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Lowering barriers to entrepreneurship and promoting small business growth in South Africa

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LOWERING BARRIERS TO ENTREPRENEURSHIP AND PROMOTING SMALL BUSINESS GROWTH IN SOUTH AFRICA

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By Christine Lewis and Boingotlo Gasealahwe

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ABSTRACT/RÉSUMÉ

Lowering barriers to entrepreneurship and promoting small business growth in South Africa

Lowering high levels of unemployment and inequality are amongst the largest challenges facing South Africa. More entrepreneurs and thriving small businesses would contribute to inclusive growth. Measures of entrepreneurial activity are lower in South Africa than in other emerging economies. Barriers to entrepreneurship include bureaucratic procedures and licensing, which are also an ongoing burden on small firms. Public procurement is being used to overcome the dominance of large incumbents, but so far its net effect on small firms is not clear. An education system that better equipped students with basic skills as well as entrepreneurial skills would grow the pipeline of entrepreneurs. New forms of financing are slowly emerging in a system that is dominated by banks. A better evidence base is crucial for more effective financial and non-financial support programmes to boost start-up rates and small firms' growth.

This Working Paper relates to the *2017 OECD Economic Survey of South Africa* (http://www.oecd.org/eco/surveys/economic-survey-south-africa.htm).

JEL classification: H25, I25, K2, L26, O55

Keywords: South Africa, entrepreneurship, business regulation, small business taxation, micro and small business, entrepreneurial skills

Réduire les obstacles à l'entrepreneuriat et à la croissance des petites entreprises en Afrique du Sud

Réduire les niveaux élevés de chômage et les inégalités sont parmi les plus grands défis auxquels l'Afrique du Sud est confrontée. Davantage d'entrepreneurs et de petites entreprises florissantes contribueraient à une croissance inclusive. Les mesures de l'activité entrepreneuriale sont plus faibles en Afrique du Sud que dans les autres économies émergentes. Les obstacles à l'entrepreneuriat comprennent les procédures bureaucratiques et les licences, qui constituent également un fardeau permanent pour les petites entreprises. Les marchés publics sont utilisés pour surmonter la domination des grands opérateurs historiques, mais jusqu'à présent, leur effet net sur les petites entreprises n'est pas clair. Un système éducatif qui permettrait aux étudiants d'acquérir des compétences de base et des compétences entrepreneuriales augmenterait le nombre d'entrepreneurs. De nouvelles formes de financement émergent lentement dans un système dominé par les banques. Il est crucial de davantage se baser sur des éléments concrets et probants pour des programmes d'aide financière et non financière plus efficaces et ainsi stimuler l'entrée d'entreprises innovantes et la croissance des petites entreprises.

Ce Document de travail se rapporte à l'*Étude économique de l'OCDE de l'Afrique du Sud 2017* (http://www.oecd.org/fr/eco/etudes/etude-economique-afrique-du-sud.htm).

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Mots clefs: Afrique du Sud, entrepreneuriat, la réglementation des affaires, imposition des petites entreprises, micro et petites entreprises, compétences entrepreneuriales

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LOWERING BARRIERS TO ENTREPRENEURSHIP AND PROMOTING SMALL BUSINESS GROWTH IN SOUTH AFRICA

by Christine Lewis and Boingotlo Gasealahwe[1]

Boosting entrepreneurship and growing small businesses can play an important role in creating jobs, reducing inequality and sustaining growth. In many countries new and young firms have been major net creators of new jobs and a force for productivity growth (Criscuolo et al., 2014; OECD, 2015a). In OECD and other emerging economies, employment in small firms accounts for a large share of total employment (OECD, 2016a). However, large incumbent firms continue to dominate many South African markets and rates of entrepreneurship are relatively low compared to other emerging market economies. At the same time, there is large potential for higher rates of self-employment, business start-up and small business growth.

This paper highlights the need for entrepreneurs in South Africa and discusses ways to create a more enabling environment in which entrepreneurs can establish themselves and grow. The literature highlights the importance of both the policy framework (notably regulation) and individual characteristics of entrepreneurs in affecting rates of firm creation and growth (Djankov, 2009; Ardagna and Lusardi, 2010). The second and third sections of this paper consider ways of overcoming the high level of regulation and concentration in South Africa (OECD, 2015b). The fourth section explores ways of increasing the skills and the know-how needed for starting and running a business. The final section examines ways of improving access to finance for those that have overcome these other barriers. *OECD Economic Surveys* of South Africa have discussed other factors that are also constraining small businesses, such as skills shortages, a lack of public transport, expensive communications services and high crime rates (OECD, 2013a, 2015b).

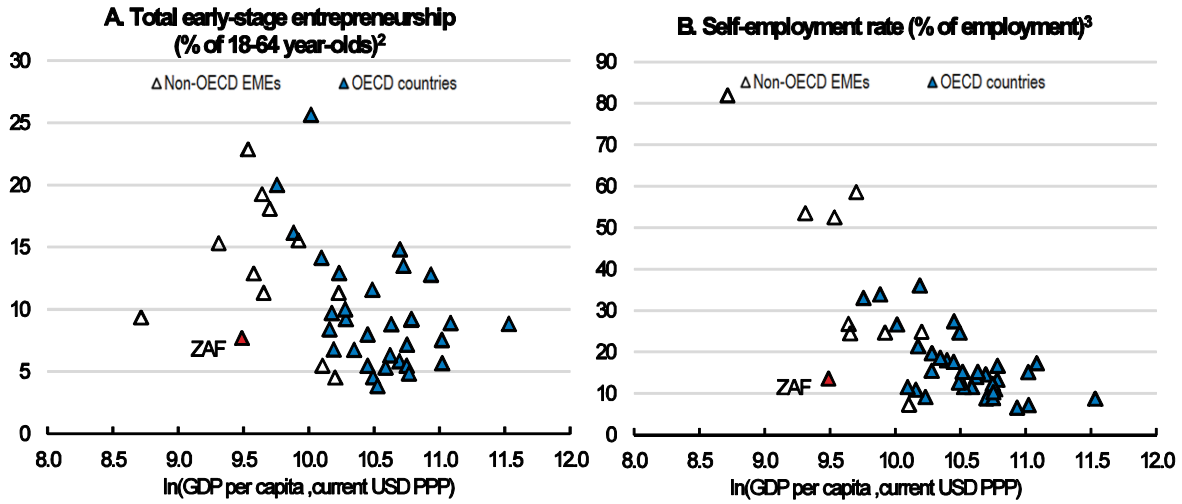
The need for more entrepreneurship and small business growth

Various measures suggest that entrepreneurial activity is relatively low in South Africa. The Global Entrepreneurship Monitor (GEM) has consistently pointed to the low rate of "early-stage entrepreneurial activity", with 8% of 18-64 year-olds planning or starting a business in recent years (Figure 1, Panel A). This is about half the rate that might be expected given South Africa's income level. Higher rates of entrepreneurial activity would be expected at lower levels of income if lack of formal sector employment opportunities leads to higher rates of business start-up and necessity-driven informal self-employment. Likewise, self-employment rates are relatively low, at just over 10% of employment (Figure 1, Panel B). Although own-account workers account for almost two-thirds of the self-employed, the rate is low compared to other emerging economies.

1. Christine Lewis is a Senior Economist the OECD Economics Department (christine.lewis@oecd.org). Boingotlo Gasealahwe was on secondment from the South African National Treasury when working on this paper. The authors would like to thank Balázs Égert, Falilou Fall, Robert Ford, Alvaro Pereira, Piritta Sorsa and Cristiana Vitale (Economics Department), Flavio Calvino and Chiara Criscuolo (Science, Technology and Innovation Directorate), Ania Thiemann (Directorate for Financial and Enterprise Affairs), Kris Boschmans and Marco Marchese (Centre for Entrepreneurship, SMEs, Local Development and Tourism), Thang Nguyen (Development Centre) and Viktoria Kis and Pauline Musset (Education Directorate) for useful comments on earlier drafts and helpful conversations. The paper has also benefitted from comments by South African officials and by members of the OECD Economic Development Review Committee. Special thanks go to Taejin Park and Pedro Herrera Gimenez for statistical assistance and Anthony Bolton, Raquel Paramo and Heloise Wickramanayake for editorial assistance (all from the Economics Department).

As in many countries, men and young people are more likely to be entrepreneurs than women or older people (Figure 2). The more educated are also more likely to be entrepreneurs. However, within almost every group, the rate of early-stage entrepreneurial activity is higher in other emerging market economies than in South Africa. The biggest gaps are for men, those under 35 years old and the least educated.

Figure 1. Rates of self-employment and entrepreneurial activity are low[1]



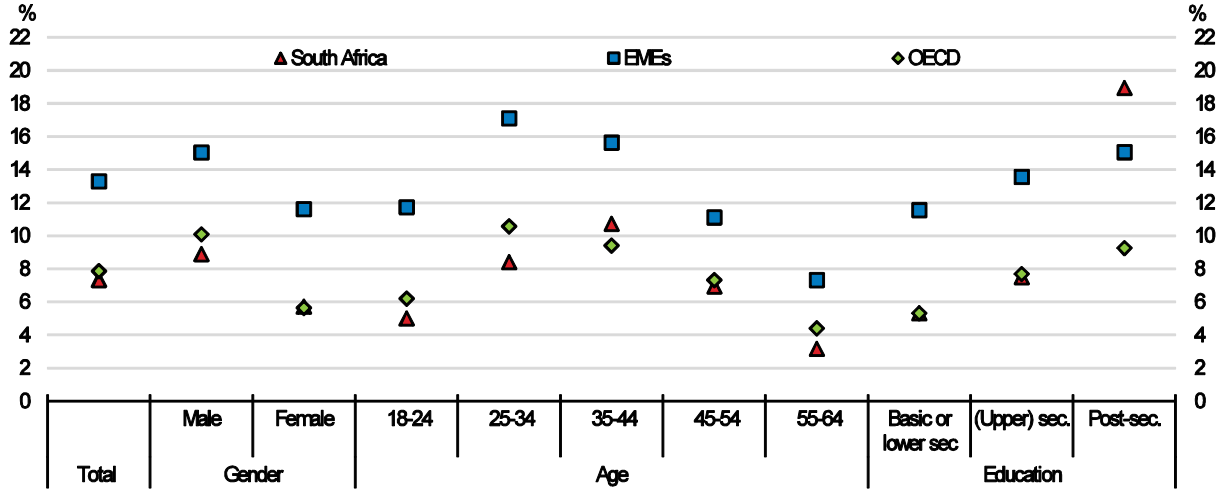
1. Non-OECD emerging market economies (EMEs) are: Argentina, Brazil, China, Colombia, Costa Rica, India, Indonesia, Malaysia, Russia, South Africa and Thailand. Data for GDP are from 2015.
2. Average of 2014-2016 where data are available.
3. Data for self-employment rate are from 2014 or latest available year.

Source: Global Entrepreneurship Monitor; ILO; World Bank.

Regressions comparing the likelihood of being an entrepreneur based on gender, age and education confirm that these individual characteristics are all important determinants of entrepreneurship (controlling for fear of failure, perception of sufficient skills, and knowing an entrepreneur (Appendix A)). In particular, educational attainment is negatively related to the probability of being a necessity-driven versus opportunity-driven entrepreneur, a result consistent with Ardagna and Lusardi (2010) and others. This analysis also confirms the importance of work experience, self-belief and knowing an entrepreneur in explaining part of the low level of entrepreneurship in South Africa, which may be linked to having the necessary capital, skills and networks.

Figure 2. Entrepreneurial activity is relatively low within most groups

Percentage of group involved in early-stage entrepreneurial activity, 18-64 year-olds



Note: Early-stage entrepreneurs are actively involved in setting up a business they will own or owner-manager of a new business. Data are for 2012. The emerging market economies (EMEs) are 10 non-OECD member countries (Argentina, Brazil, China, Colombia, Costa Rica, Indonesia, India, Malaysia, Thailand, Russia, South Africa) and 5 OECD members (Chile, Hungary, Mexico, Poland and Turkey).

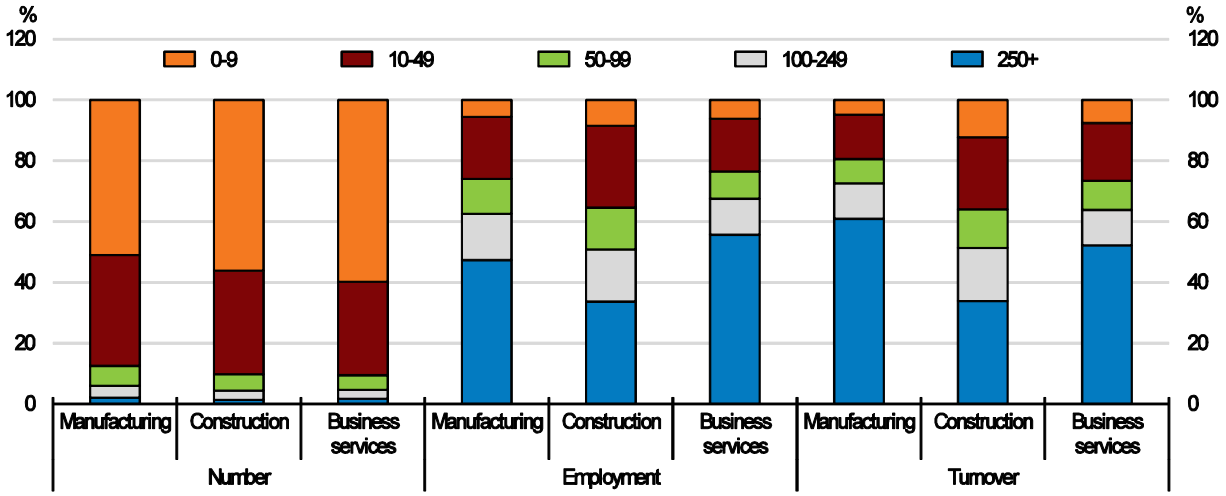
Source: Global Entrepreneurship Monitor; OECD calculations.

Comprehensive and comparable data at the firm level are difficult to gather. There is no single data source, and estimates of the importance of micro to medium-sized businesses vary. For instance, their employment share has been estimated at 47% and 60% (DSBD, 2016; Groepe, 2015). A new firm-level panel dataset allows comparisons on a common basis, although only for firms in the company tax data (Box 1; Pieterse et al., 2016). These data reveal that small firms are more numerous and more prevalent in non-financial business services than manufacturing or construction (Figure 3). Still, large firms account for a little over half of the turnover or employment in non-financial business services while small firms (less than 50 employees) account for a greater share of the construction industry.

The new data confirm the importance of new and young firms for employment growth – a result found in many other countries (Box 1; Criscuolo et al., 2014). However, conditions have been difficult in recent years and the data suggest that the exit rate of employing firms may have exceeded the entry rate during 2011/12-2013/14 (Tsebe et al., forthcoming). This implies that small firms are ageing and markets are becoming more concentrated, underlining the need to boost the rate of start-up and the growth rate of young firms. These developments, together with the low rates of entrepreneurial activity overall, point to a role for policy in improving the regulatory environment, lowering barriers to entry, raising skill levels and expanding access to finance. New cross-country evidence suggests that correcting policy weaknesses could disproportionately benefit young firms (Calvino et al., 2016).

Figure 3. Small firms are most prevalent in business services

Distribution of firms by number of employees in firm, 2011/12-13/14 average



Note: Business services exclude the financial sector. Data are for employing firms registered for company income tax; see Pieterse et al. (2016) for details.

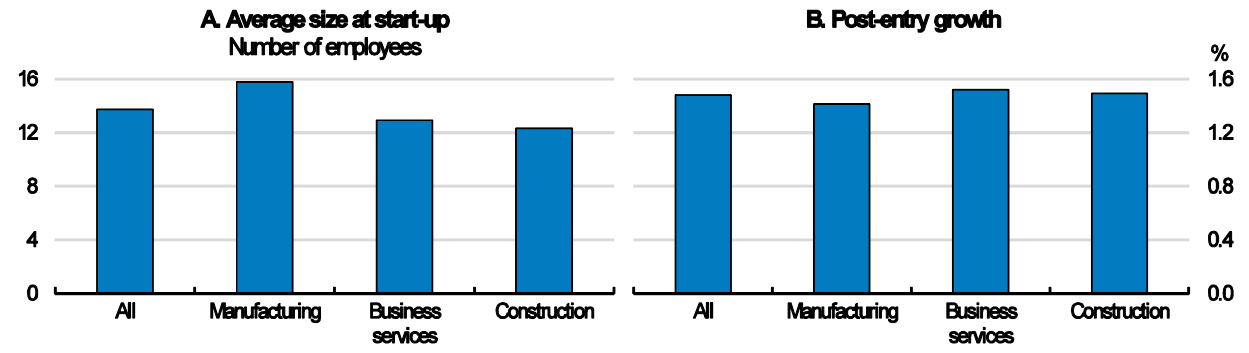
Source: Based on Tsebe et al. (forthcoming), "Firm dynamics in South Africa".

Box 1. New evidence on firm dynamics in South Africa

A new firm-level panel dataset allows new insights into firm dynamics. The "SARS-NT panel" was created by the South African Revenue Service and National Treasury (Pieterse et al., 2016). It was built by merging tax records from company income tax, registered employees' tax, value-added tax and customs. It does not include informal firms, sole proprietorships, partnerships or micro-enterprises registered for the turnover tax. The availability of firm-level data allows the dynamics of firm entry, exit and growth to be explored using the OECD's DynEmp framework (Criscuolo et al., 2014; Calvino et al., 2015). Key findings include:

- Young firms have disproportionately contributed to employment growth in recent years. Even as GDP growth slowed, young firms remained net job creators. However, a notable feature is the importance of large incumbent firms for job creation and destruction.
- The exit rate appears likely to have exceeded the entry rate between 2011/12 and 2013/14.
- Dynamics are somewhat different across sectors. The start-up rate is lower in manufacturing than in construction or business services and the average size at start-up tends to be higher (Figure 4). But the survival rates and growth rates are more similar across the sectors.
- Around two-thirds of the micro-entrants (less than 10 employees at entry) in 2010/11 survived to 2013/14 but of these, most remained small. A fraction (12%) grew beyond 10 employees but these disproportionately contributed to growth.

Figure 4. Components of net job creation by start-ups



Note: The figure shows the decomposition of net job creation by entrants in 2010/11 that survived to 2013/14. See Calvino et al. (2015) for details of the methodology which decomposes net job creation of start-ups into: start-ups per 1000 employees; average size at start-up; survival rate; and post-entry employment growth. Values for the decomposition differ slightly based on the strictness of the entry definition applied but the pattern across industries is broadly similar.

Source: Tsebe et al., (forthcoming), "Firm dynamics in South Africa".

Surprisingly, informality does not explain the low rates of entrepreneurship and start-up. At 31%, the informality rate (as a share of total employment) is considerably lower than the 66% average for sub-Saharan Africa and 51% for Latin America (Oosthuizen et al., 2017). This low level of informality coupled with a high unemployment rate makes South Africa an outlier. The informal economy is not very absorptive, due in part to the legacy of apartheid, but also a number of structural factors such as low skills. The majority of unemployed typically become economically inactive, with only a minority of unemployed individuals transitioning into informal self-employment. Those who find employment are more likely to transition from unemployment to formal employment rather than informal employment (Cassim et al., 2016). Informal self-employment has remained around two-thirds of total self-employment during recent years.

The informal sector itself is heterogeneous and is less stable than formal self-employment (Lloyd and Leibbrandt, 2016). Around one-quarter of informal firms in 2013 were employers, a feature associated with higher profitability and more educated owners (Fourie and Kerr, 2017). Those who started businesses from employment had higher turnover and tended to return to employment if they exited, suggesting that they could not cover their opportunity cost (Lloyd and Leibbrandt, 2016). This suggests that part of the informal sector has potential to be formalised. Increasing the number of start-ups and self-employed in the formal and informal sectors in South Africa has the potential to increase employment and labour market participation, reduce inequality and poverty, and make growth more inclusive.

The government's focus on small businesses is increasing

The government identified the need to promote entrepreneurship and increase the prominence of micro, small and medium-sized enterprises in the economy two decades ago. It released an Integrated Small Business Development Strategy in 1995, followed by the Small Business Act of 1996. The Act was updated in 2004 and an updated Strategy was released in 2005. The Strategy was envisaged to be reviewed every five years.

Seeking greater results, in 2014 the government created the Department of Small Business Development (DSBD) and increased funding for programmes for micro, small, medium sized enterprises (MSMEs) and co-operatives. The Department was formed from the Department of Trade and Industry and some programmes and agencies have now moved across with it. There are currently eight actors at the national level delivering programmes targeting MSMEs (Figure 5).

The DSBD faces several challenges in delivering on its large mandate. Because the Department is new and small (0.2% of the departmental budget allocation), its ability to make change is constrained. Moreover, the dispersion of responsibilities scatters information, and together with a lack of data on enterprises, makes it difficult to ensure that policies are effective. The Department plans to rationalise the variety of definitions of small enterprises within the National Small Business Act and across government to help better design policies and simplify procedures for small firms (Table 1). The effects of policies will then need to be monitored to ensure that this does not cause disincentives to grow above the small business thresholds. The Department also needs to advocate for small business in government policy, for instance highlighting incentives programmes that favour large incumbents (Roberts, 2016).

Updating the 2005 Strategy in consultation with stakeholders would help establish clear priorities and give the Department a stronger mandate for change. Public support for the creation of the "SME Toolkit" and more recently "FinFind", which provide general information for SMEs including sources of finance, are a step in the right direction to reduce the dispersion of information. A further push should be made to ensure the DSBD can fulfil its mandate and to consolidate interactions with the government from a customer's perspective.

Table 1. Examples of definitions of small and medium enterprises used[1]

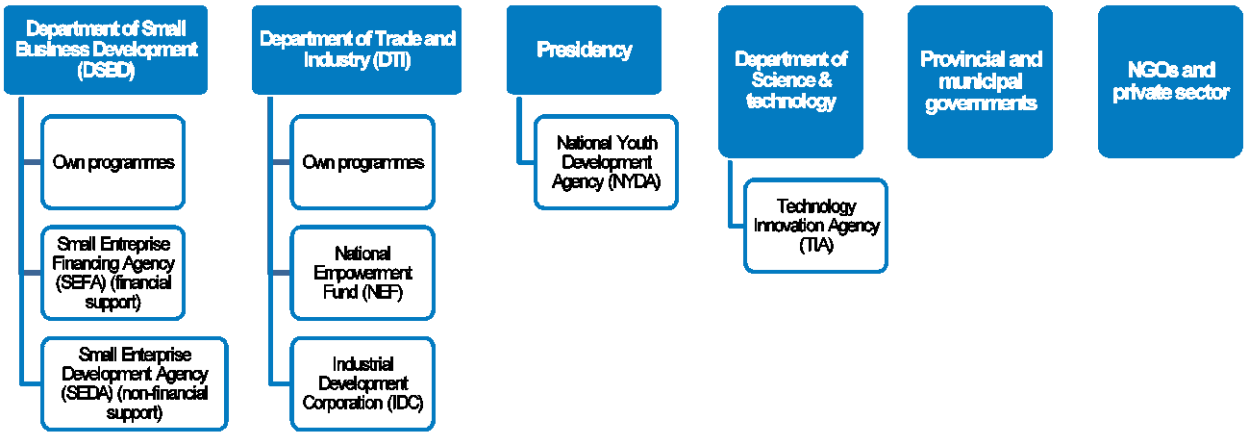
Firm type	National Small Business Act[2]	South African Revenue Service	Broad-Based Black Economic Empowerment Act and Preferential Public Procurement Regulations
Micro	Employees: ≤5 Turnover: ≤ZAR 0.2 million Gross assets: ≤ZAR 0.1 million	Qualifying turnover: ≤ZAR 1 million	Turnover: ≤ZAR 10 million (less in some industries)
Very small	Employees: ≤10-20 Turnover: ≤ZAR 0.5–6 million Gross assets: ≤ZAR 0.5-2 million		
Small	Employees: ≤ 50 Turnover: ≤ZAR 3-32 million Gross assets: ≤ZAR 1-6 million	Taxable income: ≤ZAR 20 million	Turnover: ≤ZAR 50 million
Medium	Employees: ≤100-200 Turnover: ≤ ZAR 5-64 million Gross assets: ≤ZAR 3-23 million		

1. In 2016, ZAR 1 million was equivalent to USD 68 000 at market exchange rates and USD 172 000 at PPP-adjusted exchange rates.

2. Definitions vary by industry.

Source: Departmental websites.

Figure 5. Main departments and agencies targeting small business growth



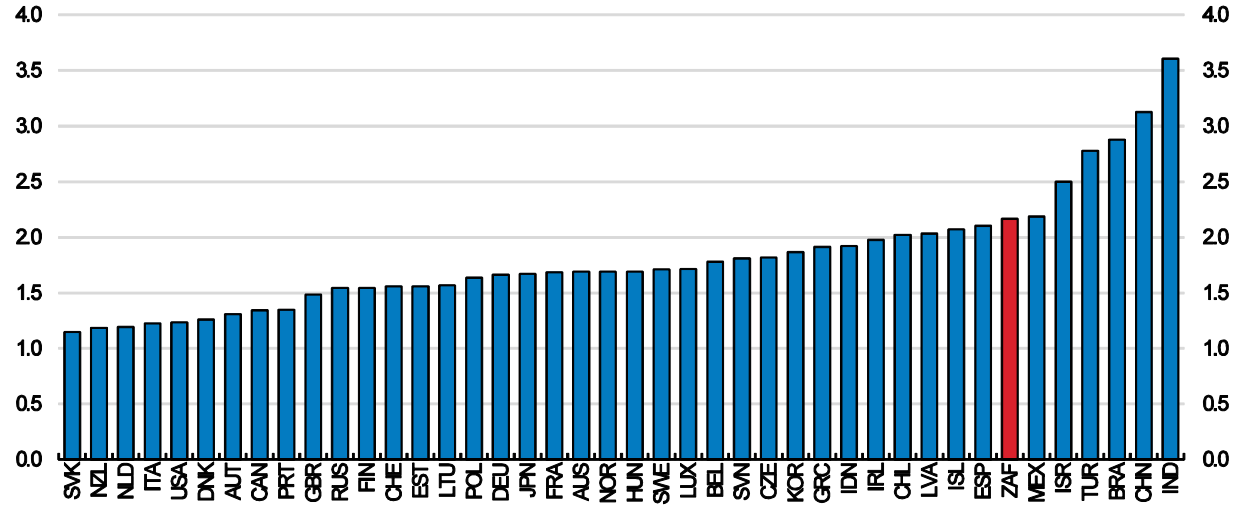
Note: The National Empowerment Fund is planned to be moved to the Industrial Development Corporation.

Lowering regulatory barriers and improving the business environment

The regulatory environment affects many business decisions, including whether to start a business, whether to register and operate in the formal sector and what kind of business to create. It encompasses the ease of starting a firm and ongoing burden of complying with permits and licensing, tax, product market and labour market regulation, which have been linked to entrepreneurship in empirical studies. The large fixed cost of regulation makes it harder for young firms to grow. The overall level of regulation is often considered high and burdensome in South Africa and a barrier to entrepreneurship (Figure 6; OECD, 2015b; ILO, 2016; Herrington et al., 2017). South Africa ranked 74th in the World Bank's 2017 Ease of Doing Business. Frequent changes to regulations add to the regulatory burden. In 2013 over 60% of surveyed small businesses were unsure of the regulations that they need to comply with (SBP, 2014). This section highlights three areas with scope to make reforms that should boost entry and small business growth: entry regulations and licensing; making firm closures less costly; and easing the cost of tax compliance. It then highlights the links between regulation and informality that should be considered.

Figure 6. Regulatory barriers to entrepreneurship are high

OECD product market regulation sub-indicator, 2013



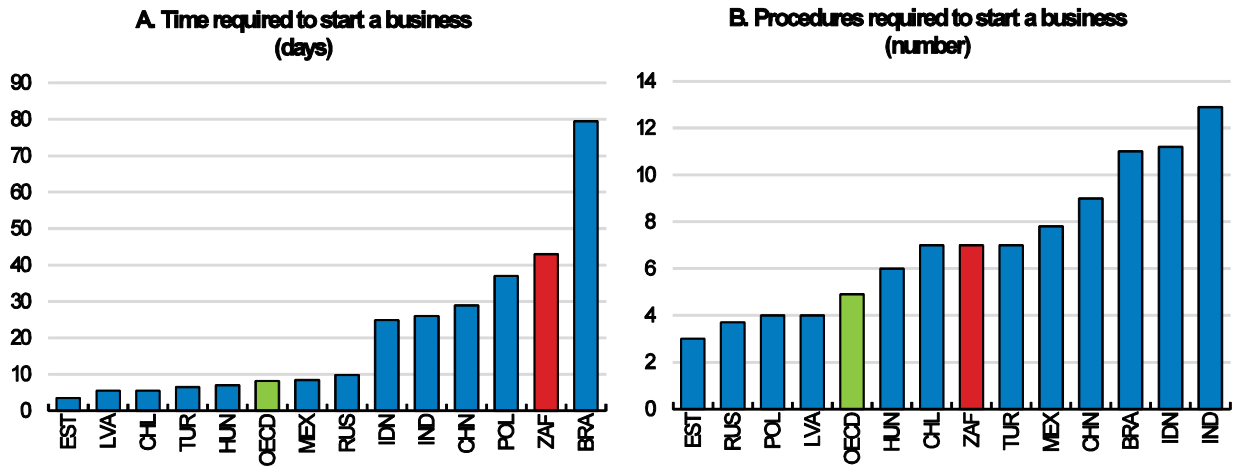
Note: Scores potentially range from zero to 6 and increase with restrictiveness. 2008 data are shown for Indonesia and the United States.

Source: OECD (2013), "Economy-wide regulation", OECD Product Market Regulation Statistics (database).

Lowering regulatory barriers to entry and growth

A burdensome regulatory environment, particularly the slow speed of starting a business, has been linked to the rate of early-stage entrepreneurial activity, rates of firm ownership and start-up rates (Ardagna and Lusardi, 2010; Klapper et al., 2008; Djankov, 2009). The time required to start a business has improved in recent years but it is still longer than in other countries (Figure 7). In practice it can be even slower: a recent survey found that registering a new business can take up to six months, often due to delays in value-added tax registration (ILO, 2016). A major source of delay is the 30 days to register employees with the occupational injuries compensation fund (although it varies with company risk) (World Bank, 2017). In Chile a similar procedure is done within a day. Likewise, other procedures such as getting construction permits, electricity and registering property are faster in other countries.

Figure 7. Starting a business is slower than in many other emerging economies



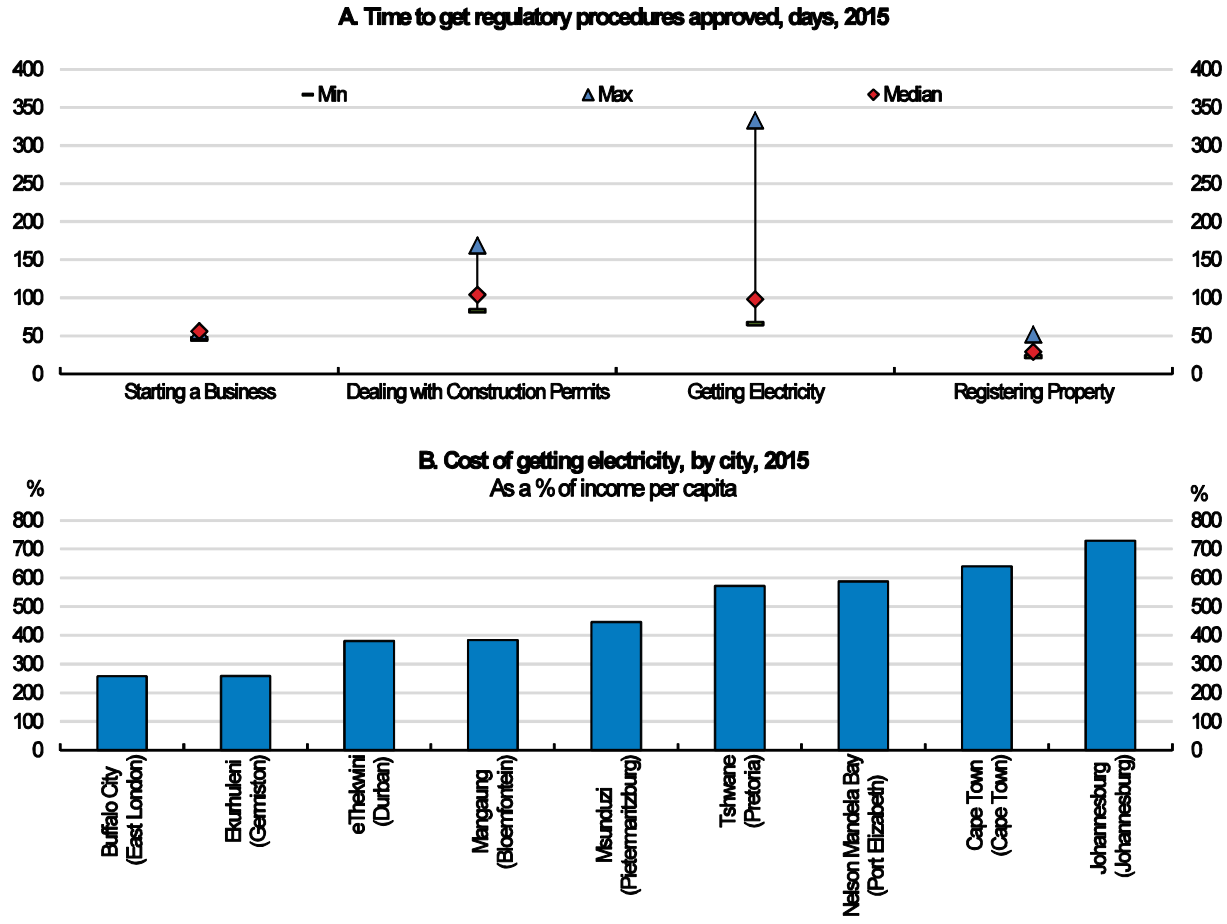
Source: World Bank (2016), *Doing Business 2017*.

There are a number of initiatives under way to make it faster and easier to start a business. Automation of company registration means that it should now take one day to register a business at the Companies and Intellectual Property Commission. The government has worked with a private bank so that business registration happens at the same time as a company's bank account is opened. More steps could be joined up in this way. Information to register employees with the tax office and the insurance fund could be submitted once. Information should be shared between levels of government to reduce duplication. Chile and Mexico have reduced each procedure required for start-up to half to two days, partly through effective use of technology such as secure e-signatures (OECD, 2017b).

The government has opened investment facilitation one-stop shops in three provinces during 2017 and will expand these to all provinces over the next three years. The offices are primarily targeting foreign investors but should benefit small businesses. Entrepreneurs should be able to register a new business and apply for local and national government permits. The reach of the programme should be expanded through co-locating one-stop shops with other government offices, such as municipal offices. A virtual one-stop shop, or e-portal, should be created to accept applications and notifications and provide a single contact point with the government.

Provincial and municipal governments also add to difficulties in starting or expanding a business, with particularly wide variation in the time and cost of construction permits and getting electricity (Figure 8). Getting a business licence in Johannesburg, for example, requires an inspection and approval from five different departments. The government is working with the World Bank to use the variation in the Doing Business indicators in the largest municipalities to uncover best practices and facilitate peer learning through workshops. A similar approach between states (competitive federalism) in India has improved the business environment (OECD, 2017a).

Figure 8. There is considerable variation in regulatory procedures across cities



Source: World Bank (2015), *Doing Business in South Africa 2015*.

Industry-specific licences also harm entrepreneurship by creating a barrier to entry as well as adding to costs for firms. Such regulation usually aims to correct market failures and achieve other objectives such as consumer protection but can often be excessive (Box 2). For example, all tourist guides must complete an accredited course and then register as a guide in the geographical area and type of guiding on their certificate. Additional areas or types of guiding can only be added after another exam (at a cost) and recertification is required every three years. Lower levels of regulation could still provide protection to consumers.

Likewise, professional services are also highly regulated, particularly legal services (Figure 9; Box 2). Profit margins appear high compared to other professions suggesting that the limited competition may be creating rents. Shortages may be contributing to prohibitively high prices that limit entrepreneurs' and small businesses' access to these services (Herrington and Kew, 2016). The case for stricter regulation of professions than in other countries is not clear. Moreover, regulatory reforms can increase the quality of services and access. For example, innovation in legal services and greater supply of quality lawyers could reduce contract enforcement times and lower prices (Box 2). Allowing for new organisational forms of legal firms (e.g. allowing non-lawyers to partner with lawyers) and reducing exclusive rights of the legal profession could also increase supply and decrease costs.

Box 2. Regulation of legal services and examples of reforms

Two market failures create a case for regulation of legal services: information asymmetries and externalities. **Information asymmetries** arise because the client cannot assess the quality of the services they are procuring beforehand ("experience goods"), if at all ("credence goods"). This can lead to adverse selection because sellers have an incentive to offer a substandard service at the average price (Canton et al., 2014). Negative **externalities** arise from low quality legal services that, for example, slow the process or result in sub-optimal decisions.

Some regulations are aimed at other policy objectives, such as addressing fairness considerations, ensuring that individuals in all regions of a jurisdiction can access legal services of a certain quality and at a certain price.

Regulation of legal services affects competition in South Africa in four ways:

- **Limiting the number and range of suppliers** through strictly regulated entry criteria (qualifications and training before admission), exclusive rights to certain tasks ("reserved work") and restrictions on sharing profits and offices with non-practitioners;

- **Limiting the ability of suppliers to compete** through minimum fees associated with a prohibition on undercutting the fees of another attorney or conveyancer;

- **Reducing the incentive of suppliers to compete** through rules that prevent attorneys from approaching the clients of other attorneys, effectively dividing up the market between incumbents; and

- **Restricting consumer choice and information** by setting limits on advertising.

Regulations may be contributing to higher prices and lower supply. There are 682 citizens per lawyer, compared to 401 in the United Kingdom (adjusting for people that cannot afford legal services) (McQuoid-Mason, 2013). Many law graduates practice in the government or as in-house counsel at large firms as they cannot afford the lengthy unpaid internships required to qualify as an advocate (barrister) or attorney of law.

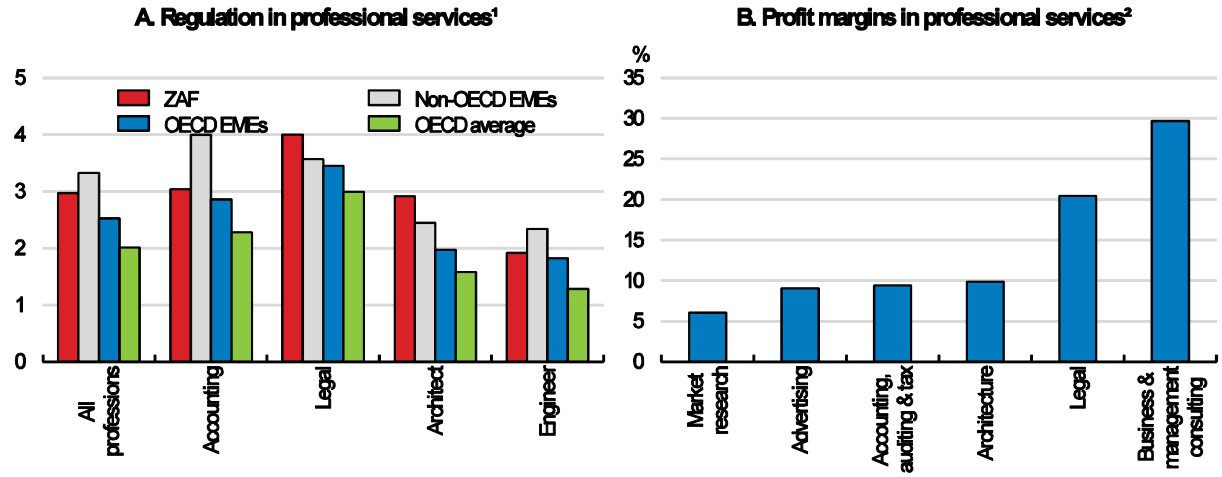
Experience in other countries shows that regulatory reforms can improve competition and address market failures by improving quality:

- In the United Kingdom reforms in 2007 aimed to enhance oversight, eliminate barriers to competition and innovation, and simplify regulation. The reforms established an independent regulator to oversee the self-regulatory bodies and an ombudsman for complaints handling. "Alternative business structures" were permitted to provide legal services with full or part-ownership by non-lawyers. Reported consumer satisfaction has risen, professional misconduct cases have decreased and "alternative business structure" firms have captured a significant revenue share of several areas of legal services and introduced innovations (Legal Services Board, 2016).

- In Australia regulatory limits on ownership structures for legal services firms were removed over 10 years. This permitted multidisciplinary partnerships and Incorporated Legal Practices (legal practices owned/managed by non-lawyers). By 2014 around one-third of solicitor firms were ILPs.

This box was prepared by Ania Thiemann from the OECD Directorate for Financial and Enterprise Affairs.

Figure 9. Some professional services are highly regulated



1. Scores potentially range from zero to 6 and increase with restrictiveness. The emerging market economies are 5 non-OECD member countries (Brazil, China, India, Russia and South Africa, with varying coverage) and 5 OECD members (Chile, Hungary, Mexico, Poland and Turkey). Data are for 2013.

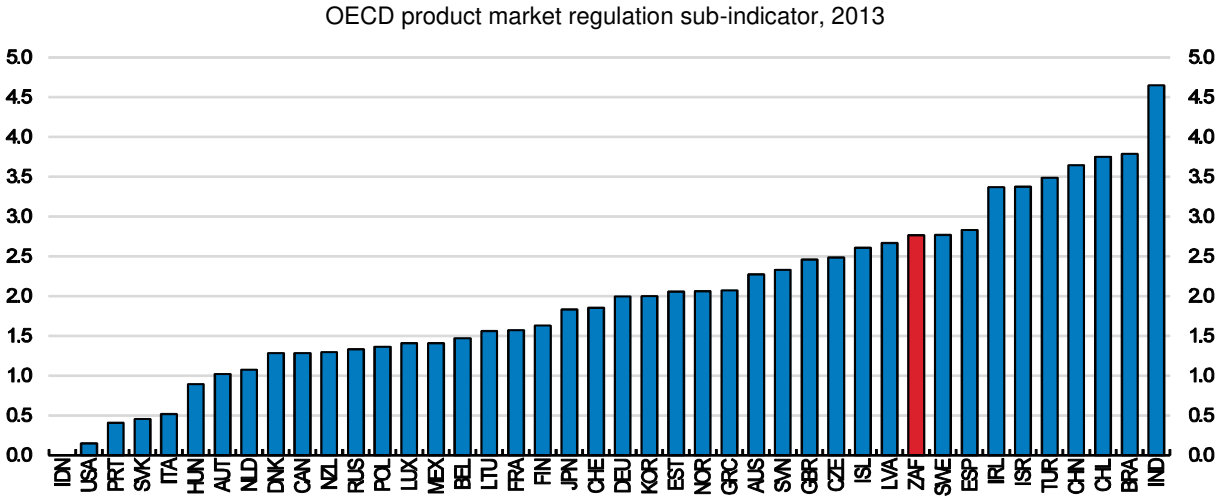
2. Net profit before interest and tax as a percentage of turnover in 2015.

Source: OECD, Product Market Regulation Statistics (database); Statistics South Africa, *Annual Financial Statistics Survey 2015*.

A whole-of-government reform programme to reduce the administrative burden could boost confidence, start-up rates, formality and growth. This should focus on reducing the complexity of regulatory procedures (Figure 10). For instance, reducing regulation to best practice in three areas - licensing and permits (e.g. Portugal, Slovak Republic), communication and simplification of rules and procedures (e.g. Korea, Russia), and barriers in services sectors (e.g. Australia) - could boost GDP per capita by 1.1% over five years under certain assumptions (based on the framework in Égert and Gal (2016)). A reform package could include: (i) "silence is consent" rules for licensing, including at sub-national level, where there is low risk to consumers and the environment; (ii) a red-tape reduction programme and review of licensing of services as done, for example, in Mexico with the OECD Competition Assessment Toolkit; and (iii) one-stop shops for start-ups and permits. These tools have helped OECD countries to simplify administrative procedures (OECD, 2006). Countries such as Hungary and Portugal have used risk-based assessments to determine which licences are subject to the silence-is-consent rule and what the appropriate time limits are.

Regulations require systematic assessment, both before and after their introduction. A red tape impact assessment bill currently with the parliament goes in the right direction. A new Red Tape Impact Assessment Unit would review all new legislation and determine whether a full "red tape impact assessment" is needed. Since 2015 draft policies, legislation and regulations should undergo a Socio-Economic Impact Assessment (which was designed to be broader than regulatory impact assessments) but the quality has been uneven and there is no obligation to consider firm creation or small businesses. As highlighted in OECD (2015b), the approach should be clear and use uniform criteria to evaluate policies. The proposed legislation would also require all departments and self-regulatory agencies to evaluate existing regulation and reduce red tape by 25% over five years. Expertise could be concentrated and accumulated if the envisaged impact assessment unit was located in the Department of Planning, Monitoring and Evaluation, which is responsible for socio-economic impact assessments. Training should then be provided to boost capacity throughout the public administration. The Department could also be made responsible for driving a regular review of regulation.

Figure 10. There is scope to reduce the complexity of regulatory procedures



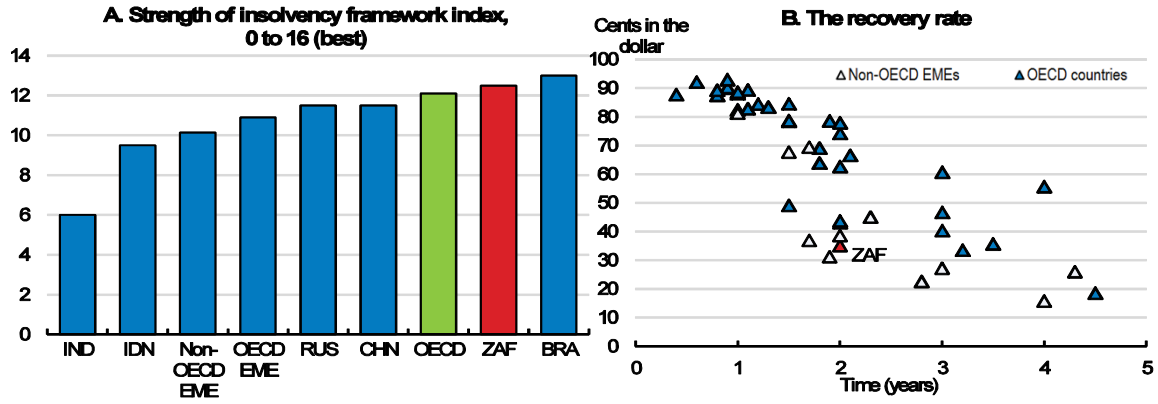
Note: Complexity of regulatory procedures is a component of the barriers to entrepreneurship indicators. Scores potentially range from zero to 6 and increase with restrictiveness. 2008 data are shown for Indonesia and the United States.

Source: OECD (2013), "Economy-wide regulation", OECD Product Market Regulation Statistics (database).

Facilitating company restructuring and second chances for entrepreneurs

When business failure is costly, entrepreneurs may be less willing to start a firm or to experiment and investors may be less willing to supply risk capital, thereby reducing self-employment rates, start-up rates and firm growth (Armour and Cumming, 2008; Peng et al., 2010; Adalet McGowan and Andrews, 2016). On the other hand, insufficient protection of creditors would reduce access to finance. By reducing co-ordination failures and information asymmetries, an efficient insolvency regime reduces the cost of credit and facilitates business restructuring. South Africa has a strong legal framework for corporate insolvency (Figure 11, Panel A). However, insolvency is relatively slow, which pushes up costs and lowers the recovery rate (Figure 11, Panel B).

Figure 11. The corporate insolvency regime is strong but the recovery is low



Note: The emerging market economies are 11 non-OECD member countries (Argentina, Brazil, China, Colombia, Costa Rica, India, Indonesia, Malaysia, Thailand, Russia and South Africa) and 5 OECD members (Chile, Hungary, Mexico, Poland and Turkey).

Source: World Bank (2016), *Doing Business 2017* .

Recent OECD research has found that efficient insolvency regimes include a brief time to discharge, allowing creditors to initiate restructuring, having early warning mechanisms, using pre-insolvency regimes and special provisions for small businesses (Adalet McGowan et al., 2017a). Special provisions for small businesses include simplified procedures and out-of-court settlements. Promoting early warning systems would allow debtors to take action earlier and increase the likelihood of a successful restructuring. Systems could include online tests of business health, call centres, training and public centres. Reducing the involvement of courts by completing procedural steps out-of-court would ease the pressure on the judicial system and lower costs.

Recovery rates are higher in economies that use restructuring more often. Legislative changes in 2011 introduced business rescue, but the success rate of just 16% of proceedings started since 2011 suggests that this is still developing. Further efforts to increase take-up are needed, including addressing concerns that practitioners often lack skills, negative perceptions of the process and promoting earlier intervention (Deloitte, 2016). Changes to the licensing of professional services could raise the quality of practitioners. Improvements to the efficiency of the judicial system, perhaps with a specialised insolvency court to build expertise, could help to speed up the process.

Small business owners who guaranteed their insolvent business' debt would find themselves in the personal insolvency regime, which is widely regarded as pro-creditor (Boraine and Roestoff, 2013). It is a court-heavy process. The judge must consider if there is an "advantage to creditors" in declaring the person insolvent, which means the entrepreneur must repay some money to other creditors. After at least one year (depending on circumstances) the debtor can apply in the court for discharge ("rehabilitation"). Otherwise discharge occurs automatically after 10 years. Without discharge individuals are not eligible to open bank accounts or receive government grants. Personal insolvency is not available to debtors with no income or assets. The National Credit Act provides an alternative process for restructuring debt but with no maximum time limit, which means that interest charges and fees can escalate (Boraine and Roestoff, 2013).

Legal reform has been planned since 1987 and is long overdue to modernise the system and better link it with the insolvency regime. Allowing debts of individual (honest) entrepreneurs to be discharged automatically after three years (as recommended in the European Union) should increase risk appetite and entrepreneurship. The system should be more holistic and give debtors with no income or assets rights to bankruptcy. Reforms to the personal insolvency regime in Ireland and Spain for example, have improved efficiency, lowered costs, and made it easier for individuals to re-enter the economy and "start afresh" (Adalet McGowan and Andrews, 2016).

Compliance with the tax system is costly

Taxes influence decisions about the size and structure of firms (OECD, 2015c). They also impose a larger compliance cost on small firms because of the fixed (time and financial) cost involved. South Africa has two special tax regimes for small businesses: a "small business corporation" regime for small firms with taxable income up to ZAR 20 million (USD 1.4 million) and a simplified turnover tax that was introduced in 2008 to reduce the compliance burden for microenterprises (with turnover up to ZAR 1 million). Self-employed workers (in sole proprietorships or partnerships) can also pay tax under the personal income tax system.

The "small business corporation" regime offers the same basic tax allowance as in the personal income tax system, with the first ZAR 75 750 (USD 5 166) of taxable income not subject to tax. Marginal tax rates increase progressively in increments of 7%, from zero up to the corporate income tax rate of 28%. The regime also provides for accelerated depreciation of assets. The turnover tax is a presumptive tax replacing corporate income tax, capital gains tax, dividend tax and value-added tax. Turnover above

ZAR 335 000 (USD 22 800) is taxed at progressive marginal rates of 1 to 3%. Professional services activities are excluded due to concerns about tax evasion.

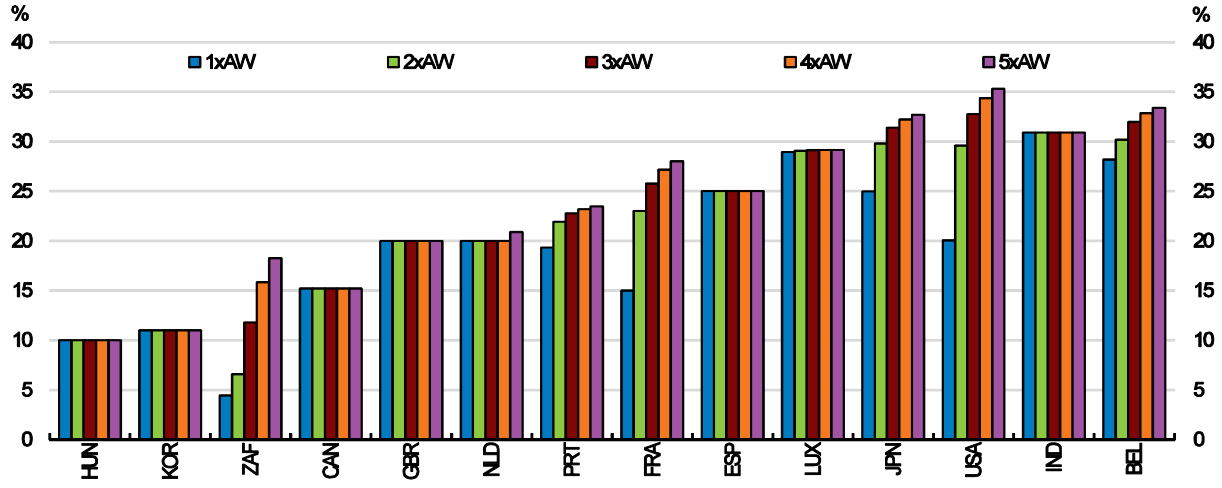
Compared to other countries, there are relatively large jumps in tax rates for small businesses when their taxable income grows above the thresholds (Figure 12). These can create disincentives to grow; there appears to be a disproportionate number of firms declaring taxable income just below both thresholds in the schedule (Boonzaaier et al., 2016). In addition, the depreciation allowance disadvantages young firms which are less likely to be profitable and more likely to be labour intensive. The Davis Tax Committee (2014, 2016) has been critical of the regime. One of the options in its final report was replacing the regime by a "refundable compliance rebate" to compensate small firms for compliance costs (or removing it and redeploying the resources, or retaining it). Alternatively, the scheme could be restricted to young firms, so that after a fixed period firms "graduate" to the standard regime (with measures to ensure firms do not game the system). Mexico's *Regimen de Incorporacion Fiscal* scales up income tax rates over 10 years and offers other non-tax support; although registration has increased it is too early to fully evaluate its success.

The compliance burden appears to be onerous. Paying taxes is comparatively slow (World Bank, 2017). Small businesses' filings are often late - 61% of small business company income tax filings were late in 2013/14 (SARS, 2015) - which may point to difficulties in compiling returns. A key source of burden appears to be the VAT and slow processing of VAT refunds (Smulders et al., 2012; DTC, 2016). Despite 55% of VAT refunds being paid within 48 hours in 2015/16, the average length of time was 33 days (SARS, 2015). In Estonia, Finland and Ireland refunds take five working days or less (OECD, 2015d).

SARS has increased its assistance for SMEs with 138 small business desks at its branches and a call centre. These should be used to speed up filing and help resolve problems, which in turn would help more small businesses have tax clearance certificates (these certify that taxes are up-to-date and are needed to apply for tenders or grants). Allowing small businesses to use cash accounting could also ease the strain on cash flows caused by differences in timing between VAT liabilities and the receipt of the income (OECD, 2015c). Greater use of technology could also simplify processes and lower costs. Recent changes to issue tax clearance certificates electronically are welcome. SARS should continue to expand its education and assistance to build capability and encourage compliance.

Figure12. The tax rate on small businesses rises sharply with income

Average statutory corporate income tax rate at different levels of business income (as a multiple of average wage), 2014



Source: OECD (2015), "Taxation of SMEs in OECD and G20 Countries", *OECD Tax Policy Studies*, No. 23, OECD Publishing.

The informal sector needs special treatment

The regulatory approach to the informal sector was strict under apartheid and subsequently when it has been seen as a threat to formal employment (Fourie and Kerr, 2017; OECD, 2008). However, regulation itself is a driver of informality: a firm that is deciding whether to formalise will compare the costs and benefits from being formal to those from being informal (including the probability of detection and its penalty) (Andrews et al., 2011). A survey of small businesses in South Africa's Free State province found that many businesses cope by engaging in informal practices (31.5% of respondents) or avoiding growing (25.6%) (Christensen et al., 2016).

Simplifying and reducing start-up and licensing procedures would lower barriers to formalisation; in Mexico and Peru faster firm registration resulted in higher rates of registration (Bruhn, 2008; Mullainathan and Schnabl, 2008; Djankov, 2009). The turnover tax aimed to increase formalisation but it has not been as successful as hoped. The Davis Tax Committee recommended that a voluntary disclosure programme be implemented for the tax to allay fears of incurring liabilities for past years and that moving in and out of the turnover tax be more flexible (DTC, 2014, 2016). Clear benefits should accompany registration, for instance assistance with tax and book-keeping. In Brazil, non-tax-related incentives appear to have contributed to formalisation and take-up of its turnover tax. Ongoing costs of being formal should also be credibly reduced. For example, penalties for honest mistakes in tax returns could be removed or lowered and the tax office could work more closely with small firms to resolve tax debts.

While informality represents a loss of efficiency, the informal sector is a type of second-best outcome where barriers in the formal economy are high, especially due to regulations, or as a buffer in an economic downturn (Andrews et al., 2011). It can also play a role in poverty reduction. Recognising this, the Department of Small Business Development is working on a way of licensing informal retailers to trade at provincial offices rather than needing to formally register with the company's office. Lower licensing requirements could be considered outside of metropolitan areas. The Department is also offering business support services to informal businesses, which may help to build a pipeline of firms to formalise.

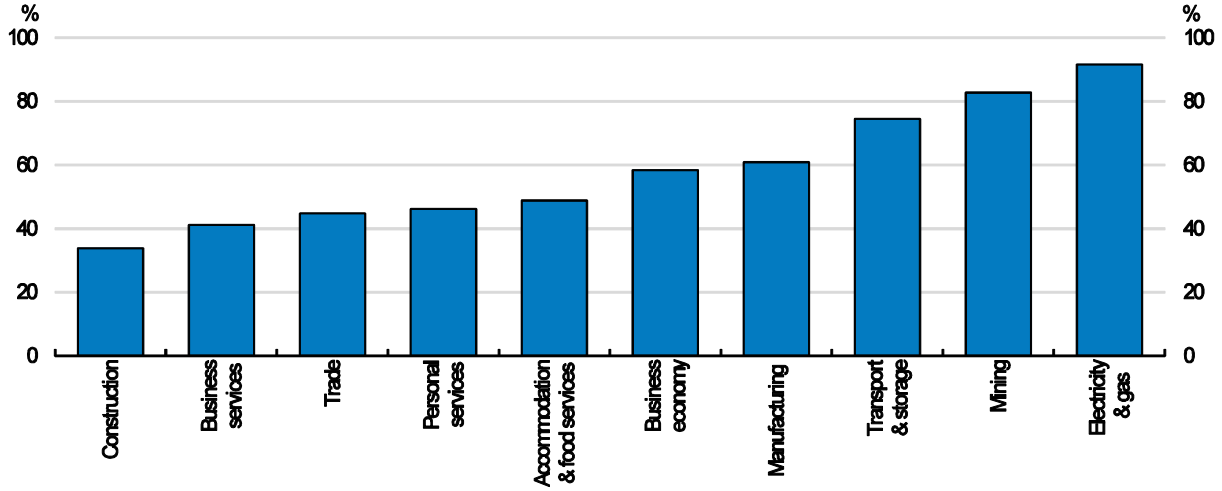
Overcoming barriers to markets

The concentrated structure of the South African economy makes it difficult for small firms to enter some markets and compete. This is partly because large incumbents are able to take advantage of economies of scale and scope. Unsurprisingly, large firms dominate capital-intensive industries like utilities and mining (Figure 13). However, large firms also account for half of industry turnover in trade. Vertically integrated firms have created barriers to distribution networks in the beer industry and supermarkets (Matumba and Mondliwa, 2015; Das Nair and Chisoro, 2016). More recent evidence shows that entry rates are lower and concentration ratios higher in industries with a higher share of large "uncompetitive survivors" (Box 3).

As highlighted in the 2015 *OECD Economic Survey of South Africa*, competition policy must play an important role in facilitating access to markets for entrants (OECD, 2015b). The degree of regulatory protection for incumbents could also be lowered in industries like utilities, such as gas and electricity, transport and telecommunications. Simplifying government incentive programmes so that small businesses do not need to hire consultants to prepare an application would improve small businesses' access to these incentives. (Roberts, 2016). Ways of increasing access to public procurement and private supply chains, as well as encouraging new markets, are discussed below.

Figure 13. Concentrated industries are more capital intensive

Turnover share of large firms (250 or more employees), 2012-14 average



Source: Based on Tsebe et al. (forthcoming), "Firm dynamics in South Africa".

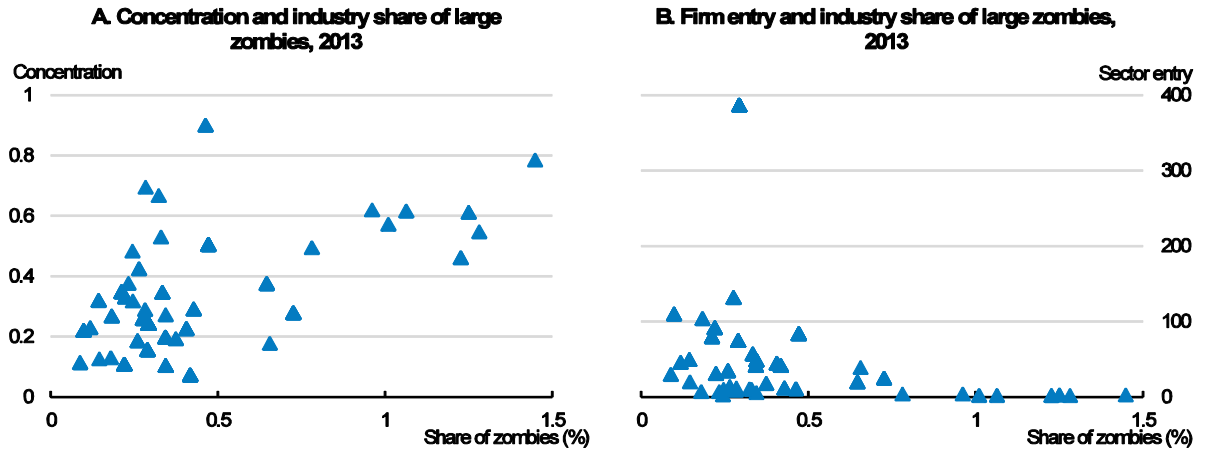
Box 3. Box 4. Are zombie firms weighing on firm creation and growth rates?

Recent evidence from 13 OECD countries has highlighted the role of "zombie firms" in depressing productivity growth and raising barriers to entry, where zombies are firms that would exit in a competitive market (Adalet McGowan et al., 2017b). A higher share of industry capital sunk in zombies is associated with lower investment and employment growth of non-zombie firms, especially young firms. Zombies raise the required productivity of entrants by lowering prices and holding up wages.

The new firm-level panel dataset (Pieterse et al., 2016) permits the study of zombie firms in South Africa. Zombie firms as defined as old firms (aged 10 years or more) whose operating income does not cover their interest obligations for two of three consecutive years (the OECD paper uses three years). The analysis suggests that:

- Zombies firms are less prevalent than in the OECD sample (1.5% versus 6%). Large zombie firms (100 or more employees) account for 0.25% of firms.
- Zombie firms are using a larger share of capital (property, plant and equipment) than in the OECD sample (33% compared to 20%).
- The share of zombie firms increased between 2010 and 2014, from 0.5% to 1.5%.
- The share of capital in large zombie firms has risen from 1% to 33%.
- The share of labour in zombie firms (and large zombies) has risen from 1% to 5%.
- Large zombies are most prevalent in mining, transport and storage, and food services and accommodation. Sectors with a higher share of zombie firms have: lower investment growth (albeit weakly); higher levels of concentration; and fewer new entrants (Figure 14).
- Zombie firms are on average less productive than non-zombie firms.

Figure 14. Large zombie firms may be adding to barriers to entry



Note: Concentration ratio measures market share of top four firms by sector using all firms. Large zombies have 100 or more employees.

Source: National Treasury calculations based on the SARS-NT dataset.

Further work is needed to understand the causal relationships. Unlike in OECD countries, market power may be more important in creating entry barriers than the effect of zombie firms on lowering prices. Moreover, zombies may be more common in sectors protected by entry regulation, which generates the associations in the data.

Note: This box is drawn from work by Aalia Cassim and Mulalo Mamburu at the National Treasury of South Africa.

Public procurement is an underused tool to grow small businesses

Public procurement, which represented 12% of government spending in 2014, is an opportunity for small businesses. Most OECD countries use special measures to ensure that small businesses can access these opportunities (OECD, 2013b; Horowitz, 2012). South Africa uses preferential public procurement to economically empower disadvantaged groups, which include small businesses.

The system has been undergoing significant change. Until recently, the primary tool was a Broad-Based Black Economic Empowerment (B-BBEE) scoring system that favours black-owned businesses. All government suppliers must have a B-BBEE certificate. The B-BBEE score itself has a 10-20% weight in the tendering process (price has the other 80-90%). Changes in 2015 made it easier for micro-enterprises to get a B-BBEE certificate and points and gave more B-BBEE points to suppliers that invest in enterprise and supplier development. Suppliers were to get additional points from using better rated suppliers themselves but this has been postponed.

From 2017 preferential procurement is more strongly targeting micro-enterprises and black-owned small businesses. From April 30% of every large contract (under ZAR 30 million or USD 2 million) must be sub-contracted to these firms where feasible. Procuring agencies can further restrict the sub-contracting to black-owned firms, or even more narrowly within this group to firms owned by youth or women or other disadvantaged groups. Agencies can also use pre-qualification criteria to restrict tenders to targeted groups.

The current system provides benefits to small businesses and young firms but also imposes costs. Firms with turnover below ZAR 10 million or younger than one year can receive a B-BBEE certificate by submitting an affidavit. This allows them to supply to the government and is intended to make them more attractive to suppliers of the government. However, to be a "Qualifying Small Enterprise", small firms

(turnover up to ZAR 50 million) that are not majority-black owned must comply with the scorecard elements (summarised in Table 2), which can be costly, and engage an accredited verification agent annually.

Table 2. Overview of the B-BBEE Scorecard for Qualifying Small Enterprises

B-BBEE element	Weighting	Summary of requirements	Required spending
Ownership	25 points	Voting rights and economic interest in company in hands of black people and black women	
Management control	15 points	Representation of black people and black women in executive and lower management	
Skills development	25 points	Must also submit skills plan, annual training report and pivotal report	3% of wage bill spent on learning programmes for black people and black women
Enterprise and supplier development	30 points	Target 60% of spend from "Empowering Suppliers"	1% of net profit after tax spent on supplier development and 1% spent on enterprise development
Socio-economic development	5 points		1% of net profit after tax spent on socio-economic contributions benefiting black people
Memo item: "Exempt Micro Enterprise"	100 points (with up to 35 bonus points if the firm is majority or fully black-owned)		

Note: The Broad-Based Black Economic Empowerment Act defines "Black people" as "Africans, Coloureds and Indians" who are South African citizens. "Empowering Supplier" status has been postponed. The "generic scorecard" is not shown here but contains stronger targets.

The additional compliance burden for Qualifying Small Enterprises relative to micro-enterprises creates a strong incentive for firms to remain below the turnover threshold. However, micro and small firms benefit from the incentive for large firms to invest in enterprise and supplier development programmes. Survey data indicate that 40% of established SMEs were not rated and 70% did not supply to government, suggesting that the benefits may not be outweighing the costs of registration (SAICA, 2015). Indeed, in another survey, 76% of SMEs did not agree that B-BBEE leads to enterprise growth (ILO, 2016). Easing certification for small firms and exempting young firms for a longer period (e.g. five years) would soften the threshold effects and ensure that the policy is not burdening firms during their most precarious years.

Many countries use set-asides for small businesses but these often apply to procuring agencies, which gives more flexibility. A number of factors suggest the abovementioned changes could currently be difficult to meet, including the relatively small size of the small business sector, previous low rates of compliance with preferential procurement targets (just 25% according to Horowitz (2012)) and interaction with local content requirements. The recent digitalisation of procurement processes means that these changes can be monitored closely. Horowitz (2012) suggests that there is no difference in outcomes between countries that use set-asides and those using other support measures to achieve targets.

The recent introduction of supplier pre-registration is a significant step in reducing the compliance burden for micro and small businesses. Ways of improving access for small and young businesses include: further use of technology (e.g. putting all documents online and allowing for online submissions); limiting compulsory briefing sessions; simplifying forms; and simplifying and unbundling large contracts into smaller lots (when economies of scale are less important, and still subjecting the bid to a competitive tender). Awareness and supplier training should be expanded across the country. Outcomes should be published to increase accountability against targets.

Improving payment times and the technical capacity of departments to comply with mandated payment times should be a priority. In 2015/16 45% of the 457 departments and public entities were not meeting the 30-day payment rule and 13% took over 90 days to pay suppliers (Auditor-General of South Africa, 2016). Cash-flow problems and poor financial management were the main cause. The SMME Late Payment Hotline and website for reporting late payments have helped reduce late payment. Additional steps should be introduced to deter late payment, for example withholding payments to late-paying entities, providing for automatic accrual of interest on overdue payments, or the Treasury paying the supplier and taking on the debt. In the European Union, interest accrues automatically after 30 days, or after 60 days in exceptional circumstances. The National Treasury and the Department of Planning, Monitoring and Evaluation should provide more technical assistance to other departments, public entities and sub-national governments.

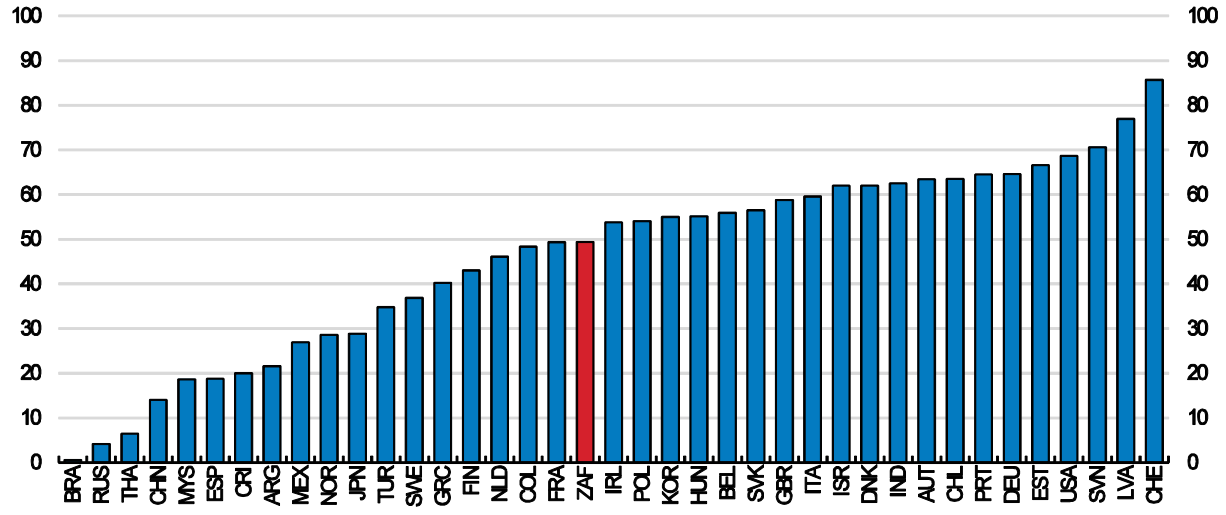
More information is needed to understand the effects of the preferential procurement policy. The combination of the many objectives and requirements risks unintended negative consequences. The recent changes should be reviewed after six months to assess the effects on competition, participation of target groups, firm growth and other costs and benefits so that adjustments can be made accordingly. A full impact evaluation of the preferential procurement framework would also be useful to ensure that the benefits were offsetting costs.

Engaging small firms in export and supply chains

Exporting provides growth opportunities for small firms to overcome a lack of domestic demand, scale up to achieve economies of scale and innovate based on learning. The 2012 Global Entrepreneurship Monitor data suggest that around half of all established business owners had foreign customers, putting South Africa in the middle of OECD and emerging market economies (Figure 15). But their share of total exports is small: goods exports of small and medium firms accounted for just 6.7% of total goods exports over 2010-14 (Anand, et al., 2016). SMEs that export are more likely to export to Sub-Saharan Africa (91% of their exports), whereas large firms' exports are more spread around major markets (Anand et al., 2016). This is consistent with patterns found in Europe, where exports by SMEs also tend to be to nearby countries (OECD, 2016a).

Figure 15. Many South African entrepreneurs export

Percentage of surveyed established business owners with customers outside of the country, 2012



Source: Global Entrepreneurship Monitor database.

Lowering financial and non-financial costs of trade can disproportionately benefit small entrepreneurs. Although South Africa compares favourably against many countries in relation to trade facilitation measures, fees and documentation could be lowered further. In South Africa, border compliance associated with exporting takes 100 hours to complete, compared to 49 hours in Brazil or 20 hours in Mexico (World Bank, 2017). Better transport infrastructure and more competitive pricing would considerably lower transport costs (OECD, 2015b). Since small businesses are more likely to export to neighbours, steps to deepen regional integration, as proposed in Fall and Gasealahwe (forthcoming), should disproportionately benefit small business.

Exposure to supply chains can also be indirect. In Nordic countries, SMEs that are not part of a larger business group are most likely to participate in value chains by supplying SMEs that are part of a larger group or large firms (Statistics Denmark/OECD, 2017). Facilitating the establishment of small businesses in exporting clusters, through subsidised infrastructure provision for example, could help them to integrate into value chains and benefit from knowledge transfer. The 2017 African Economic Outlook also points to the potential for clusters to enable SMEs to grow through economies of scale, labour pools and agglomeration benefits (AfDB/OECD/UNDP, 2017).

Technology is increasing information and access to markets

Technology is also helping firms reach new markets. According to WTO (2016) all South African e-bay-enabled firms exported, and exported to 29 different destinations. Technology also offers new ways to disperse information about destinations as well as how to start exporting. Government agencies should increase their web presence and promote links to support programmes offered by other organisations (OECD, 2009). A 2014 review of the government's Export Marketing and Investment Assistance Scheme found that most beneficiaries surveyed were micro-enterprises or small but almost one-third of firms reported no exports (DNA Economics, 2014). Another model of increasing information for small business is Finland's public-private partnership with chambers of commerce and exporter groups.

Disruptive innovations have also created new markets in ride-sharing and short-term accommodation, for example. Crowdsourcing solutions or parts of the product development process also help start-ups and small businesses achieve scale, as well as providing a business opportunity to another entrepreneur. They allow people to exploit existing assets, such as cars and housing, or their skills. The platform or app can remove the need for a physical business location. By lowering barriers to entry, these activities have the potential to generate more inclusive job creation through self-employment and business start-up, as well as spur innovation.

These new forms of markets bring challenges for policy-makers including: difficulty in distinguishing between the self-employed and employees, issues of fair tax treatment of incumbents and entrants, and ensuring that regulation remains competition-friendly. Countries appear to be experimenting with different approaches. Belgium has recently introduced an advantageous tax regime for peer-to-peer services providers, which includes an arrangement to tax the income at the source (the platform) (OECD, 2017b). Australia's approach to regulation has been to watch developments but then react quickly (OECD, 2017c). In South Africa, as in other countries, some of the regulations are the responsibility of sub-national governments. Forums for local regulators to share experiences would facilitate the identification and dissemination of best practices.

Growing entrepreneurial competencies

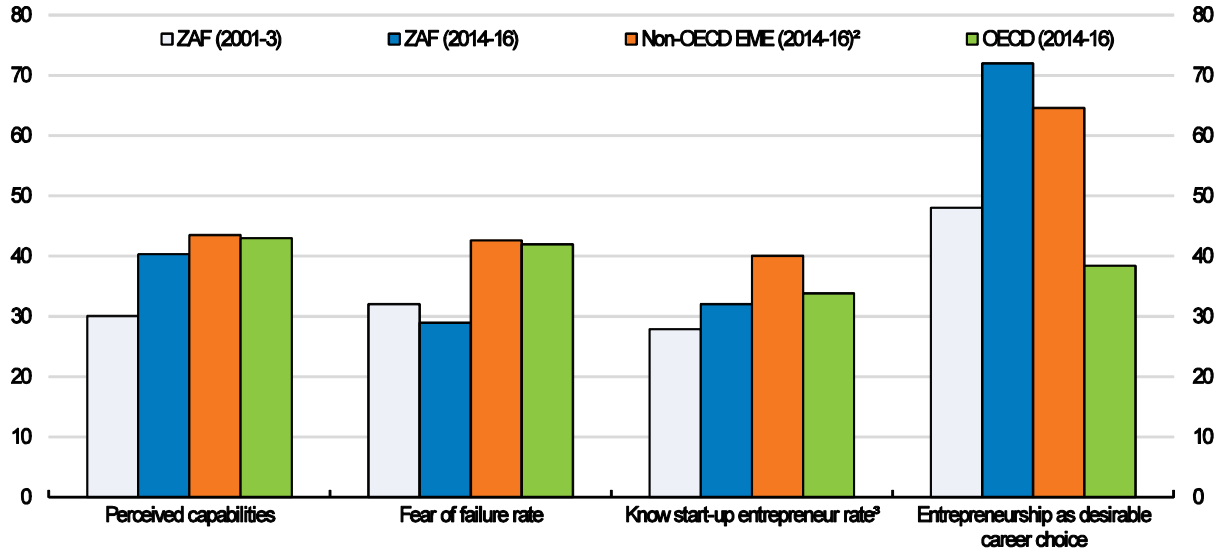
Entrepreneurial competencies – skills, knowledge and attitudes – are associated with a higher rate of entrepreneurial activity and better firm performance. Higher education levels are associated with a higher

propensity to be involved in planning or starting an opportunity-based business in South Africa, as elsewhere (Appendix A; Ardagna and Lusardi, 2010; Naudé et al., 2008). Likewise, education is associated with more successful businesses. This is partly because good managers make good decisions about which inputs to use and raise productivity of resources using new and better techniques, maintaining equipment and marketing (Bruhn et al., 2010; OECD, 2015a; Bloom et al., 2012). In South Africa, better-performing informal firms have higher managerial capital (owner's education and age) and better practices such as keeping financial accounts and commercial premises (Ligthelm, 2012; Fourie and Kerr, 2017).

Entrepreneurial competencies include learned knowledge such as accounting and technology, as well as skills such as resource management and strategic thinking, and attitudes like self-belief and tolerance of uncertainty (Lackéus, 2015). These competencies can be acquired through formal learning and also work experience; however, this can be difficult in South Africa. Access to education expanded enormously in the past two decades but its quality is unequal, as discussed in *OECD Economic Surveys* of South Africa (OECD, 2017d, 2013). After school, access to work experience is constrained by the lack of jobs, indicated by the youth unemployment rate of 53% on 2016. Vocational education does not provide students with sufficient work experience, partly due to a shortage of places (OECD, 2017e). Nonetheless, the share of South Africans knowing an entrepreneur has risen, as have self-perceived skills (Figure 16). Both factors are determinants of entrepreneurial activity (Ardagna and Lusardi, 2010; Appendix A).

Figure 16. Attitudes have become more entrepreneurial

As a percentage of the population aged 18-64 years[1]



1. Perceived capabilities: those who believe they have the required skills and knowledge to start a business; Fear of failure rate: those perceiving good opportunities to start a business who indicate that fear of failure would prevent them from setting up a business; Know start-up entrepreneur rate: those who personally know someone who started a business in the past two years; Entrepreneurship as desirable career choice: those who agree with the statement that in their country, most people consider starting a business as a desirable career choice.
2. Non-OECD EME is the average of: Argentina, Brazil, China, Colombia, Costa Rica, India, Indonesia Malaysia, Thailand, Russia and South Africa.
3. Data for 2016 are not available.

Source: Global Entrepreneurship Monitor.

The formal education system needs to perform better

The priority is to increase the quality of education to raise basic skills – maths, literacy, and problem solving – as discussed in other OECD studies (2013a, 2017e). This requires raising the quality of teaching, funding for disadvantaged schools and monitoring outcomes (OECD, 2017e). Raising the secondary school graduation rate – currently the lowest in the G-20 – would also facilitate access to post-school education.

The school system can also support entrepreneurship by providing knowledge related to entrepreneurship and encouraging an entrepreneurial mindset (Lackéus, 2015; OECD, 2010a). Facilitating employer talks, career fairs or job shadowing for secondary school students could be cost-effective ways of providing exposure to the business environment and assisting with career decisions (Kashefpakdel and Percy, 2016; Larson, 2012; OECD, 2010b). This would especially benefit students from disadvantaged backgrounds who lack knowledge about the labour market. This could be piloted initially. Technology can be used to lower the cost of participation; in the United Kingdom a secure platform, "Inspiring the Future", is used to connect schools and colleges with volunteers from a range of professions who donate one hour per year. Changes to the curricula are difficult given the strains on the school system but a first step would be to make business subjects in secondary school more practical as they are generally theoretical (Osiba Management, 2013). Schools could also partner with local businesses to offer extra-curricular activities; after-school training in starting a business has been linked to higher start-up rates (Schøtt et al., 2015).

The vocational education system can also support entrepreneurship. Reviews of the colleges consistently point to the need for stronger links with businesses to increase the relevance of the course content, teachers with practical experience and availability of internships and work placements (Field et al., 2014; OECD, 2017e; Osiba Management, 2013). Entrepreneurship education should also be included in all courses. To increase availability of work placements, awareness of the learnership tax incentive for firms could be raised. Simplifying the procedures associated with applying for funding under the skills development levy could increase the availability of training places (OECD, 2017e). Administrative assistance could be given to small businesses. Better preparing youth for apprenticeship and providing support during the apprenticeship may help raise completion rates and encourage employers' participation (Kis, 2017).

South Africa's universities are fostering entrepreneurship to varying degrees. Some universities have begun integrating elements of entrepreneurship education into their curricula and teaching methods; however, many courses remain theoretical. Centres for entrepreneurship are emerging and conducting a range of activities, including start-up weekends and competitions. Some universities have also created incubators providing seed funding, links to the private sector and a supportive environment. To be most effective, products should not be protected from market forces for too long and rules about intellectual property ownership should be clear. Funding could be increased for strongly performing centres. A forthcoming "situational analysis" by the Department of Higher Education and Training will help to identify lessons and extend good practices. A council could be established to facilitate sharing of experiences with entrepreneurship education, or the Department could play a co-ordinating role.

Second-chance schemes and work experience would help youth

Self-employment is seen in South Africa and some European countries as a way of overcoming high youth unemployment. In South Africa one-third of 15-24 year olds – over 3 million young people – is not in employment, education, or training. The challenges for this group to becoming self-employed are larger than the rest of the population due to a lack of information about entrepreneurship as well as human, social and financial capital (Green, 2013). If they do start a business, it will more likely be in a sector with low entry costs (which is therefore competitive) and be undercapitalised, which raises the risk of failure.

Given the concerns about the quality of basic education and the observed links between start-up, age and experience, investing in up-skilling youth should boost their success later. Second-chance programmes to return to the education system are part of the solution. Community colleges (formerly Adult Education and Training Centres) offer a range of courses including basic literacy and numeracy and the possibility of sitting the matriculation (final year) exams. The programmes should be monitored, adjusted as needed, and sufficiently resourced to ensure their effectiveness.

The links between entrepreneurship and knowing an entrepreneur (and employment) point to the need for policies that offer work experience. The learnership tax credit and employment tax incentive (a wage subsidy) are designed to increase access to work-based training and a first job, respectively. These were recently extended to 2019 and 2022, respectively. Increasing the work experience component in school, university and relevant community college programmes could also be useful but may require stronger incentives for employers to participate. Local governments could support the formation of social networks for those from more disadvantaged backgrounds by providing infrastructure and platforms in disadvantaged areas.

Programmes for enterprise development have been expanded

International evidence suggests that the most effective elements of entrepreneurship and small business programmes have been business training and business development services but there is a wide variety (Grimm and Paffhausen, 2015; McKenzie and Woodruff, 2012; Green, 2013). In South Africa six national departments and agencies offer a range of enterprise development programmes that incorporate elements of training and support services and target different groups of entrepreneurs. Programme goals vary, including encouraging unemployed youth into self-employment and a Gazelles programme for small businesses with high growth potential. Most programmes target historically disadvantaged groups. The subject matter also varies considerably, from financial literacy and basic accounting to marketing, to quality standards. Provincial and municipal government also run programmes, as do a range of non-governmental programmes, including those run by the private sector in line with enterprise development targets of the B-BBEE accreditation system and sectoral charters.

Although there is a range of programmes targeting many types of entrepreneurs, these are not co-ordinated. Experts raise concerns that the programmes are too dispersed, not being delivered competently and are not effective (Table 3) and capacity is being spread too thinly. Under-resourcing may also be an issue; it appears that less than 0.5% of GDP was spent on the programmes in Table 4. According to Gallup survey results, in 2013 around 30% of South Africans believed they had access to training on how to start or grow a business, compared to 45% in the average OECD country (OECD, 2016a). There seems to be a lack of awareness of support among small businesses (SBP, 2014). Although numbers of participants are monitored, impact evaluations are rare. But past evaluations point to the need to evaluate, refocus and streamline programmes (World Bank, 2007).

Table 3. Average expert ratings for government programmes for entrepreneurship

(2016, weighted average, 1 = highly insufficient, 9 = highly sufficient)

	Score
A wide range of government assistance for new and growing firms can be obtained through contact with a single agency	2.4
Science parks and businesses incubators provide effective support for new and growing firms	4.0
There are an adequate number of government programmes for new and growing businesses	4.2
The people who work for government agencies are competent and effective in supporting new and growing firms	2.9
Almost anyone who needs help from a government programme for a new or growing business can find what they need	2.1
Government programmes aimed at supporting new and growing firms are effective	2.7

Source: Herrington et al. (2017), *GEM South Africa Report 2016/17: Can Small Businesses Survive in South Africa?.*

Table 4. Summary of key government training and development programmes

Non-financial programmes

Business stage	Informal survivalist	Start-ups	Growing micro, small and medium sized businesses	High-growth firms
Training				
Business skills development and training	X		X	X
Mentoring and coaching	X		X	X
Product/ process/ standard improvement	X		X	X
Business development services				
Information provision	X	X	X	X
Business plans and strategy		X		X
Marketing/ sales/ customer care	X		X	X
Facilitating access to funding		X	X	X
Facilitating market access & readiness			X	X
Supplier development			X	X
No. of national government departments	2	1	4	3

Note: The programmes use the term “Black” to refer to “Africans, Coloureds or Indians”, who must be South African.

Source: Various government websites.

The Department of Small Business Development plans to review government programmes. But given its resource constraints, an evaluation could be carried out by the Department of Planning, Monitoring and Evaluation. An independent review, such as an OECD Review of Business Development Services could help by providing the information needed for the Department of Small Business Development to refocus the programmes and ensure value-for-money. Programmes should be rationalised with a focus on delivering quality services. One way of increasing accountability for the programmes would be for the Department to receive all micro and small business-related funding and distribute it across the

programmes, including those in other departments. Better co-ordination of programme delivery so that there were single contact points would help clients find and compare programmes. This would also stretch administrative capacity less thinly.

Scaling up support is a challenge given fiscal constraints and the size of the country. Some programmes have used training vouchers with approved providers to overcome capacity constraints. International experience shows that these can be useful if there are enough private sector services to overcome the government's capacity constraints. Mexico's SME Fund achieves scale by using intermediaries, including sub-national governments, universities and chambers of commerce.

Digitalisation can help achieve scale. Technology should also be used more to promote and deliver programmes. A virtual one-stop shop should provide information about support for SMEs and accept online applications for support programmes, as well as providing information on exporting and participating in public procurement, and accepting applications for licences and permits as discussed above. Outdated information should be removed from government websites. Two business schools offer free online courses (without certification). Online courses at lower levels could also be offered, taking care not to crowd out any private providers.

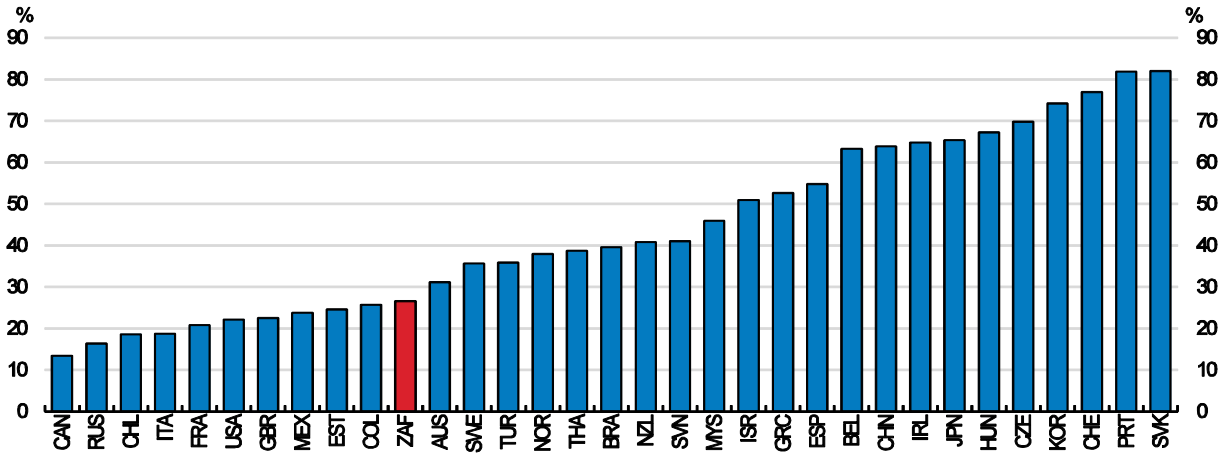
Due to the digital gap, this should be complemented by local options for access; only 52% of 18-34 year-olds used the internet "at least occasionally" in 2015 according to the Pew Global Attitudes Survey. The South African Revenue Service provides one model solution: individuals may submit tax returns electronically at a branch with assistance. Similarly, local offices could provide assistance and access to computers and wifi to take training.

Broadening financing options

As in other countries, South African firms tend to use savings and funds from family and friends in the start-up phase and then debt financing as the firm expands. Despite South Africa's well-developed banking sector and liquid equity market, the GEM expert survey suggests SMEs' access to debt and equity is more difficult than in many emerging market and OECD countries. Finmark Trusts's 2010 survey finds that 87% of small formal-sector firms had never accessed credit (partly through choice). Firm-level surveys suggest that access to finance is more of a problem for very small and informal firms (ILO, 2016) and for young firms (SBP, 2014). The GEM survey found that "problems with finance" led to 28% of firm exits in 2016 (second after profitability), compared to 20% in non-OECD emerging economies and 11% in the OECD (Kelley et al., 2016).

According to the Banking Association of South Africa, 13 banks operate in the SME space. SME lending is a small share of banks' business lending and has been steady at around 11% of total exposures since 2008, despite government efforts (Figure 17). One reason may be a response to the increase in impairment rates after the 47% expansion of unsecured retail lending (including to SMEs) between 2010 and 2012 (IMF, 2014). But information on the terms on which firms borrow from banks, rejection rates or credit conditions is not available. Nor are data on non-bank lenders' activities. Gathering this information is crucial for effective policy-making (G20/OECD, 2015). The Reserve Bank or National Credit Regulator should publish effective lending rates or indicator rates for small business loans, which would allow borrowers to compare offers.

Figure 17. SME lending is relatively low



Note: Definitions differ across countries. Data for South Africa are for 2016.

Source: South African Reserve Bank; OECD (2017), *Financing SMEs and Entrepreneurs 2017: An OECD Scoreboard*; OECD calculations.

The main government agency tasked with improving access to finance for small firms is the Small Enterprise Financing Agency (SEFA), which was created in 2012, subsuming other funding programmes. In 2015, it moved to the DSBD. Its financing programmes comprise a loan guarantee scheme, wholesale finance aimed at supporting microfinance institutions and direct unsecured lending (Table 5). However together these are small, totalling 0.03% of GDP in 2015/16. Numerous other government bodies also provide financial assistance to young and small firms, many of which target disadvantaged sub-groups, but these are also small. A welcome development is a new website sponsored by the DSBD, SEDA and USAid that acts as a database for available sources of finance as well as providing information about accessing finance.

Table 5. Financing programmes targeting start-ups and small businesses

Institution	Description	Criteria group (if applicable)
Department of Small Business Development	Grants for survivalist entrepreneurs Cost-sharing grants for capital investment and skills development for growing small businesses	Informal businesses. Majority black-owned and managed
Department of Trade and Industry	Grants for start-up and growing small businesses Four programmes with reimbursable cost-sharing grants aimed at broadening participation Two programmes with cost-sharing grants for investment in specific services industries Two programmes with cost-sharing grants for R&D and innovation Various types of loans for start-up and expansion	Historically disadvantaged individuals and youth Women
Department of Human Settlements	Bridging loans to contractors with government contracts to supply subsidised / affordable housing	Historically disadvantaged individuals
Industrial Development Corporation	Grants for development at seed and start-up phase Loans for seed and start-up phase in renewable energy Long-term loans for SMEs Equity and loans for early-stage innovative businesses	Youth .. .. ..
Technology and Innovation Agency	Grants at seed stage for development of innovative technology with commercial potential in all industry	..
National Empowerment Fund	Various types of credit for start-up and growing small businesses	Black-owned businesses
National Youth Development Agency	Grants to survivalist, start-up and growing small businesses	Youth
Small Enterprise Finance Agency	Various types of credit to small businesses at all stages of development, accompanied by some advisory services Wholesale funding to financial institutions Credit guarantees mainly through banks	.. ..
Province-specific agencies	Four provinces have schemes providing loans to small businesses Kwa-Zulu Natal also provides other forms of credit	Historically disadvantaged individuals prioritised
National Treasury	Tax incentives for investing in venture capital funds and funds that finance SMEs	..

Note: The programmes use the term “Black” to refer to “Africans, Coloureds or Indians”, who must be South African. “Historically disadvantaged individuals” includes Blacks, women and disabled people.

Source: Various government websites.

Improving access to credit

Access to credit for young firms is limited by their lack of collateral, short credit history (or none at all) and (often) lack of skills to make a suitable application (Ayyagari et al., 2007; Beck et al., 2005; Herrington et al., 2017; OECD, 2016b). Most banks require collateral for lending. The increase in home ownership rates to 67% in 2013 has increased access to collateral but it is still limited by the unequal distribution of wealth. Clear property rights (with timely insolvency procedures) are crucial for lending markets; in rural areas, traditional areas and informal settlements this is a further challenge.

The government is investigating the feasibility of a national registry of movable assets, which would improve access to collateral. In Mexico a registry led to four-fold increase in the number of business loans and a saving of USD 1.1 billion in fees associated with registering collateral (OECD, 2016b). The registry could also include intangible collateral, such as receivables and intellectual property. Experience from other countries points to the importance of strong contract enforcement for receivables-backed financing

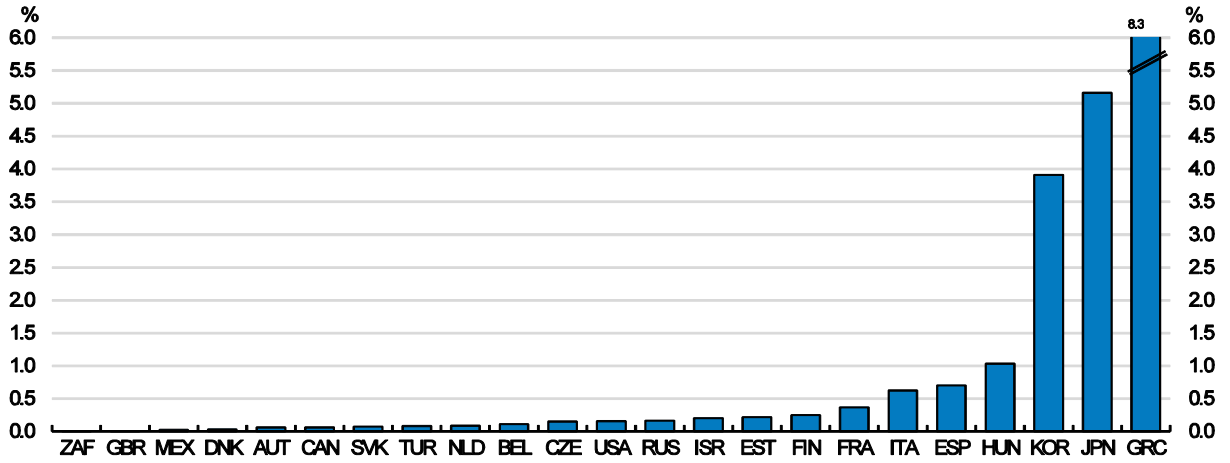
(OECD, 2015e). Another possibility is to support the sale of receivables (factoring). In India, the government is building an electronic trading platform for factoring and invoice discounting.

Improving the quality of information available to lenders would help them better assess risk, thereby lowering interest rates. Efforts by the industry body that receives data and transmits it to the 14 private credit bureaus (SACRRA) to improve data quality and harmonise reporting should be supported. Raising the quality of loan applications would also improve institutions' abilities to assess risk. Government physical and virtual one-stop shops could provide advice on the standard information for a loan application and where to get assistance on putting together a business plan.

Government loan guarantees are a standard policy tool to help overcome binding collateral constraints due to market failures by leveraging private sector expertise (OECD/European Union, 2014). SEFA provides loan guarantees to two banks and several non-bank lenders. However, the scheme is small – equivalent to less than 0.001% of GDP in 2015/16 – and lending fell by 90% from 2006 to 2013 (Figure 18). Some features of the programme may be limiting take-up; for example, SEFA assesses all applications from the banks, and customers must provide collateral, which can vary from 10-90%. Lack of awareness by potential borrowers and loan officers is also hampering the scheme's use. An alternative way of administering the scheme could be to first provide the guarantee without the lender, which is increasingly common in Europe (OECD, 2016c). Accompanying the programme with advice or other support could make the schemes more attractive to borrowers and lenders alike. The scheme should be expanded when it is working.

Figure 18. Government loan guarantees are low

Government loan guarantees as % of GDP, 2015 or latest



Note: Data for South Africa are all guarantees provided by SEFA to financial institutions at 31 March 2016.

Source: OECD (2017), *Financing SMEs and Entrepreneurs 2017: An OECD Scoreboard;* SEFA Annual Reports; OECD Economic Outlook database.

There are a range of other government soft loans and grants available for entrepreneurs and small businesses, particularly for disadvantaged groups. Yet 37% of SME respondents to an ILO survey believed it would be impossible to obtain finance from a government support institution, such as SEFA, and 47% thought it would be difficult (ILO, 2016). The current programmes duplicate efforts and spread capacity thinly. The impairment rates on SEFA's direct lending programme reached 67% in 2016 (SEFA, 2016). The suite of financing products available should be reviewed and streamlined to focus on programmes that are effective in promoting start-ups and firm growth. One of Start-up Chile's strengths is its regular

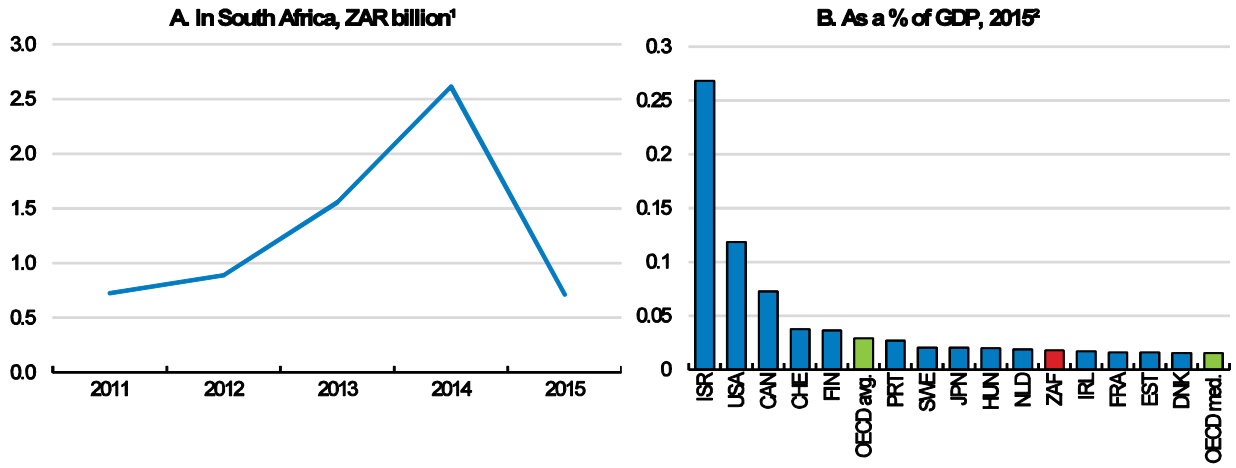
reviews and adjustments to close gaps and reduce duplication, as well as the accompanying non-financial support (OECD, 2016b). Joining SEFA and SEDA (the Small Enterprise Development Agency) could lead to more effective support.

Risk capital has expanded

Venture capitalists and business angels have an important role to play in filling the financing gap for young innovative firms where information asymmetries and screening and monitoring costs are higher and internal funds are lower (Wilson, 2015). Policy support for venture capital has been associated with firms in OECD countries receiving financing at a younger age (Andrews and Criscuolo, 2013). These funds also provide valuable mentoring and support services. Venture capital investment in South Africa had been growing rapidly until 2015 (Figure 19, Panel A), in line with the global decline in venture capital funding, especially for early-stage investment (KPMG 2017, OECD 2016c). There is a dearth of pre-seed and seed funding; only one early-stage venture capital investment in 2014 and 2015 was seed capital (SAVCA/KPMG, 2016). Nonetheless, the overall level is higher than in the median OECD country (Figure 19, Panel B).

Figure 19. Venture capital is relatively well developed

Seed capital, start-up and early-stage investments



1. Based on the second (revised) value, except for 2015 which is the first release

2. OECD average and median are based on 27 countries with data for pre-seed, seed and early-stage financing. Data for Japan are from 2014.

Source: OECD (2016), *Entrepreneurship at a Glance*; KMPG-SAVCA Private Equity Industry reports; OECD National Accounts database.

The main tool used to encourage private venture capital investment is a tax credit for investors in the funds themselves. Following recent reforms the number of registered venture capital companies under the scheme increased from 3 to 46 by February 2017. The incentive leverages private sector expertise, which increases innovation performance, and avoids the risk of capture associated with government programmes. In other countries this type of incentive has at times been controversial; in Canada the tax credits became the key selling point of otherwise poorly performing funds (Carey et al., 2016). The sunset clause in 2021 provides an opportunity to assess its effects.

A promising new public-private fund – the SA SME Fund – should increase the supply of seed funding. In line with best practice, it aims to provide high potential entrepreneurs with access to

appropriate mentors and a network. The size of public support has not been announced; if successful, it should receive additional public funds but always ensuring that the public's share is a minority of total funds. The DSBD should consult widely to understand why the supply of seed funding is low.

Exit markets are also important to maintain a vibrant venture capital (and angel investment) industry. According to the industry body, the most common exit is by trade sale, followed by sale to management, which is common in other countries (Wilson, 2015; SAVCA, 2015). Well-functioning public equity markets allow venture capital backed firms to raise more capital or the venture capital investor to exit, improving the overall financing system (Nassr and Wehinger, 2016). The secondary stock exchange – the Alt-X – was growing strongly ahead of the crisis with 37 listings in 2007 but only saw eight listings in 2015 as tough economic conditions limit recovery to pre-crisis levels. Policymakers could support this market by assisting industry bodies in providing training courses to investors on these more difficult-to-understand investments since the cost may be too high for those who are only investing a tiny share of their portfolio (Wilson, 2015).

In 2015, the government created a tax incentive for companies to invest in micro and small businesses through a type of business entity that enjoys the same tax concessions as a not-for-profit company. The aim is to increase funding to micro and small businesses outside the scope of venture capital companies. A key issue is whether the benefit of increased support for small business outweighs the foregone tax revenue. This will depend on whether: the quality of support is higher than alternative sources; young firms benefit; and the scheme is used for tax avoidance. The way that this new vehicle fits into the existing tax, investment and lending environment should be monitored closely.

Sources of finance should be broadened

A greater range of financing options would support start-ups and young firms, as advocated by the OECD-G20 High-level Principles on SME Financing (G20/OECD, 2015). In South Africa just six banks hold 90% of banking sector assets. Access to financial services for firms has been found to be lower in bank-dominated financial systems (Beck, et al., 2013). World Bank data indicate that interest margins and profits are high in South Africa. Barriers to entry in the banking sector include minimum capital requirements, having a physical presence, access to clearance and payments and limitations on exit (IMF, 2014; Makhaya and Nhundu, 2015). Foreign banks face higher barriers than in most other OECD members or partner countries (OECD, 2016d). Three new banks have applied for or received a banking licence in the past year – two online banks and the post office bank – which should increase access to credit. Nonetheless, barriers to entry should be lowered, taking due care to maintaining financial stability, perhaps by beginning with non-bank lenders, for example.

Technology is bringing innovation with two online banks and also two non-bank lenders that provide working capital to SMEs. In 2015, online peer-to-peer lending accounted for 91% of the alternative finance market in South Africa, with the industry showing large potential for further growth (CCAF, 2017). The Reserve Bank has indicated its willingness to allow innovation in the sector. Forthcoming changes to the regulation of the financial system will create a prudential regulator – the Reserve Bank – and a market conduct regulator. Non-bank lenders should be included. Regulation could be adapted to foster the use of financial innovations such as crowdfunding, and regulatory sandboxes could be used to encourage their development. For example, Austria and Germany adjusted their financial regulations to promote crowdfunding while maintaining investor protection. There is also scope for greater use of factoring (sales of receivables): these were equivalent to around 4% of GDP in 2015 but were 14% in the United Kingdom (according to Factoring Chains International). Factoring could mitigate the aversion of banks to lend to young and small businesses. The government could facilitate this by ensuring that the transfer of its own obligations is allowed.

Efforts to increase financial inclusion, including mobile banking, will benefit informal firms by providing access to payments systems, allowing them to build a credit history and improving their access to credit. According to Finmark Trust's 2016 survey, 77% of adults have a bank account but only 14% had borrowed from banks. However, household debt is relatively high, at 75% of disposable income in 2015 (up from 55% in 2004), and elevated impairment rates may be weighing on lending. The number of micro-lenders has fallen, which may be due to interest rate and fee caps that were introduced in 2007 to protect borrowers (and lowered in 2016). Replacing the caps by a full system of oversight, disclosure of interest rates and fees and appropriate protection against reckless lending could lead to greater supply of micro-credit while maintaining protection for borrowers. The government should also promote awareness of co-operative banks and stokvels (two forms of saving clubs that make small-scale loans).

Key recommendations for lowering barriers to entrepreneurship and promoting small business growth

Key recommendations

- Enact a package of reforms to reduce red tape.
- Implement a "silence is consent" rule for licensing procedures that have low associated risks. Systematically review and reduce the stock of red tape and licensing requirements. Subject new legislation to impact assessments that include the effect on small businesses.
- Create virtual and physical one-stop shops that provide information for start-ups and small businesses, allow registration, and accept applications for permits and support programmes.
- Evaluate and streamline financial and non-financial support for start-ups and small businesses.
- Rationalise delivery of support programmes so that there are single contact points for clients.
- Facilitate second chances for honest entrepreneurs by shortening the period during which bankrupt entrepreneurs are required to repay past debt from future earnings to three years. Allow those with no income or assets to become insolvent.
- Ensure government suppliers are paid within the required 30 days and provide for automatic accrual of interest on overdue accounts.
- Increase accessibility of public procurement contracts by providing more information online and accepting online applications. Increase training on public procurement for small businesses and procurers. Publish information on the distribution of contracts.
- Expand second-chance programmes for early school-leavers.
- Increase entrepreneurial education and work placements in the post-school education system. Continue to improve basic numeracy and literacy skills through the basic education system.

Further recommendations

- Update the 2005 Integrated Small Business Strategy and ensure that the responsibilities and resources of the Department of Small Business Development are aligned.
- Lighten the regulatory burden of B-BBEE codes on young firms.
- Provide information and advice on exporting to start-ups and small businesses through the one-stop shops.
- Collect and publish data on borrowing conditions by firm size to increase transparency in the lending market and encourage competition.
- Lower barriers to entry for foreign banks and other lenders, being mindful of financial stability and consumer protection.
- Work with lenders to improve the government-backed credit guarantee scheme to make easier to use and access, and increase take-up.

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APPENDIX A: DETERMINANTS OF ENTREPRENEURIAL ACTIVITY

Estimates of the determinants of early-stage entrepreneurial activity follow Ardagna and Lusardi (2010). The data source is the 2012 Global Entrepreneurship Monitor, and the results are based on the data from 43 countries. Variable definitions for the individual characteristics generally follow Ardagna and Lusardi except that work status has been aggregated due to the smaller sample here. The logarithm of GDP per capita (PPP-adjusted) is used to control for country fixed-effects but allow for exploration of South Africa-specific fixed effects by interacting a dummy variable for South Africa with key variables of interest.

Columns 1 and 3 support the patterns shown in Figure 2. They show that individual characteristics discussed in the text generally remain significant. The relationship with education highlights the difference between entrepreneurs who are motivated by opportunity and necessity. The coefficient on the South Africa dummy variable is negative for total and opportunity-drive entrepreneurs.

Columns 3 to 6 include more individual characteristics (as in Ardagna and Lusardi). The negative fixed effect for South Africa becomes zero, suggesting that these other variables are important determinants of entrepreneurship in South Africa. Education remains significant for opportunity-based entrepreneurs.

Columns 7 and 8 show that the relationship between some individual characteristics and being an opportunity-based entrepreneur is different in South Africa. In particular, having secondary education, being middle-income and having self-belief matter more. But the link with knowing an entrepreneur is weaker.

Table A.1. Marginal effect of individual characteristics on entrepreneurship

Dependent variable = 1 if engaged in early-stage entrepreneurial activity and 0 otherwise

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Total activity	Opportunity-based	Necessity-based	Total activity	Opportunity-based	Necessity-based	Opportunity-based & South Africa interaction term. Evaluated at	
							ZAF=1	ZAF=0
25-34 years	0.030***	0.020***	0.008***	-0.004	-0.006**	0.002	**-0.036*** **	**-0.009** **
	(0.006)	(0.005)	(0.002)	(0.003)	(0.003)	(0.002)	**(0.003)**	**(0.004)**
35-44 years	0.020***	0.009	0.010***	-0.012***	-0.014***	0.003	**-0.030*** **	**-0.022*** **
	(0.007)	(0.007)	(0.003)	(0.004)	(0.004)	(0.002)	**(0.003)**	**(0.007)**
45-54 years	-0.008*	-0.013***	0.005**	-0.025***	-0.023***	0.001	**-0.020*** **	**-0.038*** **
	(0.004)	(0.004)	(0.002)	(0.003)	(0.004)	(0.002)	**(0.002)**	**(0.006)**
55-64 years	-0.034***	-0.033***	-0.001	-0.027***	-0.025***	-0.000	**-0.028*** **	**-0.041*** **
	(0.006)	(0.006)	(0.003)	(0.004)	(0.005)	(0.002)	**(0.002)**	**(0.008)**
Female	-0.038***	-0.033***	-0.004	-0.001	-0.003	0.002	-0.006***	-0.004
	(0.005)	(0.004)	(0.002)	(0.004)	(0.003)	(0.002)	(0.001)	(0.004)
Upper-secondary	0.009	0.013*	-0.003	0.001	0.004	-0.003**	**0.068*** **	**0.006**
	(0.009)	(0.007)	(0.002)	(0.004)	(0.003)	(0.001)	**(0.007)**	**(0.005)**
Post-secondary	0.020**	0.026***	-0.006***	-0.002	0.003	-0.005***	**0.049*** **	**0.005**
	(0.008)	(0.007)	(0.002)	(0.004)	(0.003)	(0.001)	**(0.005)**	**(0.005)**
Working				0.061***	0.043***	0.013***	**0.080*** **	**0.064*** **
				(0.011)	(0.007)	(0.004)	**(0.009)**	**(0.011)**
Middle income				0.000	0.000	0.000	**0.000**	**0.000**
				(0.000)	(0.000)	(0.000)	**(0.000)**	**(0.000)**
High income				-0.001	0.004	-0.005*	**-0.016*** **	**0.007**
				(0.006)	(0.005)	(0.003)	**(0.001)**	**(0.008)**
Know an entrepreneur				0.003	0.010*	-0.008***	-0.022***	0.016*
				(0.006)	(0.005)	(0.003)	(0.002)	(0.009)
Have skills				0.060***	0.043***	0.011***	**0.059*** **	**0.062*** **
				(0.005)	(0.004)	(0.002)	**(0.006)**	**(0.004)**
Fear of failure				0.090***	0.065***	0.018***	**0.098*** **	**0.085*** **
				(0.008)	(0.007)	(0.002)	**(0.011)**	**(0.008)**
ZAF dummy	-0.044***	-0.037***	-0.005	-0.024***	-0.020***	-0.001	-0.054***	-0.032***
	(0.016)	(0.012)	(0.004)	(0.003)	(0.003)	(0.001)	(0.005)	(0.004)
Observations	91,835	91,835	91,835	91,835	91,835	91,835	91,835	91,835
Pseudo-R^2	0.0280	0.0321	0.0144	0. 1687	0.1743	0.0748	0.1751	0.1751

Note: Estimates are from logit regressions. The omitted categories are: 18-24 years; male; basic education; not working; do not know entrepreneur; do not believe have skill for start-up; do not fear failure; lowest third of household income distribution. Values shown are marginal effects, corresponding to the impact of a discrete change in the explanatory variable on the probability of engaging in early-stage entrepreneurial activity. Robust standard errors clustered at the country level are shown in parentheses. ***, ** and * denotes statistical significance at the 1%, 5% and 10% level, respectively. Bolding in columns 7 and 8 indicates the ZAF interaction term is significant at the 5% level. The logarithm of GDP per capita is included as a control variable in all regressions.

Source: OECD calculations based on the 2012 Global Entrepreneurship Monitor.