Promoting Job Creation and Economic Growth Through Entrepreneurship and Innovation in South Africa

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Abstract

South Africa like currently faces pressing challenges owing to the absence of sustained economic growth and job creation. As a developing economy, entrepreneurship and innovation are vital to job creation, unlocking growth and enhancing overall productivity. The government has thus prioritized entrepreneurship and the advancement of small, medium and micro-sized enterprises (SMMEs) as the catalyst to achieving economic growth and job creation. The Department of Trade and Industry (DTI) is taking the lead in implementing SMME-related policies, to achieve the above objective. This paper discusses the current status quo of job creation, economic growth and development in South Africa, as well as the challenges to innovation and Entrepreneurship. It reviews government policies and programs as well as emerging trends in entrepreneurship and innovation being put in place. The paper concludes with recommendations and the way forward for South Africa to promoting job creation and economic growth through entrepreneurship and innovation.

Relevance to innovation This paper addresses a pertinent issue of the challenges to innovation and entrepreneurship in South Africa, by clearly elucidating the need for government to understand the current status, challenges and to enunciate rational solutions that can lead to innovation, economic growth and job creation. It is more of a position paper that highlights the necessity for innovative approach to addressing the challenges to innovation and entrepreneurship in South Africa and indeed other countries in Sub-Saharan Africa. Attending to the issues raised in this paper will have significant impact in the improvement of life in Sub-Saharan Africa especially amongst the youth.

Keywords Entrepreneurship, Growth, Innovation, Job, Venture
Introduction

The most pressing challenges facing South Africa today is the absence of sustained economic growth and job creation, which are essential to reducing poverty and improving living conditions (Kumo, Rielnder & Omilola, 2014). Latest figures released by the International Jobs Report, as published by the IMF, the EIU, and the OCP Policy Center reveal that South Africa's unemployment has hit 25.2% for 2014 one of the highest in the world (Abruzzese, 2015). The report also suggests that job creation and economic growth go hand in hand; hence, raising growth through supportive macroeconomic policies and structural reforms are needed to raise employment growth so that the unemployed and new entrants to the labor force have jobs.

For a developing economy like South Africa, entrepreneurship and innovation are vital to job creation, unlocking growth and enhancing overall productivity at both the national and the global levels. It is against this background that the South African government has prioritized entrepreneurship and the advancement of the small, medium and micro-sized enterprises (SMMEs) as the catalyst to achieving economic growth and job creation. Nonetheless, researchers emphasize that the key variables distinguishing the entrepreneurial venture from a small business are innovation, potential growth and strategic objectives (Venter & Rwigema, 2008). Similarly, (Mafemba, 2013) argues that entrepreneurial ventures are usually driven by significant innovation to build sustainable businesses. Importantly, innovation may be in the product or service itself, or in the business processes used to deliver that product or service. The small business, on the other hand, often calls for very little innovation as it is usually involved in established markets, products or services. Drawing from these views, it may be concluded that entrepreneurs would show more innovation than small business owners.

With the assistance of various government departments and institutions, the Department of Trade and Industry (DTI) through its endeavors to facilitate the country’s economic growth, wealth and job creation, takes the lead in implementing SMME-related policies, to ensure that adequate financial and non-financial assistance is provided to the sector, for its long-term prosperity and that of the country in its entirety. Some of these policies include the National Youth Economic Empowerment Strategy and Implementation Framework (NYEESIF) for 2009-2019 (South Africa. DTI, 2009). DTIs key objectives here are to improve the quantity and quality of youth entrepreneurship and technical knowledge, reduce poverty and unemployment among young people (South Africa. DTI, 2009).

Current Status of Job Creation and Economic Growth and Development in South Africa

The economic woes of South Africa continue to increase at an alarming rate with unemployment posing significant challenges as it has reached 25.1%, and youth unemployment hit 36.1% at the end of 2014 (Statistics South Africa, 2015).

In its latest World Employment and Social Outlook report, the International Labour Organisation (2015) says youth unemployment (youth aged 15-24) in South Africa is
Figure 1: South Africa change in total unemployment, 2008-2014

52% which is more than four times the figure for sub-Saharan Africa. However, Statistics South Africa’s latest labour market report categorizes youth as people between the ages of 15 and 34 or working-age youth, and puts youth unemployment at 36.1% for 2014. Data from the same report reveals that youth unemployment between 2008 and the first quarter of 2015 has deteriorated and more young people have abandoned their job-seeking efforts. (Statistics South Africa, 2015).

The official data from Statistics South Africa reveals that the limitations of the education system in South Africa had a big impact on youth employment prospects. Another contributing factor to the alarming youth unemployment figures, and unemployment overall, is the jobless growth occurring in South Africa’s economy. As the national economy now creates fewer and fewer jobs and top-down government job creation initiatives have proven ineffective, policies geared towards bolstering youth employment through alternative means are essential. (Banerjee et al, 2008) believe that the reasons for South Africa’s inability to create job opportunities to meet the growing demand are due to persistent lack of entrepreneurial culture country-wide and that the informal sector of the economy is unable to expand as expected to provide employment opportunities.

Youth job creation will require a mix of policy tools and levers to create opportunities for this demographic and take advantage of new and neglected markets. Given how the trend in youth unemployment intersects with jobless economic growth in South Africa,
a concerted effort should be made to shift the focus toward fostering entrepreneurship among youths. Doing so could be one of the most effective means to mitigate both unemployment and social affliction in disadvantaged communities (Statistics South Africa, 2014); (Kumo, Rielnder & Omilola, 2014).

The South African government continues to prioritize measures aimed at generating employment and promoting youth entrepreneurship as an innovative job creation solution. These include tax incentives for employment and investment, support for enterprise development, skills development and employment programmes (Statistics South Africa, 2014).

Industry leaders assert that the South Africa’s target of creating 11-million jobs by 2030 through the National Development Plan (NDP) will require the creation of more than 49,000 new small enterprises, together with an economic growth rate of about 20% a year. It has been envisaged that small, medium and micro-sized enterprises development will help to curb SAs persistently high unemployment rate, which is presently narrowly defined at 25.1% (Mungadze, 2015). South African leaders are well aware of this challenge and have done the math; with roughly a doubling of per capita income growth, South Africa could achieve per capita income similar to that of Portugal or Poland in only 17 years. South Africans have set out their own vision for the next 20 years, in a way that is compelling and comprehensive. It calls for accelerating progress, building a more inclusive society, deepening democracy, and translating political emancipation into economic well-being for all (Immelt, 2015).

Figure 2: Provincial unemployment rate among youth (15-34 years), 2008-2015

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Status Report on Entrepreneurship and Innovation in South Africa

South African government continues to make concerted effort to establish the country as an entrepreneurial nation that rewards and recognizes entrepreneurship. The new Small Business Development Ministry has an important role to play in achieving this goal. The Ministry has been established to deliver dedicated and focused support for small businesses and to ensure that the common challenges that confront the sector are addressed in a co-ordinate way. Priorities for the Ministry will include addressing the legal and regulatory environment; improving access to markets, and availability of finance; addressing the skills deficit; enabling better access to information; and improving the effectiveness and reach of support institutions (Ensor, 2015).

The Department of Trade and Industry has taken a centre stage to promote, regulate and support small business growth in the country. Despite all these efforts, the level of entrepreneurship in South Africa has been rated by the Global Entrepreneurship Monitor (GEM) (2015) to have one of the lowest numbers of entrepreneurs amongst its population compared to other nations within the developing world. The same report reveals that entrepreneurial activity in South Africa has dropped by 34% over the past year. Not only has there been an overall dip in activity, the report shows that the percentage of adults involved in a business less than three-and-a-half years old (the Total Entrepreneurial Activity (TEA rate) fell to 6.97% in 2014 from a 13-year high of 10.6% in 2013.

The entrepreneurship activist and researchers are of the opinion that entrepreneurship is not flourishing in South Africa because the entire ecosystem is fragmented. Although there are many initiatives by the government and the private sector, there is lack of cooperation and collaboration to support entrepreneurship in the country. It is also a challenge to retain entrepreneurs due to the weak literacy rate. Further findings suggests that education plays a major role in entrepreneurial activity in that the more educated the person, the more likely that person is to start a business, and that the business will continue to be sustainable. This finding emphasized the need for training in South Africa, particularly amongst the youth, where unemployment continues to increase year on year. (Tsele, 2015).

Key constraint for new entrepreneurial ventures and small businesses

The entrepreneurs challenges may have one or more of the following dimensions:

1. **Access to finance** is the biggest barrier faced by many entrepreneurs and among the key challenges that contributes to the negative trends for entrepreneurs in South Africa. It is common for small, medium and micro-sized enterprises (SMMEs) to run into short-term cash flow problems. These can occur for any number of reasons. For example, businesses may experience short-term liquidity issues due to: seasonal downturns in revenue, overtrading, slow-paying accounts, investment in inventory or expensive equipment, a need to support rapid growth, use of cash to exploit opportunities. Without easy access to funding, any one of these issues can be enough to cause a business to falter.
2. **Access to market opportunities** is one of the fundamental barriers to South Africa’s attempts to boost entrepreneurs and small, medium and micro-sized enterprises. Enabling small, medium and micro-sized enterprises to actively participate in the supply chain activities of major industries in the country will contribute to building sustainable small businesses which could potentially become larger enterprises.

3. **Restricted and inhibiting regulatory environment** coupled with the harsh penalties imposed for non-compliance. The legal processes in running a business can be cumbersome. The challenges not only start with the setting up or registration of company, but extend to a variety of general legislative requirements on governance, compliance and reporting activities. At times, these come at a high cost (particularly legal advice and auditing services). Nonetheless, in order to run a solid business all these challenges have to be navigated.

4. **Poor synergies between larger business and small business** whereby the smaller businesses struggle to attract or meet the standards of large corporate clients. The process is often daunting and often the requirements are not clear. The businesses are often too small to meet the capacity demands or seek funding too late as they do not understand the lengthy funding processes of financiers. This results in them not complying in time for funding.

5. **Poor coordination between Financial and non-financial support programmes** as there is centralized platform to share information and educate the market about available opportunities.

### Challenges to Innovation and Entrepreneurship in South Africa

Several challenges have been noted to affect innovation and entrepreneurship in South Africa and Africa as whole. In his article (James, 2015) highlights three challenges entrepreneurs face in South Africa, namely: fast paced markets, marketing product and service and access to funding. (Staff Writer 2015) discusses five key constraints limiting entrepreneurship in South Africa, that is, Skills Deficit, Funding, Remote location and limited access to markets, Government procurement limitations and Limited commercialization of innovation from universities. Focusing on challenges facing women in the Gauteng province of South Africa, (Chinomona and Maziriri, 2015) highlight the following factors: Limited or no access to finance, Gender bias or Gender discrimination of women entrepreneurs, and Lack of Education and Training. With regards to Africa as a whole, (Feinstein, 2016) has identified the top six obstacles to start ups to African entrepreneurs, which are: Limited access to financing, Weak infrastructure, Inconsistent government regulations, Globalization, Minimal government assistance and cross-border payments. (Ekeledo and Bewayo, 2009) in their paper concerning challenges and opportunities facing African entrepreneurs and their small firms, discussed the following challenges: Globalization of Markets and Production, Lack of Financial Support, Poor Infrastructure, International Expansion and Government-Sponsored Assistance.
Survey of Government Policies and programs on Innovation and Entrepreneurship

Over the years the government and finance houses has refined mechanism to support the entrepreneurship and the SMME sector and have developed policies, guidelines and practices narrating the kind of support needed. Although poor implementation continues to limit the startup growth, both the Departments of Trade and Industry and Economic Development play the most important role in developing and supporting structures to grow small business in the country.

1. The establishment of the Small Business Development Ministry to facilitate and promote a favourable environment for SMEs to thrive and to support the goals of the National Development Plan (NDP). (South Africa. DTI, 2015).
2. The National Development Plan focuses on incubation systems and early stage entrepreneurship development. (South Africa. The Presidency, 2011).
3. The National Growth Path (NGP) is a framework for economic policy and driver of South Africans job-creation strategy. (South Africa. Economic Development Department, 2009).
4. The Industrial Policy Action Plan (IPAP) has a strong focus on localized supplier anchored in the Enterprise and Supplier and Development element of the recently revised BB-BEE Codes of Good Practice. (South Africa. DTI, 2014).
5. Enterprise and Supplier Development (ESD) is a code to support and grow emerging black business and promoting entrepreneurship. This Black Economic Empowerment code requires South African companies to spend 3% of their annual profits on support for black owned enterprises. (South Africa. DTI, 2012).
6. The Township Revitalization Strategy aims to contribute to the overall vision of South Africa underpinned by the National Development Plan which emphasizes that 90% of the new 11 million jobs to create by 2030. (South Africa. Gauteng Department of Economic Development, 2014).
7. The Integrated Strategy on the Promotion of Entrepreneurship and small enterprises aims to unlock the potential of the South African entrepreneurs. (South Africa. DTI, 2006).
8. The Small Enterprise Development Agency (Seda), the Department of Small Business Developments agency established in December 2004, through the National Small Business Amendment Act, Act 29 of 2004, merging the previous small enterprise development agencies Ntsika Enterprise Promotion Agency, NAMAC Trust and the Community Public Private Partnership (CPPP) into a single small enterprise support agency. The agency is mandated to implement the governments small business strategy, design and implement a standard and common national delivery network for small enterprise development and integrate government-funded small enterprise support agencies across all tiers of government. (South Africa. DTI, 2004).
9. The Small Enterprise Finance Agency (SEFA); established in 2012 as a result of the merger of South African Micro Apex Fund, Khula Enterprise Finance Ltd and the small business activities of IDC. The agency’s mandate is to foster innovation and
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the establishment of sustainable SMMEs to contribute towards poverty alleviation and job creation in the country. (South Africa. DTI, 2012).

Over and above supporting the development of small business and entrepreneurship, the government needs to assist small businesses to become innovative. This means that the Department of Small Business Development needs to focus on funding new and innovative ideas:

• Ensuring that both the venture capital incentive and research and development (R&D) tax incentive work;
• Ensuring that the troubled Technology Innovation Agency gets its seed funding program back up and running;
• Ensuring that the applications for funding to Support Program for Industrial Innovation are re-opened. Following a notice earlier in the year by the Department of Trade and Industry temporarily closing the fund; and
• Ensuring that support be given to develop an angel investing community and groups of angel investors.

These moves will ensure that innovation is not only associated with the rich and the more educated. In its drive to support and fund more entrepreneurs, the department also needs to fund ways to ensure that these small businesses are focused on innovation. In addition, the quality of personnel at Seda and Sefa are vamped up by employing the services of those with business experience and partnering more with the private sector.

Emerging Innovation and Entrepreneurship that Foster Economic Development and Job Creation in South Africa

(Ngek and Smit, 2013) argue that high growth SMEs are better positioned for creating jobs and further recommended that the South African governments policy should focus on the following: SMEs with high quality and high growth potential, encouraging the creation of more business angels and venture capital firms, providing access to many finance options including debt financing, removing constraints on SMEs and rewarding SMEs with growth ambitions. Despite poor synergies between the different stakeholders in the country, both the public and the private sector have launched a wide variety of vehicles to foster innovation and entrepreneurship in the bid to assist the government to create jobs and fuel the growth of the economy.

1. Business incubators and small, medium and micro-sized enterprise support creates a synergistic environment where entrepreneurs can share, create working partnership and act as enablers to access markets and resources. Critical to the incubator is the provision of management guidance, technical assistance and consulting tailored to young growing companies. These incubators must also provide to potential youth entrepreneurs information on appropriate space and flexible leases existing in the market, shared basic business services and equipment, technology support services and assistance in obtaining the financing necessary for company sustainable growth. (Ndidi, 2009: 468)
2. Enterprise Development Hubs are facilities established as results of partnerships between local governments, government departments and local businesses to enable entrepreneurs and small businesses to access necessary resources for the success of their businesses.

3. Endeavor Entrepreneur programme focuses on the scale-up and not start-up because the programme champions believe that is where the highest job and wealth creation happens. Endeavor Entrepreneurs are innovative business leaders who have crazy dreams about disrupting the industries and markets within which they operate, both locally and globally. To date, Endeavor South has created nearly 5,000 jobs and 22 companies.

4. The Innovation Hub is a centre that was developed to create a unique space to bring hi-tech entrepreneurs, industry, academics, researchers and venture capitalists together. The Innovation Hub and the Council for Scientific and Industrial Research (CSIR) have entered into a partnership to support entrepreneurs and ensure they contribute to the growth of the economy.

5. Coordinated Collaboration spaces create collaboration opportunities between entrepreneurs, various organizations to share experiences, needs, to leverage best practice to understand how the various players fit in the ecosystem. The academic institutions have already made inroads in creating forums and workshops to bridge the gap between Corporate South Africa and the small, medium and micro-sized enterprises. The University of Pretoria Gordon Institute of Business Science (GIBS) Business School is a pioneer in collaboration forums and presenting academic sessions for those who wish to explore entrepreneurship.

The listing above is by no means exhaustive but indicative of the efforts that are made throughout the country to support the governments effort to promoting innovation and entrepreneurship as vehicles for job creation and economic growth.

**Recommendations**

A radical mindset change in South Africa is necessary to encourage entrepreneurs to conceptualize and develop solutions, products and services that will result in a win-win solution for all, that is boost job creation and drive economic growth. The scenarios explored in this work suggests that a win-win solution can be achieved if:

- The South African corporate sector is willing to invest in innovative measures to change the way business is conducted today,
- A collaborative movement including big business and service providers is established to facilitate access to markets for the small business,
- Academia provide platforms that link government with private sector and small business to ensure their policies are indeed assisting entrepreneurs on the ground as well as assisting big business to empower entrepreneurs,
- Research organizations share their market knowledge and distribute their research findings to the wider ecosystems.
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- As the country has one of the highest failure rates of business startups in the world, investment and support of these businesses is critical, such as through business incubator programmes or solid mentorship programmes.
- Strengthening entrepreneurship Education and Training as well creation of opportunities to teach entrepreneurs how to network with each other and with investors to ensure that innovative ideas are not left to flounder in isolation.
- There is opportunity to provide collaboration between the various stakeholders to share experiences, needs, to leverage other organizations and to understand how the various players fit in the ecosystem.

Conclusions

Although South Africa’s entrepreneurial activity is actually improving (albeit at a small pace); research reveals that for the most part it still lags behind. While there have been government policies and programs to promote entrepreneurship in South Africa, there are still many challenges young entrepreneurs face. Entrepreneurial activity in the country plunged by an alarming 34% in 2014 and further analysis shows that South Africa has one of the highest failure rates (those running established companies as a ratio of the sum of both established and early-stage entrepreneurial activity).

Despite governments commitment to supporting entrepreneurship and growing the country’s small, medium and micro-sized enterprises (SMMEs), this business sector continues to face an extremely hostile business environment, including lack of skilled staff, burdensome regulations, tough local economic conditions, lack of finance and the high costs associated with employing staff. In addition, compliance and restrictive labour laws are still critical barriers to entrepreneurship and small business growth. The SMMEs feel excluded from the process of drafting legislation and are not familiar with the various laws. Furthermore, self-employment and entrepreneurship are accompanied by their own problems such as the lack of appropriate education, limited access to capital as well as the lack of social networks, which have the consequence of preventing entrepreneurship from becoming a solution to youth unemployment.

The NDP makes it clear that getting South Africa onto a high-growth trajectory demands that the country places small businesses and co-operatives at the centre of our war against poverty, inequality and unemployment. The government has taken a step by establishing a Ministry of Small Business Development which serves as a strategic move to ensure that the small business owners will be well served by understanding the mandate of this ministry and some of the practical help that it has set out to provide for this sector. Additionally, a well-structured collaborative approach is instrumental in facilitating an environment for sharing best practice, learning from each other and sharing ideas to drive innovation.

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