

# South African economy needs more entrepreneurs

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The World Bank suggests that (formal) small and medium enterprises contribute up to 45% of total employment and a third of national income in emerging economies but in South Africa, only 7% of South Africa's adult population is involved in running their own business. This is low even when compared to other sub-Saharan African countries, where the rate of entrepreneurial activity is nearly four times higher.

With South Africa's expanded rate of unemployment fast approaching 40%, creating a supportive environment for entrepreneurial activity could easily fast-track economic growth and tackle the unemployment crisis.

## **New business constraints**

The Global Entrepreneurship Monitor ranks good infrastructure and an established banking system as the two largest enablers of entrepreneurship in the country. However, it cites poor levels of educational attainment, inefficient government bureaucracy, high crime levels and rigid labour laws as key constraints to starting up new businesses.

Aside from confronting these issues, South Africa also needs to address the current low perception of opportunities to start a business. In our view, the availability of technical and industry-specific training is as important in generating higher levels of entrepreneurship, as is access to financing.



Incorporating a higher level of entrepreneurship education at school stage could further encourage entrepreneurial intentions, which rank poorly in South Africa, relative to other emerging markets.

As economic growth struggles to accelerate against a backdrop of incoherent policy-making, support for first-time business owners is central to generating higher rates of entrepreneurial activity. Growth in SA is likely to bottom out this year below 0.5% and is expected to stage a marginal improvement to 1% in 2017, inching higher to 2% in 2018.

Given these muted growth prospects, small business owners should negotiate payment terms, manage inventories in relation to constrained demand levels and maximise worker productivity. The latter is increasing in relevance, given proposals for a national minimum wage - unless exceptional provisions are made for small businesses.

During periods of sluggish economic growth, traditional lending institutions tend to tighten lending standards, with the impact of more stringent credit criteria squeezing lending to small and medium enterprises. Experian (a firm that specialises in data on South Africa's credit industry) proposes a credit report for small businesses, including a risk score. This will allow financial institutions to maintain stable funding to worthy startups throughout the business cycle.

## **Government work cycle decreasing**

Studies have shown that increased levels of entrepreneurship tend to lead the business cycle through boosting economic activity and giving rise to new job opportunities. Unlike the period following the 2008 global financial crisis, when government was able to create jobs in the public sector in a counter-cyclical fashion, elevated budget deficit and growing government debt levels are forcing government to rein in South Africa's overextended civil servant wage bill. Consequently, the onus is on the private sector to create employment opportunities. Reducing the burden of overregulation currently stifling entrepreneurship and providing incentives for research and development can create a more enabling environment for small businesses to contribute to job creation.

Small businesses in South Africa have the advantage of being geared to the global growth locomotive, allowing for a higher diversification of their earnings base. According to the Global Entrepreneurship Monitor, a quarter of South African entrepreneurs reported that more than a quarter of their revenue comes from international sales, which is more than double the average for the rest of Africa.

An economic downturn can provide many new opportunities to small business owners. By their nature, start-up firms operate on a leaner business model and have the ability to maximise value for customers. At a time when poor economic conditions lead to a dip in investment in research and development, innovation-led solutions by smaller startups can find a place in the market.

## **ABOUT THE AUTHOR**

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