

# South African tech entrepreneurship: what's working and what inhibits

By [Dominique Collett](#)

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Despite the ongoing hype around entrepreneurship and trendy startup tech businesses in South Africa, there are prevailing myths that muddy the thinking around the existing challenges and opportunities. Having been deeply involved in the South African tech entrepreneurship ecosystem, and particularly fintech, I believe there are several factors that are currently inhibiting local entrepreneurship in the tech environment.



Dominique Collett, head of AlphaCode

## An immature ecosystem

When discussing local entrepreneurship, it is important to make the distinction upfront between what I term 'survivalist' entrepreneurs (like someone who sells vegetables on the streets) who operate in the informal sector, and entrepreneurs who operate in the formal sector (an aspiring entrepreneur forming a business with the view to growing and potentially exiting). In South Africa, informal entrepreneurship is both very strong and also very mature – yet the formal side of entrepreneurship is very immature. So, while we do have a distinct culture of innovation, much more work needs to be done to allow the formal aspect of local entrepreneurship to mature and ultimately compete with developed markets such as the US, Israel and the UK.

## Calling on the angels

A major part of this current equation and the lack of maturity can be traced back to the lack of angel or seed funding. This is the startup capital that is needed to give entrepreneurs time to develop their idea and build. This applies to every sector of business creation not only tech. There is a lot of funding available for business creation, but critically, this is mostly late stage funding in the form of venture capital and growth financing. In South Africa, we need much more angel funding to give young entrepreneurs a real chance at developing their ideas.

The lack of angel funding is especially acute for entrepreneurs from previously disadvantaged backgrounds. In most cases, they cannot turn to friends and family for startup capital. Yet in the US and UK, there is an abundance of angel funding - as well as a mindset of 'paying it forward'. In these markets, successful entrepreneurs make a point of investing into startups to support aspiring entrepreneurs, while South Africa lags not only in the number of highly successful entrepreneurs but

also in terms of giving back and supporting local entrepreneurship. In comparison to the US and UK, we also don't have a sophisticated retail investor base. This means that individuals are highly unlikely to invest their cash into promising startups.

## **A risk-averse nation**

In addition to the lack of angel funding, South Africans tend to have a risk-averse mindset when it comes to their careers. Particularly among young people from previously disadvantaged backgrounds, there is a tendency to take the safe route of a corporate role upon graduating from university. This approach is encouraged by parents and elders, who generally see entrepreneurship as too risky.

In contrast, developed markets such as the US and UK tend to celebrate and encourage entrepreneurial ventures. We need to change the conversation around entrepreneurship in SA and make it more of an attractive and respected pathway for young people.

## **Upside of entrepreneurship in SA**

Despite all these challenges, South Africa is still a great place to be an entrepreneur. Unlike in other emerging markets, we have an incredibly well-structured regulatory system – so entrepreneurs have access to knowledge about what they are up against and how far they can push the boundaries. This is especially beneficial in the fast-developing world of fintech.

In addition, young South Africans can use their insights to solve economic and societal challenges with fresh and inventive solutions. People from different backgrounds can see gaps and challenges which others can't recognise – and this contextual insight can fuel entrepreneurship and give rise to transformative business concepts.

One example is Livestock Wealth, a highly innovative crowdfunding company that specialises in funding cattle. The company connects investors with farmers that require funding, by using cattle as a form of investment. This concept takes its cue from deep cultural insight, and serves a market that many people in South Africa were completely unaware of.

## **ABOUT THE AUTHOR**

Dominique Collett is a senior investment executive at Rand Merchant Investments and the head of AlphaCode

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