



A knowledge brief of South Africa's Incubator and Accelerator Landscape

BY THE ASPEN NETWORK OF DEVELOPMENT ENTREPRENEURS - SOUTH AFRICA

May 2018



Aspen Network of
Development Entrepreneurs

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About ANDE

The Aspen Network of Development Entrepreneurs (ANDE) is a global network of organisations that propel entrepreneurship in emerging markets. ANDE members provide critical financial, educational and business support services to small and growing businesses (SGBs), based on the conviction that SGBs will create jobs, stimulate long-term economic growth, and produce environmental and social benefits. Ultimately, we believe that SGBs can help lift countries out of poverty.

Research Team

Lisa van Eck, ANDE South Africa

Michelle Yorke, ANDE South Africa

Nicole Martens, Independent Consultant

Acknowledgements

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1. Background

Introduction

The South African Business Development Services Provider¹ (BDSP) space is active and growing. According to ANDE South Africa's Entrepreneurial Ecosystem map, there were almost 150 BDSPs² supporting entrepreneurs in 2017, with estimates exceeding this figure. National development and transformation priorities, coupled with global trends, have seen a proliferation of these programmes in South Africa, yet little is known about their effectiveness and uniqueness in the South African context.

In an effort to deepen understanding of the incubator and accelerator landscape in South Africa, ANDE hosted a series of breakfast roundtables in Johannesburg and Cape Town in 2017 and 2018. This document presents an overview of the key findings of the roundtables and provides recommendations for further research.

Methodology

A series of four roundtables, split evenly between Johannesburg and Cape Town, was conducted in the fourth quarter of 2017 and first quarter of 2018. During these sessions, aimed at gaining a local understanding of the sector, roundtable participants engaged in a number of activities designed to gather information regarding the BDSP space from the perspective of various players. Discussions focused on gathering qualitative information regarding key activities and services, programme structure and funding sources, as well as challenges and opportunities faced by BDSPs.

In addition, a brief survey was circulated amongst participants to gather more data and cross-check qualitative responses received during the conversations.

It is important to note that the findings presented in this document are based on the information provided by roundtable participants, and do not necessarily represent the view of ANDE. In addition, while these findings are assumed to be largely representative of the industry, they are anecdotal, and should be viewed as such.

1 Business Development Service Providers (BDSPs) are defined in this report as all programmes, including incubators, accelerators, hybrids, corporate Enterprise and Supplier Development (ESD) programmes and others, that "offer non-financial services and products to entrepreneurs at various stages of their business needs. These services are primarily aimed at skills transfer or business advice". (IFC)

2 Termed as 'capacity development providers' on the map.

2. Highlights

Programme Characteristics

- The conversations revealed a lack of clarity of BDSP definitions. Just over 20% of roundtable participants defined themselves as incubators and about 10% as accelerators. A similar percentage (30%) called themselves 'hybrids' of the two, with the remaining 40% defining themselves differently.
- Just under 50% were structured as for-profit Pty Ltds, followed by about 20% as non-profit organisations (NPOs). Non-profit companies (NPCs), government institutions and hybrids each represented approximately 8% of participants.

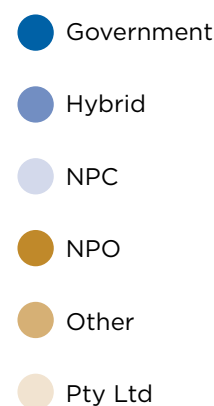
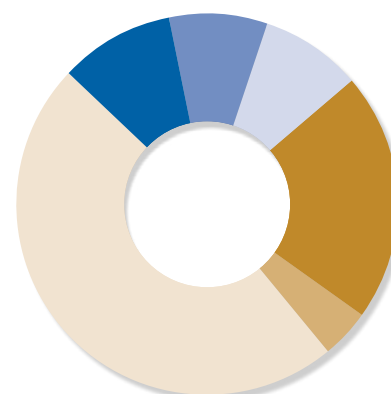
Sector Focus and Impact Objectives

- Under half the group reported having sector-agnostic programmes. Of those that were sector focused, the top sectors reported were technology (20% of all participants), green/energy (7%), social impact (6%) and engineering and manufacturing (6%)³.
- Funder motives were reported as a major influencer on sector focus, impact objectives and monitoring and evaluation practices. These motives were often shaped by South Africa's development and transformation agenda.

Programme Structure

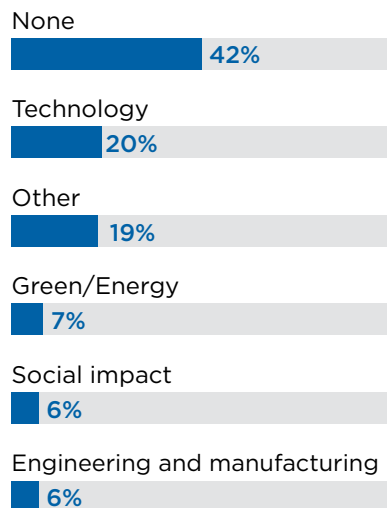
- Programme duration varied considerably amongst roundtable participants, with programmes reportedly running from a few weeks to multiple years. This makes defining programmes by duration less applicable in South Africa. Approximately a third provided direct funding to entrepreneurs, offering a diverse range of funding instruments.
- Programme activities were varied, making categorisation of BDSPs by activity difficult. Access to networks and partners and the provision of mentoring were the most common services offered across the sample group, with mentorship often needing to incorporate substantial soft skills and personal support.

FIGURE 1:
Organisation's legal structure



³ This excludes the more than 50 incubators and accelerators supported by the Small Enterprise Development Agency (SEDA), which are all sector focused.

FIGURE 2:
Sector Focus



Funding Sources

- The most common way that participating programmes were funded was through diverse sources: a mix of donor funding (corporate, government and philanthropic grants), revenue generation and/or direct investment. Donor funding was the biggest source, with a third being solely donor funded, and nearly two thirds receiving at least some grant funding. Half of the group reported having some revenue generating activities, though less than half relied solely on private revenue generation. Direct investment was the least common source.
- Funding sources appeared to influence programme design and services. Research into their effect on entrepreneur selection and programme outcomes is required.



3. Main Themes

A few clear themes arose from the discussions held in 2017/18. Each theme area is discussed in further detail below.

Theme #1: Identity crisis

Critical to understanding the BDSP landscape in South Africa is to articulate the similarities and differences between the various providers, which include accelerators, incubators and a range of other types.

Roundtable discussions revealed a lack of clarity with respect to the definitions within the BDSP space, including those related to activities and services that providers offer, and the stage of business growth they support. In particular, the distinction between incubation and acceleration in the South African context is not always clear. It was difficult for participants to easily identify with industry terms discussed, which included 'incubator', 'accelerator', 'hybrid', 'BDSP', 'corporate Enterprise and Supplier Development (ESD) programme' or 'other'. In some cases, participants reported that they used a particular term in the market, but in fact considered themselves to be something else. This discrepancy was also found in the roundtable exercises and the survey responses.

“We call ourselves an incubator,
but we are so much more than *just* an incubator.”

– Cape Town Roundtable Participant

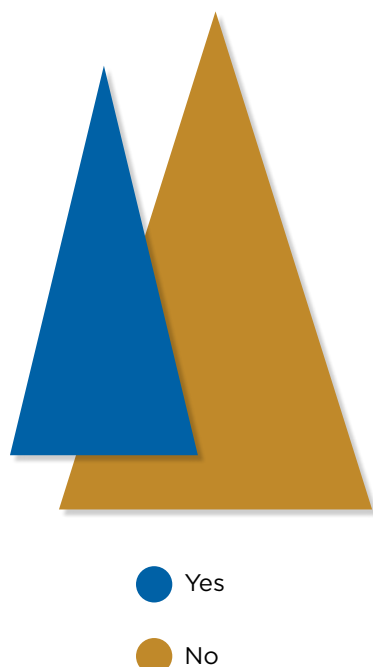
As an example, a comparison was drawn between a global definition of accelerators (in this case, the definition employed by GALI) and the local use of the term. GALI defines accelerators as “time-limited programmes that work with cohorts or ‘classes’ of ventures to provide mentorship and training, with a special emphasis on connecting early stage ventures with investment”. While services are virtually without exception provided on a cohort basis and the inclusion of mentorship and training is almost universal across those acceleration models represented in the roundtables, two key differences emerged between the international and the South African understanding of acceleration programmes, namely: programme duration, and connecting of cohorts to capital.

Traditional (‘Y Combinator’-type) acceleration programmes are characterised by a short- to medium-term focus, with programmes spanning, on average, a period of between three and six months.⁴ In South Africa, however, self-identifying acceleration programmes tend to be less strictly characterised by duration, with respondents reporting programmes spanning anything from 10 weeks to five years. As such, categorisation according to programme duration is not realistic in the South African context.

Discussions revealed that acceleration in the South African context was defined largely according to the stage of development that the programme beneficiary was at, with acceleration mostly focused on early and growth stage businesses. Connecting entrepreneurs to capital was not considered a compulsory component of an accelerator’s service offering.

4 Hathaway, 2016, Accelerating growth: Startup accelerator programs in the United States.

FIGURE 3:
Do you provide funding?



Interestingly, ‘investor showcases’ were among the less common services offered by programme participants (not only those that identify as accelerators), yet investor matchmaking was high⁵. In addition, just over a quarter did in fact report providing funding as a service to entrepreneurs. Within that portion, the funding instruments were quite diverse, the most common being grant funding, followed by equity, blended finance, debt and mezzanine.

It was also difficult to categorise types by services, as many services were offered across BDSPs or the same services were offered by different BDSP types.

Top activities offered (from most common):

- 1 Access to networks and partners
- 2 Mentoring
- 3 Business strategy and planning

Least common activities offered (from least common):

- 1 Exit strategies
- 2 Product certification
- 3 Investor showcases

ANDE’s investigation into the common and differentiating elements of BDSPs in the South African context also revealed that intentional misnomers were not uncommon amongst service providers. Discussion revealed that some programmes, which self-identified as accelerators (or even as ‘hybrids’),

⁵ This could suggest that traditional pitches to investors are becoming less popular.

referred to themselves in the public domain as 'incubators' or as providers of 'incubation services' or vice versa. In addition, and increasingly, many programmes, which would traditionally have been marketed as incubators, were rebranding and attempting to shake off the 'incubator label'.

Upon further questioning it was found that, in addition to a lack of clarity regarding the accepted definitions for such terms, there were two main reasons for these common cases of mislabelling: attracting capital and reputational damage.

**“The problem isn't that there isn't enough funding out there.
There is more than enough. And sometimes that is the problem.”**

– Johannesburg Roundtable Participant

Roundtable participants suggested that funding for BDSP was plentiful, provided funder criteria were met. Regulatory requirements had resulted in an abundance of funding being made available for programmes that intended to prioritise employment creation and/or social transformation objectives. This was specifically with respect to the South African government's transformation agenda, which necessitated the provision of ESD support from corporates to majority black owned businesses under the Broad Based Black Economic Empowerment (B-BBEE) codes, coupled with a public sector focus on job creation.

Roundtable participants expressed the view that incubation was an attractive line item for this kind of funding. As such, if a programme in South Africa were to market itself as an incubator or a provider of incubation services, even if this were not necessarily an entirely accurate description, then the programme would be more likely to attract funding from corporate and/or public sector sources. This could lead to the risk of sub-standard service provision. As a result, to avoid being associated with those providing sub-standard services, some reputable incubators appeared to be debating whether to rebrand and remarket themselves as something other than an incubator. However, this pool of funds has catalysed additional support to entrepreneurs and grown the sector. That said, the positive and negative effects of this support need to be better understood.

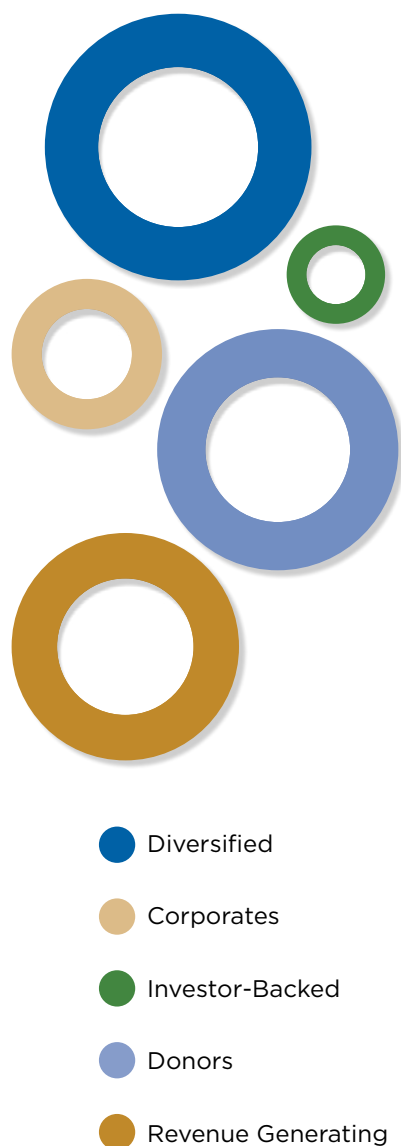
**“Government will fund anything that is called 'incubator' –
even if it is actually just a training centre.
And then when it doesn't work, people say incubation doesn't work.”**

– Johannesburg Roundtable Participant

Summary

The lack of clarity with respect to BDSP terms and the services the providers offer results in an ecosystem comprised of a considerable number of BDSPs that are inconsistently categorised. This can cause confusion in the market, both to entrepreneurs and intermediaries, and makes assessment of local and international benchmarking, identification of support gaps and programme funding challenging. Whilst standardised terms may not be a necessity, this observation suggests a need for greater acknowledgement of this 'definitional mismatch' in the market, to better navigate the space and allocate resources effectively.

FIGURE 4:
How is your organisation financed?



***Please note:**
Diversified includes a mix of any of the following sources: Corporates, Investor-backed, Donors, Revenue Generating. All other fields pertain to that source exclusively.

Theme #2: The impact of funder motives

Most roundtable participants across the spectrum reported a reliance on mixed funding sources for programme operations. The biggest funding source for participants was donor funding⁶, with a third relying exclusively on donors and many others receiving it as at least one of their funding sources.

Half of the participants reported having a revenue-generating arm, though only a quarter relied on revenue generation exclusively. Whilst a mixed funding model and high donor support are consistent with international GALI findings⁷, it does bring the sustainability of these programmes into question. In addition, this funding structure could influence entrepreneur selection and programme outcomes. One argument points out that when BDSPs' sustainability is directly dependent on the success of the entrepreneurs they support, they are incentivised towards better selection and greater impact.

This topic requires further investigation in the South African context and clarity on what the ultimate objectives are, i.e. what does success look like and what do we want to achieve? For example, is there still value in entrepreneurs who do not start businesses going through programmes? Are they more employable and skilled? What are the benefits of the networking? Some participants mentioned that they were set up by government grants and were now commercially independent. Research of the number of cases like this and the potential of this model in South Africa is needed.

The influence of funder motives on programme design most commonly emerges with respect to programme duration, sector focus and services offered. Programmes dependent on funding tend to be tailored to align to the dominant funding partner's schedule. When funder commitment is available for a shorter period than the programme's duration, additional (often multiple) funders are necessary to take a cohort through the entire programme.

The priorities of the funder in question are also likely to influence the sector focus of the programme (e.g. tailored to female-owned or 'green' businesses), as well as any other services or finance provided to the entrepreneur.

⁶ Donor funding includes government and philanthropic grants.

⁷ Entrepreneurship & Acceleration: Questions from the Field. Funding Accelerator Programs (GALI, 2017).

“If your funder wants to focus on early and growth businesses, then you make your programme focus on early and growth businesses.”

– Cape Town Roundtable Participant

In many cases, the influence of funder motives on programme design may negatively impact programme quality, as practitioners direct resources to meeting funder objectives rather than toward the needs of programme beneficiaries. The result may be high programme enrolment and perhaps even completion figures, but low numbers of truly successful, sustainable and scalable businesses. It is possible that the lack of an investment ready pipeline, which results from a diluted programme focus as per funder influence, may contribute to the relatively small proportion of programmes charging fees, investing or taking equity in the businesses with which they work.

That said, as alluded to above, this may require consideration from a different angle. Certain BDSPs may not be set up to build sustainable businesses, but do still build skills and capacity and offer experience, which may make participants more employable post programme. In South Africa, expectations need to be understood and objectives clarified. If scalable businesses are the country's primary aim, then is this being adequately measured and do programmes need to change the way they are structured? More research is needed here.

“We are keeping businesses afloat that we shouldn't be.”

– Cape Town Roundtable Participant

Finally, monitoring, evaluation and reporting beyond the minimum requirements of funders is generally lacking. Participants across the board reported that measurement conducted with regard to their respective programmes was almost always informed by the requirements of the programme's dominant funder(s). Only a handful of respondents reported that their organisations participated in their own monitoring for decision making, with very few engaged in impact measurement and evaluation. This makes it challenging to gauge programme performance and actual impact achieved, preventing the application of best practice in programmes, and limiting programme potential. Few participants reported involvement in any sector-building studies, such as those carried out by GALI and Catalyst for Growth, which makes benchmarking of these programmes impossible.

“There is definitely more to impact than jobs; but our funders only want to hear about jobs, so that's what we measure right now.”

– Cape Town Roundtable Participant

Summary

Funder motives appear to influence programme design, sector focus, impact measurement and services offered, which may ultimately affect programme outcomes. These, along with national expectations and objectives, need to be better understood. The dominance of grant-based funding, which is not unique to South Africa, coupled with deficiencies in impact measurement, presents risks to programme sustainability and quality.



Theme #3: South Africa's unique socio-economic context

The aftereffects of South Africa's unique socio-political history are still manifest today in what is an equally unique and undeniably complex socio-economic and socio-cultural context. As a result, the nature of the entrepreneurial endeavours arising in the country and the needs of the entrepreneurs behind them are multifaceted. This means that any programme aiming to take entrepreneurs and their businesses through the business development cycle must be tailored to do so within the South African context, and all that it entails.

“Even if it's not a part of your formal service offering, personal development support is something you have to provide to your entrepreneurs; they need it just to keep them going.”

– Cape Town Roundtable Participant

The influence of the country's contextual characteristics is particularly clear when it comes to the universal acknowledgement across roundtable participants of the need for fostering soft skills, such as self-belief and an appetite for risk, in incubation and acceleration programmes, and the need for personal support for those that experience tough socio-economic circumstances. Participants reported that mentors may spend a significant proportion of their time providing guidance on personal issues, along with business-related agenda items.

Despite acknowledgement of the need for soft support, formal and correct provision of such services is not widespread. The potentially misplaced role of business mentors who may be providing these services informally was recognised, together with the risk that, in cases where mentors are ill-equipped to provide the required support, they may do more harm than good.

When programmes recognise that this level of personal development is an important success factor for participants, then it is arguably something that should be accurately costed for and appropriately resourced within the programme or outsourced. This factor may also influence programme duration, leading to longer programmes.

“Most of the time, mentors are more like therapists and end up spending half the time talking to entrepreneurs about personal issues.”

– Johannesburg Roundtable Participant

Summary

It would appear that the impact of South Africa's unique socio-economic context manifests in the form taken by BDS programmes, requiring focusing a substantial proportion of resources on personal development. This results in a broader role for the mentor as compared to that expected in more 'traditional' models of acceleration. It would not be surprising then, if the results achieved by these programmes were also significantly different to 'tradition'. This needs to be better understood for optimal support to be provided.

4. Conclusion

The roundtable discussions presented a great deal of information with respect to the unique characteristics of the South African incubation and acceleration ecosystem.

Importantly, they highlighted the need for clarity of BDSP definitions, and the services offered, to reduce information asymmetries for entrepreneurs and intermediaries, better measure and benchmark performance, and more effectively allocate resources. There is also a need to better clarify national objectives around BDSP support and 'what success looks like'. Do we want to prioritise the growth of highly scalable entrepreneurs; increase the skills and employability of as many individuals as possible; or both? Understanding this will allow for a better roadmap for reaching the objectives and will assist in better resource allocation. It remains important, therefore, to understand the impact of different funder motives as they appear to affect programme design, services offered and programme outcomes.

Corporate ESD support through the B-BBEE codes and public sector donor support have increased the funding available for BDSPs, encouraging the growth of the sector and therefore the support available to entrepreneurs. That said, to avoid cases of 'too much funding' and unintended consequences, such as incorrect incubator labelling and sub-standard service provision, a better understanding of the effects and impact of such policies is required.

The need for soft skills and personal support within the South African context was also highlighted as crucial. Acknowledgement of this is vital to more effectively price in this support in terms of both money and time, and to avoid placing the role primarily on business mentors who may be ill-equipped. Finally, the discussions revealed many new questions and identified several knowledge gaps that require further focused research, as listed to follow.





Location: OPEN Sandton



Photo credit: The Wot-If? Trust



Location: OPEN Workshop 17

5. Areas for Further Research

Whilst valuable insights emerged from the roundtable discussions, many new questions were identified. Future research should focus on topics that will facilitate the effectiveness of BDSPs in South Africa. These topics include:

- Clarification of definitions of BDSPs in South Africa and the services they provide at different business growth stages of the entrepreneurs they support.
- Creation of a culture of and building appropriate frameworks for impact measurement and reporting for BDSPs in South Africa.
- Impact of the funding environment for BDSPs on the quality of enterprises graduating from incubation and acceleration programmes.
- Exploration of revenue generating models employed by BDSPs.
- Risks faced and opportunities presented with respect to sustainable models of operation for incubators and accelerators in South Africa.
- Influence of BDSPs' revenue and funding models on the capital they provide to entrepreneurs.
- Potential for government grant funding to set up incubators that can become financially independent and sustainable.
- Impact of socio-economic context and psycho-social wellbeing of South African entrepreneurs on the success of entrepreneurial ventures participating in incubation and acceleration programmes.
- Influence of regional and provincial context on programme design and effectiveness.
- Impact of ESD funds on the sector and the success of new and existing businesses.
- Definition of desired outcomes from BDSPs and their role in the South African context. Are BDSPs set up to create sustainable businesses or upskill those who go through their programmes? Does this matter and, if so, what changes need to be made?

Appendix

Participating organisations:

1. Africa Business Group
2. African Leadership Academy
3. African Management Initiative
4. AMSCO
5. Anheuser-Busch InBev
6. Bizfarm
7. Black Umbrellas
8. Business Process Mechanics
9. Cape Innovation and Technology Initiative
10. Career Addicts
11. Catalyst for Growth
12. City of Cape Town
13. Datacomb
14. Department of Science and Technology
15. Digital Health Cape Town
16. Driven Entrepreneurs
17. E-Squared
18. Edge Growth
19. EM Solutions
20. Enterprise Room
21. Entrepreneur and Management Solutions
22. Entrepreneur Traction
23. Entrepreneurial Planning Institute
24. Entrepreneurial Spark
25. Faded Black Innovations
26. Far Ventures
27. Fetola
28. GrowthWheel
29. Harambee
30. Impact Amplifier
31. Impact Hub
32. Injini
33. Kulea Consulting
34. KYB Early Childhood Development Enterprise Incubator (Pty) Ltd
35. LaunchLab
36. Lean Enterprise Acceleration Programmes (LEAP)
37. LifeCo UnLtd South Africa
38. Meltwater Entrepreneurial School of Technology (MEST)
39. North-West University
40. OyaVenture
41. PACT
42. Property Point
43. Redbull Amaphiko
44. Riversands Incubation Hub
45. SA Business Hub
46. Savant
47. Silicon Cape
48. Small Enterprise Development Agency
49. Social Enterprise Academy
50. South African Renewable Energy Business Incubator (SAREBI)
51. Southern African Business Technology Incubation Association
52. Strategy Builder
53. Take My Word
54. Talmar
55. The Growth Academy
56. The Innovation Hub
57. The Magixian
58. The Silicon Cape Initiative
59. The Startup Hatchery
60. The Why Effect
61. The Wot-if? Trust
62. Thembani International/Shared Interest
63. Tshimologong Digital Innovation Precinct
64. University of Cape Town
65. Z.A.ZEN Consulting (Pty) Ltd

Services offered by Roundtable Participants:

Access to networks and partners	High-speed internet access
Access to bank loans or loan funds	Ideation
Advisory boards and mentors	Intellectual property management
Building HR capacity	Investor matchmaking
Building M&E capacity	Investor showcases
Business strategy and planning	Leadership development
Classroom/seminar training	Legal, accounting and due diligence
Cohort or group support	Links to higher education resources
Competitions/prizes	Management team identification
Comprehensive business training programmes	Marketing support or market research
Co-working space	Media exposure
Credit guarantee	Mentoring
Data collection and analysis	Needs assessment
Direct consulting services	Online/mobile
Direct funding (debt)	Peer to peer/network based support
Direct funding (equity)	Performance management
Direct funding (grants)	Product certification
Direct funding (other)	Psychological support/personal development
Direct funding (quasi-equity)	Risk management
Exit strategies	Seat on the board
Fellowships	Sectoral development
Financial management	Social return on investment strategy
Governance structure	Talent placement
Help with business basics	Technology commercialisation assistance
Help with business etiquette	Technology development or adoption
Help with presentation skills	Value/supply chain development
Help with regulatory compliance	



Aspen Network of Development Entrepreneurs (ANDE) South Africa

33 Fricker Road, Illovo, Johannesburg, 2196

ANDE.Info@aspeninstitute.org

andeglobal.org | whysgbs.org | [@ANDE_ZA](https://twitter.com/ANDE_ZA)