

Decrease in South African entrepreneurial activity

The recently released Global Entrepreneurship Monitor South African Report 2015/16 indicates that entrepreneurial intentions among South Africans has dropped by almost 30% in 2015 when compared to 2013, and almost halved when compared to 2010, yet the perceived entrepreneurial opportunities has increased over the same period.

According to Kobus Engelbrecht, spokesperson for the Entrepreneur of the Year competition sponsored by Sanlam and Business/Partners, there are many aspects at play when analysing these figures.

The report shows that the perceptions about entrepreneurship in South Africa has increased since 2009, with 40.9% of South African adults in 2015 perceiving good entrepreneurial opportunities (up from 37.8% and 25.4% in 2013 and 2009 respectively). Perceived entrepreneurial capabilities – those South Africans that believe they have the necessary skills, knowledge and experience to start a business – also increased to 45.4%, up from 42.7% in 2013 and 35.5% in 2009.

“Despite these positive indicators, these figures haven’t translated into higher entrepreneurial intention figures, which sharply declined from 19.6% in 2010 to just 10.9% in 2015. This means that 1 in 10 South African adults currently have entrepreneurial intentions.”



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Declining economy

So what has changed in the past five years, since 2010, for South Africa to reach such entrepreneurial lows? Engelbrecht says the declining economy has played a role. The local economy has slowed its growth from 3.1% in 2010 to 1.3% in 2015, and recent reports suggest the economy will only grow by 0.4% in 2016. The prolonged fear of a ratings downgrade also has a negative impact on the economy.

“The 2010 FIFA World Cup and the build-up to the event, created many business opportunities for both existing and aspiring entrepreneurs to capitalise on, from tourism to infrastructure development, thus stimulating entrepreneurial activity in the country. The ensuing years have failed to present a similar excitement around entrepreneurship despite public and private initiatives to support entrepreneurs, including black economic empowerment policies and enterprise development programmes.

“While the 2010 FIFA World Cup may have cushioned the country against the 2008 global financial crisis, the effects after the financial crisis continue to cast an economic shadow. Banks and other financiers have seemingly become more cautious in their approval processes thus making access to business finance more difficult for aspiring entrepreneurs. However, the long-term effects created by the restructuring of institutions to stimulate youth entrepreneurial activity – such as the Umsobomvu Youth Fund which had been established to finance young entrepreneurs – cannot be underestimated.”

Brazilian example

Despite this sluggish growth, entrepreneurship should be promoted as an answer to revive the country’s current flagging economy. He points to a case study in Brazil – an efficiency-driven economy, like South Africa, which was also measured in the report.

“Despite entering a recession in 2015, Brazil implemented a small business tax bill called Simples Nacional, which offered select small and micro firms a reduced tax rate, and under this bill, tax collected increased by almost 7% year-on-year in the first half of 2015. During the same period, the number of business registrations in the country also increased by 5% year-on-year. These small and micro businesses also created an additional 116,500 jobs between January and May in 2015, despite the economy shrinking during the same period.

“Entrepreneurs and small business are widely recognised and praised for their contribution to the local economy and the country’s job creation, yet we are not fully supporting these individuals enough to maximise their potential.”

Three constraints

The report states that the three main constraints limiting South African entrepreneurial activity are government policy (61%), access to finance (44%), and education and training (42%).

“South Africa’s established business rate is also lower than the average for efficiently-driven economics, which, at 8%, is more than double South Africa’s rate of 3.4%. The country also has the lowest established business rate of all economics that participated in GEM 2014, and was ranked 53 out of 60 economies.

“In terms of policy, it is encouraging that the South African government has set aside 30% of its procurement spend for SMEs. He adds that this, coupled with the introduction of a central procurement database and eTender system by the National Treasury, if implemented without any undue influence, should serve to stimulate entrepreneurship as it did in the Republic of Korea (ROK). In the ROK, the government introduced an award-winning e-procurement portal, which made government procurement more transparent and led to an increase in contracts awarded to SMEs from 55% to 75% between 2003 and 2012. This system has also reduced the time it takes to pay suppliers from 14 days to four hours which goes a long way in boosting the sustainability of SMEs.

“The public and private sectors need to pull together to improve our entrepreneurial ecosystem and ensure that the required support such as business advice, mentorship and access to finance is available to all entrepreneurs. We also need to make entrepreneurship part of the South African culture, and find ways of sharing knowledge between South African and

immigrant entrepreneurs.

“These changes coupled with improvements in entrepreneurship education at school and a renewed commitment to review and eliminate policies that negatively impact entrepreneurs, will ensure that South Africa’s entrepreneurial activity begins an upward trajectory,” concludes Engelbrecht.

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