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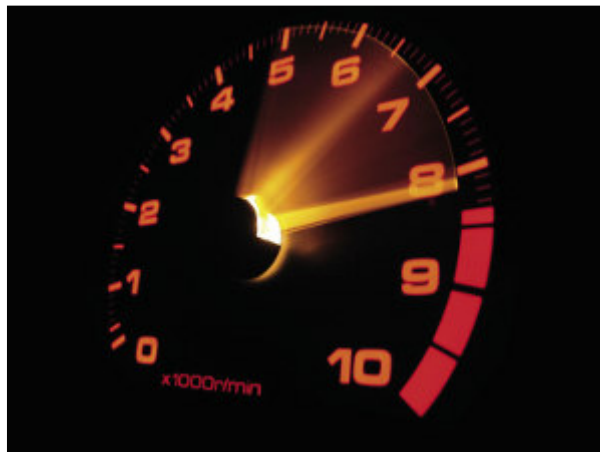

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A need to move

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South Africa is changing gears and policy to accelerate enterprise development

Rob Davies, the Minister of Trade and Industry, said in his Budget address in 2011 that the government has established an advisory group to look at areas where it could potentially achieve greater impact in its small, medium and micro enterprise (SMME) support programmes.

This was motivated by a sense that the government is not making sufficient headway in realising the potential of enterprise development.

An early conclusion is that one of the areas of greatest potential success – this is also borne out by international experience – is incubation programmes or enterprise development projects.

The problem is that South Africa boasts only between 30 and 40 recognised incubation (or enterprise development) projects, whereas Brazil has 4 000.

“Ramping ourselves up will be a major challenge, and one in which the government cannot achieve the necessary results on its own,” said Davies.

“We will accordingly be seeking more active partnerships with business and are looking at ways to tweak broad-based black economic empowerment (BBEE) programmes, as well as direct SMME programmes to develop the necessary synergies.”

The Small Enterprise Development Agency will roll out support for 250 enterprise development project-schemes over the next five years, as the first phase toward a target of 1 000 small enterprise development projects, said the minister.

In April 2011, Lionel October, acting director-general of the Department of Trade and Industry (the dti), said there was a recommendation by the Black Economic Empowerment Advisory Council that the focus of BEE should be shifted away from equity investment and ownership toward productive activities.

One proposal is that minimum scores would be required for enterprise development and procurement — or the overall score would suffer. This would compel companies to aim for achievement in all areas.

Under consideration, said Davies, was that points would be deducted from the overall score if minimum scores for enterprise development and procurement from small companies were not achieved.

Furthermore, it would not be enough to merely hand over money for an incubator or enterprise development project.

Companies would have to be actively involved in fostering small businesses.

“In Asia, small and big businesses have a symbiotic relationship where big business gets a lot of in from small business and works hard to ensure that it has the required capacity and the technology Davies told Business Day (21 April 2011).

Importance of enterprise development

Nick van Rensburg, managing director of Anglo American Zimele, said SMMEs are vital to the country’s overall economic outlook, constituting 40% of South Africa’s gross domestic product.

However, as the world standard is 50%, and high unemployment rates prevail in South Africa, much work still needs to be done (Enterprise Development Guide, Creative Space Media, 2011).

“The development of small and medium enterprises (SMEs) is a key catalyst in creating sustainable employment and stimulating socio-economic development in the South African economy, which currently has an unemployment rate estimated at 24%, and widespread poverty,” Van Rensburg told Opportunity. “Nurturing SME growth is a key factor in boosting the South African economy.”

Dr Pieter Streicher, MD of BulkSMS.com, said international research points to the fact that jobs are created mainly by small- to medium-size businesses.

In the United States, one in every two individuals works for a small business.

Since 1989, small business has created 93.5% of all net new jobs, totalling 21.9 million new jobs in the past 19 years — or 4 000 jobs per day in America, said Dr Streicher.

Small business comprises 99.7% of all American private employers and creates more than half of the US GDP.

In addition, small firms create 13 times more patents per employee than large firms, and export an average of \$375 billion in goods and services every year, Dr Streicher told Opportunity.

Home-based enterprise development

Elizabeth Zambonini, chief executive officer of The Hope Factory, said a study that was undertaken some years ago showed that home-based enterprises contributed R6bn to the South African economy annually, which is obviously a great deal more now.

Not only is it a potential growth area for greater economic development, but it also creates employment for many people who would otherwise not be able to support themselves.

From a long-term point of view, studies show that having an “entrepreneur” in the family will greatly improve the chances of more entrepreneurs in future generations.

The Hope Factory focuses on enterprise development at a grassroots level, by equipping the potential entrepreneur with the skills, guidance, access to capital and business development that he or she requires.

In the Port Elizabeth area, The Hope Factory has helped create and grow over 100 new businesses

The status quo in South Africa

De Wet Schoeman, executive of the Centre for Applied Entrepreneurship at the University of Stellenbosch Business School, says that according to the Global Entrepreneurship Monitor (GEM) reports, South Africa is not doing well in the development of entrepreneurs and sustainable new enterprises.

"Although much is being done to stimulate new SMEs to be formed, we must remember that other countries are doing the same. If you want to gain ground, you must not only do something – you need to do better than them," he notes.

"With our high level of unemployment, there is huge potential, but I believe South Africa will have put more focus on value-creating business activities if we want to increase the general level of wealth – we have too much focus on retail alone."

Currently, a massive 24% of South Africans are unemployed.

Some of the unemployed are turning to entrepreneurial endeavours in order to change their current situation.

There are two main factors that stoke the entrepreneurial fire: the first is necessity and the second a desire to gain independence and improve one's current situation, it was reported on www.youngbusinesssa.org.za.

While the government is promising to focus on job creation (again), there are still hundreds of thousands of people without a job and a means of putting food on the table. Many of the unemployed are starting up new businesses through necessity.

The GEM 2010 Global Report shows that in 2010, only 16.7% of South Africans had entrepreneurial intentions and that 29% had a fear of failure. It is probably this fear of failure that is a major contributing factor to their failure to launch.

In Endeavor South Africa's "The Entrepreneurial Dialogues: State of Entrepreneurship in South Africa" White Paper, the non-profit organisation identifies a number of factors that are causing a barrier to entry into the entrepreneurial arena.

Some of these include the country's financial and operating environment being unsupportive of entrepreneurs in terms of regulations, policies and access to capital. In South Africa, the main source of start-up capital is still the banking sector. (Source: www.youngbusinesssa.org.za, February 2011)

The White Paper highlights the concern that there is a low tolerance for entrepreneurial failures in South Africa. "People disassociate themselves from them, banks shut them down and the press demonises them."

Entrepreneurial failure is an experience that financiers in other parts of the world seek in entrepreneurs whom they consider funding. This culture in South Africa, of not supporting entrepreneurs who have failed, needs to be confronted if we are to create an environment conducive to fostering more entrepreneurial activity.

Likewise, the GEM report states that "if the economy in general has positive attitudes toward entrepreneurship, this will generate cultural support, financial resources, networking benefits and various other forms of assistance to current and potential entrepreneurs." (Source: www.youngbusinesssa.org.za, February 2011)

In the report, South Africa and a further 23 countries are classed as efficiency-driven economies.

When it came to indicators of attitude, GEM noted that in South Africa, 40.9% of respondents perceived opportunities in the entrepreneurial arena, and that South Africans were 2.7% less fearful of failure than the unweighted average.

In all, 77.5% of people surveyed thought entrepreneurship was a good career choice, yet only 16.1% of respondents had entrepreneurial intentions – 6.5% below the unweighted average for this category, according to www.youngbusinesssa.org.za.

Pitfalls of enterprise development

Dawie Roodt, director and chief economist of the Efficient Group, says the pitfalls of enterprise development include the expensive labour legislation and red tape.

Van Rensburg told Opportunity that financing for SMEs is still a major challenge. This is unfortunate due to a lack of assets or equity; many aspiring business owners still struggle to acquire the financing they require.

Subsequently, these entrepreneurs are at a major disadvantage, with a higher risk profile than someone who can pledge, for example, his/her house against a loan.

Schoeman warned that enterprise development initiatives in South Africa are not co-ordinated and integrated properly. This leads to a haphazard and often 'hit-and-run' approach. This does not work in favour of young SMEs that are vulnerable and in need of support.

Walmart/Massmart merger

At the end of May 2011, the Competition Tribunal approved Walmart's bid of a 51% stake in the local retailer, Massmart.

The opinion is divided among the experts contacted by Opportunity on how the merger will impact local enterprise development.

Van Rensburg said the decision by the Competition Commission and the merger will help grow the South African economy and give the country leverage in the international markets as well. It shows that investors have confidence in investing in the country.

"However, we should not lose sight of the conditions pertaining to the development of local enterprises, which include the setting up of a much-needed R100-million supplier development fund for SMEs," he added.

Zambonini said the decision will unfortunately have a negative effect on local enterprise.

"What is difficult as a developing nation, is that one is forced to compete with developed nations that had the opportunity to go through the 'development process'," she explained. "A key part of this process is manufacturing, which will now be denied to South Africa, as no one will be able to compete with the high-volume, low-cost imports through the Walmart suppliers."

Schoeman said Walmart will most probably look at procuring merchandise at the cheapest possible price. To achieve this, it buys in bulk at very low profit margins to suppliers of products.

Local SMEs cannot always compete on the large scale of economy. This means that Walmart will probably import most of its merchandise from places such as China.

It may decide, however, to implement a policy of "fair trade" where it will provide opportunities to local SMEs to provide a certain percentage of their merchandise or certain products. This may stimulate local enterprise development.

If Walmart should decide to go mainly the route of importing at the cheapest price, it may bring short-term benefit to consumers who can buy more with their money.

But, on the other hand, it may cause damage to local income-generating opportunities and cause higher levels of unemployment, warned Schoeman.

Fanie Heyns