disruptors in the agricultural and mining sectors and that we are seeing innovative solutions coming from these sectors. Nonetheless, there are

areas where we do not necessarily have to innovate, replicate models being used abroad and do that locally and still create significant value.

The technology sector was not exempt from challenges. Red tape is one such challenge that can be more lamentably for high tech start-ups and that is where a proposed Start-up Act framework is very important. The challenge of how start-ups can navigate red tape associated with accessing international access needs to be addressed. More start-ups are forced to incorporate in other jurisdictions that do not have heavy exchange control restrictions and the falling of capital gains taxes. We need to create an environment where we are able to attract and leverage international skills and competencies for local benefit. This can be done through a flexible business visa regime. We are seeing greater engagement though at a government level based on the President's announcement during SONA 2022 that our business visa regime will be reviewed.

Tech start-ups are creating jobs, but we do need to close the skills gap. One way of doing this is through demand-led skilling. There is scope for the government and the private sector to do more in this regard. A programme like the SiMODiSA led TechX-it is one way of doing this. Now more than ever, the opportunities are abundant for tech start-ups. Start-ups should find a problem that is sizable and apply themselves around solving it and, in doing so, they will be able to attract capital support.

2021 has shown the resilience of entrepreneurs and how businesses were able to pivot and get closer to their customers. The level of government engagement and commitment is very exciting, we will see the ecosystem moving in the same direction and achieve some tangible goals. 2022 promises to be a very exciting year for the ecosystem.



A Word From The Ecosystem



07

2021: The year that was for Venture Capitalists



To quote Dickens, “It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness.....it was the spring of hope, it was the winter of despair”.

When Dickens wrote A tale of Two Cities, he didn’t realise he was actually writing about South Africa – a tale of two countries.

The 2021 SAVCA Venture Capital Industry Survey, covering the 2020 calendar year, reported a record number and value of investments, R1.39bn invested into 122 entities through 167 investment rounds. Despite a tough economic climate and a stifling regulatory environment, the industry continues to grow and positively contribute to the South African economy.

However, the industry needs more fund managers that manage larger funds to be able to invest in all the opportunities that come across their desk. There are still funding gaps in South Africa, especially seed and early-stage funding and funding growth rounds once a start-up starts to scale.

The inequalities and lack of access i.e. access to funding, access to markets, access to resources, etc, was more glaring than ever before with the social unrest experienced in parts of South Africa, but mainly in Kwa-Zulu Natal and Gauteng in July 2021.

This sparked renewed discussions about the support needed for entrepreneurs and especially those in the townships, which in itself is a vibrant economy that hasn’t seen the same level of investment and support as the metropolitan areas.

Dickens hit the nail on the head as the “winter of despair”, given the events of July 2021, however the growing entrepreneurial energy and support we’re seeing in the country brings with it “the spring of hope”.

My highlights, or spring of hope for 2021, were as follows:

1. Various players who support entrepreneurship and early-stage investments had the opportunity to engage with President Ramaphosa about the regulatory burden placed on entrepreneurs. This engagement with the Presidency was definitely a highlight in the calendar. Last year one of my hopes for 2021 was that we graduate from talking about the issues to executing the reforms needed to fuel economic growth. We’re not there yet, but the amplification of the SA Start-up Act and these levels of engagements give me a sense that we’re heading in the right direction.
2. We saw an increase in investments, not only by the VC industry but also investments into VC funds, especially by institutional investors who recognise the potential the VC industry has to offer their portfolio and the broader economy.
3. Being able to host the SAVCA VC Conference as a hybrid event, and for the first time in almost two years, host an in-person event where the ecosystem players could engage and share experiences.

For 2022, the SAVCA theme for the year is “Fluidity”, something we’ve all had to master and navigate the past two years which leads me to what my hopes are for 2022:

4. That we continue the momentum created with institutional investors and the government in support of early-stage investments.
5. The ecosystem fragmentation decreases with initiatives such as the SA Start-up Act that will serve as an anchor for discussion and action.
6. We continue to see exceptional stories and examples emanating from SA, of investors and entrepreneurs doing extraordinary things.



08

Endeavor SA 2021 Impact Report on South Africa's High-Growth Entrepreneurs



Endeavor is a global non-profit organization with HQ in New York with offices in 40 markets and more than 2000 entrepreneurs and +5000 pro-bono mentors in its global network. Endeavor's model is aimed at identifying and accelerating the growth the most innovative and scalable entrepreneurs in emerging markets as these high-growth businesses are the key drivers of job creation, revenue growth and hence economic growth and overall prosperity.

Endeavor was founded in 1996 and the Endeavor office in South Africa opened in 2004. The Endeavor South Africa office supports high-growth entrepreneurs founded in Southern African markets and provides these businesses tailored business advisory support and connections to markets, human and financial capital needed to scale internationally, through its trusted entrepreneur first network. Today the Endeavor South Africa office actively supports 87 high-growth entrepreneurs through a variety of structured mentoring programs for tech enabled businesses with annual revenue ranging from R2m to over R1bn and growth rates of 20% to 150% per annum.

Over the past four years, the cohort of 30 Endeavor Entrepreneurs in South Africa have created an incremental 5,800 jobs, achieved average annual revenue growth of 63% generating R6.8 billion in annual revenue in 2021 and raised over R5bn capital this year alone.

In 2021, Endeavor SA continued to expand its reach launching 5 new programs namely: Local Scale Up program in partnership with The SA SME Fund, FNB Elevator program, JSE Enterprise Accelerator, UK-SA Tech Hub Healthtech Ecosystem Builder and Wesgro Healthtech program. Through these partnerships Endeavor is able to leverage its pro-bono mentor network and offer tailored mentoring to an additional 57 businesses in 2021, doubling its reach.

The Local Scale Up launched in partnership with The SA SME Fund provide 20 earlier stage high-growth tech enabled businesses (annual revenue R2m to R100m) with tailored business mentoring. These businesses are also showing the benefit of the tailored support, delivering strong performance of over 100% revenue, 55% job growth this year and these teams successfully raised R1bn in 2021. We are seeing similar performance results across our other programs.

Endeavor SA is excited to be working with SiModisa and other industry players in driving policy changes in South Africa to creating an enabling environment for high growth globally scalable tech entrepreneurs. This is key to ensuring the entrepreneurial ecosystem in South Africa thrives, creating the much needed employment particularly for SA's youth.

With catalytic funding support from USAID, Endeavor SA established the Harvest Fund II in Feb 2021, to provide capital to investment-ready firms in the Endeavor Entrepreneur network. The innovative co-investment model sees Harvest Fund II co-investing alongside other investors in a fundraising round, accelerating the investment process while decreasing deal structuring costs for Endeavor. Importantly, 20 percent of the Fund's carry (profit) will be reinvested back into Endeavor SA's non-profit activities, kick-starting a virtuous cycle of support to the next generation of high-impact entrepreneurs. As of December 2021, Harvest Fund II has raised almost R130m and concluded 9 investments, running 6months ahead of plan.

Endeavor SA is looking forward to seeing the continued growth of the high growth tech sector in South Africa and the growing interest from the international venture capital community in investing in SA entrepreneurs as they expand in the international markets.



09

Entrepreneurial Ecosystem Snapshot: Township Economies in South Africa



Townships have a long and complicated history in South Africa. Before 1994, the townships were forced to function outside of the mainstream economy and so were a major tool in the racial segregation and economic marginalisation of black people. After 1994, the institutionalised system of racial segregation came to a formal end and the government has since worked to integrate the townships into the formal economy. However, the formal disbandment of the previous system did not eliminate these underdeveloped, (typically) urban residential areas located on the outskirts of metropolitan areas. While more is understood about the small and growing businesses (SGBs) in metropolitan areas, less is known about the entrepreneurial ecosystems in the townships and how to support the primarily micro, necessity-based businesses that operate there.

Currently there are over 500 townships in the country, whose combined land mass surpasses that of Johannesburg and Durban combined and which are home to an estimated 40% of South Africa's urban population. Much like the rest of the country, townships are plagued with high unemployment rates. Most township businesses are necessity-based and unable to grow beyond a store front or small-scale operation. Additionally, these businesses tend to operate informally, with low financial and employment returns. Despite these characteristics, governments at various levels have focused on leveraging township communities, and the entrepreneurs and small businesses that operate within them, to support economic growth at the provincial and national levels. Initiatives have been implemented over the last few decades to support township small businesses, though many of these efforts have

been criticised as only improving townships at a superficial level, rather than an ecosystem level.

Past initiatives to support the township entrepreneurial ecosystems have not yielded the desired outcomes, largely because they were designed to tackle symptoms of the problem rather than core issues. The needs of township entrepreneurs and businesses are unique, and support providers need to engage directly to fully understand all the dynamics at play. Ecosystem actors such as corporates, foundations, government agencies, development finance institutions, and Non-governmental organisations (NGOs) must work together to invest in the right initiatives to make real progress in developing the ecosystem. There is a clear opportunity to integrate township businesses into larger supply chains across the country.

Accepting the informality of many township businesses and finding ways to work with them in a mutually beneficial way is critical to the growth of the ecosystem. An important reality of the townships is that much of the economy is informal. Regulatory reform to ease the formalisation process and make formalisation a better option will likely take time and coordination with some of the highest levels of South Africa's government. Therefore, a more short-term recommendation is to focus on supporting the informal ecosystem, rather than implement interventions to formalise businesses. Taking the emphasis off the formalisation issue will allow both the support ecosystem and entrepreneurs to focus on growing businesses and contributing to job creation and skill development.

[Read the full report here](#)



10

Property Point Celebrates Growth in a Year Where the South African Economy Stalled Due to the Omicron Variant

2021, despite its many challenges, was an opportunity for us at Property Point to consolidate our efforts which culminated in the growth of our staff compliment by six and the introduction of a new offering; our local economic development (LED) department. For us LED is focused on the facilitation of procurement and employment opportunities for small and growing businesses and local labour in stakeholder communities adjacent to our clients' assets, to create shared value. As a result, we've now assisted our businesses to secure contracts to the value of R1.8bn and to create a total of 2714 jobs since our inception.

To deepen our impact, our youth employability advisory service has seen us partner with National Business Initiative (NBI) and the President's YES programme to place 44 interns in businesses across Johannesburg and Cape Town. These placements enrich the lives of both the candidates and the businesses by supplying them with additional resources to improve their capacity to deliver on projects, therefore improving their financial and operational capacity.

We continued to enhance the competitiveness and sustainability of our businesses through our bespoke Green Building programme which seeks to empower small black businesses to take advantage of the ESG opportunities necessitated by the SDG goals with a focus on water, waste and energy efficiency.

In 2022 we look forward to our second intake of the Green Building programme where our 10 businesses will again be geared up to access market opportunities. Our partnership with the Black Management Forum (BMF) will see us solidify our focus on women-owned businesses and, together with research conducted in partnerships with African Women's Empowerment Fund, ANDE and USAID, we seek to understand and improve the funding landscape for women owned businesses.

We continue to support the development of entrepreneur-led and focused policies across the ecosystem through our Entrepreneurship to the Point networking platform. These are monthly events where we deliver crucial content to entrepreneurs around topical themes like resilience in times of flux, for example. Also, our Founder maintains a number of board positions at Aspen Network, Johannesburg Chamber of Commerce (JCCI) and Growthpoint, for example. These platforms allow us direct influence into policy discussions relevant to the entrepreneurs' needs.



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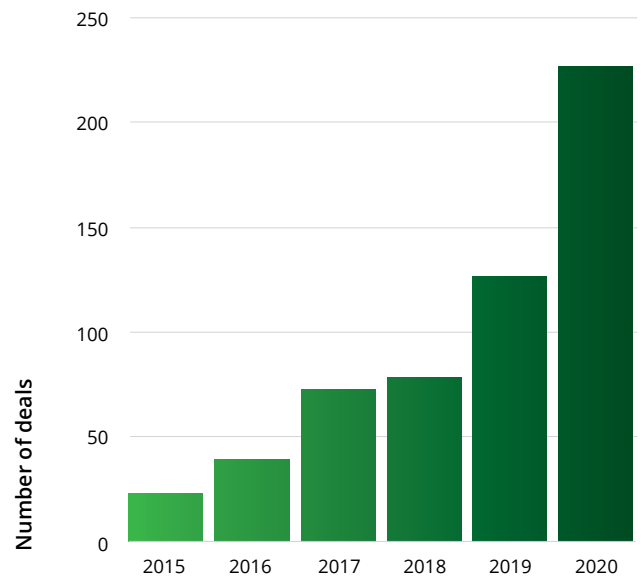
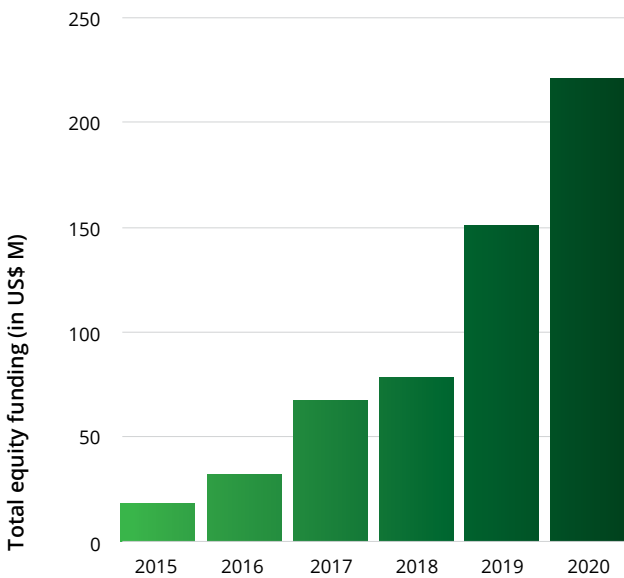


The Experiences of Tech Entrepreneurs on the African Continent - key insights

Below are key takeaways from The State of Tech in Africa 2021 Report:

Development of early stage startup investment in Africa: 2015 -2020

Source: Partech



- In comparison to other global regions, Africa underperforms in VC activity. Africa’s top performing market, Nigeria, is an interesting case as it does not appear in the top five countries on the ranking of startups by country of incorporation - many startups that raise capital in Nigeria are not incorporated in the country. As Africa’s top ecosystem, Nigeria ranks considerably low in “Ease of doing business”. Africa’s second largest ecosystem, Kenya, had a \$5.80 per capita in VC investment in 2020 - the highest in the continent. Kenya is also a top destination for expats. From a global point of view, Africa’s tech ecosystem is still miniscule - VCs invested \$3.9 Million per day into African startups in 2020; while in the US, startups received VC investment of \$428 Million per day.
- Startups in Africa approach investors in two main ways: the “Nigerian way” - incorporating outside of the country, and the “Kenyan way” - whereby they seek capital within their country of incorporation. Markets in Southern Africa are attracting more investments because of lower valuations. The Egyptian market has gained investor traction because of considerable demographic size. There is an increasing need for countries to enact legislation, i.e. “Startup Acts”, to make it easier for businesses to incorporate locally, making it easier to start a business as an entrepreneur, but also to start a local investment fund and invest in seed stage businesses from the country.



The Experiences of Tech Entrepreneurs on the African Continent - key insights (continued)

- Early-stage investors much prefer doing due diligence in-person, but struggled to do so in 2020 because of travel restrictions. Nevertheless, investments in early-stage startups were very bullish in 2020, as shown by the numbers of deals which were on the rise, even though their size was smaller. There is still a need for investors to improve their due diligence process - perhaps through a standardized process - so as to streamline it and make it more “on-line-friendly”. Kepple Africa Ventures says, “If you don’t have lots of VCs having local operations, it’s difficult to close the gap [that we see in investment] for seed-stage startups. It’s very difficult to invest remotely into seed stage startups.”
- The degree to which Africa’s tech innovation and investment landscape has been impacted by the COVID-19 pandemic is a mixed bag of results. On one hand, the number of deals done increased; while at the same time, the total value of the equity deals done decreased, by the estimates of a few reports. This shows that even though ticket sizes diminished, investment appetite in tech innovation in Africa is high.
- The main story of 2020 is the sharp increase in the number of deals in the early-stage. Seed stage startups secured 7.5% of the total deal value in 2019, and 22% in 2020. In order to continue this trend of bridging the funding gap, a lot more support is needed. Tech hubs across the continent play an important role in incubating and accelerating innovation - aiming to make early-stage startups investor ready. However, tech hubs themselves are in need of support, whether from the government or private sector, in order to have the financial and operational muscle needed to help startups.
- When it comes to startup support in Africa, a key player that has the tendency to be missing in action is the corporate sector. Big deals we have seen between startups and corporates in 2020 show the relevance and importance of corporates in the innovation ecosystem - a practice in which not enough corporates are engaged in. In the first months of the COVID-19 crisis, corporations tended to dramatically reduce their budget in innovation and R&D projects.
- There is definitely a need for more corporations to be involved in the startup ecosystem. They can engage with early stage startups through POCs, partnerships, via a tech hub (accelerator or incubator) or equity investment. The preferred way for corporates to engage with early-stage startups remains POCs followed by partnerships. From our observations through running open innovation challenges, frank discussions and objectives must be set by both sides.
- Based on the AfricArena observations and working with investors across the world, our views were that 2022 will see a substantial surge in deals, accelerating throughout the year. We estimated that investment into tech startups would jump from \$1.4 billion to nearly \$3 billion. 2021 closed at over \$4 billion, making it the best year in the history of tech investment on the continent.

Read the full article here:



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Support for the Start-Up Act from the World Bank

The World Bank was delighted to support background research for the Startup Act Position Paper in 2021. The World Bank has experience with supporting startup legislation and initiatives globally, lessons which can inform South Africa's consideration of how to support its own startups to gain traction, scale quickly, and create jobs and growth contributing to South Africa's economy. Rather than take a position on the specific recommendations in the position paper, the World Bank will look to facilitate dialogue between the startup ecosystem stakeholders that can move forward actionable ideas to benefit South Africa's startups.

Top highlights for South Africa's startup ecosystem are:

1

Growing recognition from policy makers that startups are a different animal than SMEs and need specific support.

2

Opportunity to share global Startup Act experiences with South African stakeholders.

3

Seeing buy-in from the President for the need to unblock the path for startup growth in South Africa.



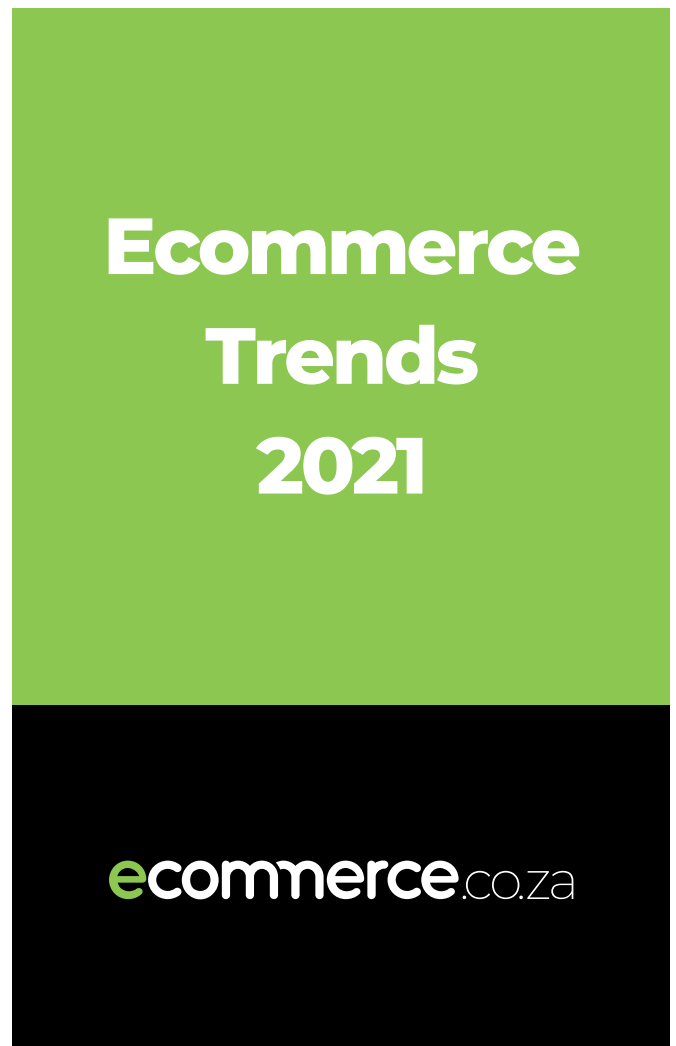
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The Future of Ecommerce in South Africa

Ecommerce is in a boom period, both in South Africa and around the world, with various studies estimating that online spending is four to six times ahead of its time. However, just as ecommerce is evolving, so too are the technologies and industries that support the sector, and consumer expectations and demands are following suit. Ecommerce Trends 2021 looks at six key areas that impact the ecommerce landscape, to give you insights into where the sector is - and where it's going. We reached out to South Africa's top experts in the field to share their experiences and provide advice on how ecommerce businesses can future-proof their organization.

Read the full article here:



SiMODiSA START-UP

Contact

info@simodisa.org

+27 (0) 11 037 4536

Location

Adcorp Place, 102 Western Service Road,

Gallo Manor,

Johannesburg,

South Africa

2191

www.simodisa.org



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