

# Entrepreneurship in SA - it's better than you think



By [Anton Ressel](#)

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Recent studies show a worrying and very steep decline in the number of new businesses being started in South Africa. However, if one looks a bit deeper there is cause for optimism.

The recent Quarterly Labour Force Survey by Statistics SA reports that over the past decade there has been a staggering 76% decline in the number of new businesses being registered, from 250 000 in 2001 to only 58 000 in 2011. However, as journalist Teigue Paine notes in a recent article, this is in all likelihood as much in response to increasingly onerous tax and labour laws in SA, as to the recession or any other global economic conditions.

Paine quotes Adcorp's labour economist Loane Sharp as saying that indications are that many small businesses and start ups have simply been forced 'underground' in response to deteriorating conditions for starting a small business. In a nutshell, Sharp argues that the figures we are seeing are not a true reflection of entrepreneurial activity, but rather of an 'informalisation' of the SA economy in a bid to escape heavy tax and employment burdens placed by Government on the SMME sector, and business as a whole.

This is worrying on a number of levels, because it suggests that the intentions of Government to create an enabling climate for small business are in fact doing the opposite. If small business is squeezed too tight by excessive Government regulation, trade union domination of the labour market and a business climate that stacks the odds against start-up success, one of two things happen - either the business simply cannot survive, so it closes (or fails to start), or it goes underground.

The much-vaunted potential of the SMME sector to create meaningful jobs and contribute to the economy is largely negated if entrepreneurs feel forced to operate 'below the radar' as a means of survival. An unregistered business does not contribute to the tax pool, nor will it provide its employees with job security, contracts, PAYE, UIF and other benefits as laid out in the Basic Conditions of Employment Act.

## Entrepreneurial renaissance

Fortunately though, not all is doom and gloom. Many organisations and individuals engaged 'in the trenches' in enterprise development and support to emerging entrepreneurs report increasingly positive signs of a renaissance in entrepreneurial activity, in contrast to the bleak reports. While the numbers may be down on paper, they say, the quality and innovativeness of the emerging business sector is cause for optimism.

"This year was by far the most promising since 2007 in terms of the quality and viability of the organisations who applied to

be a part of our programme, we were blown away by the potential," says Catherine Wijnberg, founder of the Legends programme, a national SMME and non-profit business incubator sponsored by Old Mutual. Each year, Legends puts out a nationwide call to small businesses to apply to join the programme, which offers mentorship, business support, workshops, e-learning and other resources to support the growth of beneficiaries.

"We had an inspiring pool of applicants this year, across a host of business sectors. A common theme was that people in all Provinces were determined to succeed, in spite of the difficult economic climate and restrictive legislation a new business is faced with in South Africa," she adds.

Wijnberg cites the example of Legends beneficiary Molefinyana Seqhala, Founder of Seqhala Open Projects. This fast-growing electrical consulting and construction firm was started by Seqhala, a qualified electrician who identified a gap in the market for a multi-service provider of electrical, building, maintenance and security services, in response to what he saw as domination of the market by one or two established players. In the past four years, Seqhala has grown a promising business - he has purchased several work vehicles, increased his turnover by over 800% and currently employs 15 people, with plans in place for expansion into manufacturing of building and related materials. A little over five years ago, Seqhala was an employee working for one of his competitors.

## **Informal but influential**

Donald Kau, head of Corporate Affairs at Santam, concurs with Wijnberg on the upsurge in entrepreneurship. "I have many peers who started out really small who are now well established entrepreneurs. Typically, they open an informal part-time business like a car wash or a hair salon, and the business expands organically over time to include complementary offerings such as a take-away or a spaza shop.

"Once they are properly established, which may take several years, many of them do indeed register their businesses - either because their suppliers or investors require them to do so, or because there may be licences and permits required to operate, such as with a tavern."

These examples suggest that the informal or unregulated economy serves a purpose as an 'incubator' of potential, preparing businesses for the mainstream economy. Rather than being seen in a negative light, there may be an opportunity for government and the informal sector to work together to create an acceleration of entrepreneurship from grassroots level upwards.

Some measures might include tax exemption for start-ups for a set period, tax incentives and rewards for registering employees for PAYE and UIF, easier access to loan finance, and so on. The point is that informal businesses are an increasingly large part of the economy and many of them are thriving, with tremendous potential to become meaningful employers and contributors to the mainstream. One simply has to walk through a main road in Soweto, Khayelitsha or Diepsloot and see the plethora of grassroots enterprises on virtually every corner to recognise that entrepreneurship is not dead or dying in any way. Imagine how different the figures would look if every one of these businesses were registered?

## **Increase in the calibre of entrepreneurship**

Toby Chance, MD of Adele Lucas Promotions, has also noticed an increase in the calibre of entrepreneurship over the past few years. His company is the organiser of the Soweto Festival Expo, in which over 400 SMMEs participated last year.

"2011 was the best Expo to date, and feedback was excellent. Some SMMEs have exhibited at every single event and their growth is clear, such as Molobi Enterprises who won the Radio 702 Small Business Competition, and Nqobile Nkosi, who has opened Soweto's first jewellery manufacturing and retail shop in Vilakazi Street."

While it would be foolhardy to ignore the statistics that point to an entrepreneurial sector in crisis, it is important to recognise that all is not doom and gloom - in fact it's better than many think. There are new businesses being started by passionate, capable and determined entrepreneurs every day in SA, and while many of them will fly under the radar for

some years, by necessity as much as by choice, hopefully the legislative and regulatory climate will shift sufficiently for them to emerge and take their rightful place as contributors to a country crying out for sustainable job creation through entrepreneurship.

## ABOUT ANTON RESSEL

Anton Ressel is an experienced business development consultant, mentor and SME specialist. He is the Senior consultant at ED and CSI specialist agency Fetola ([www.fetola.co.za](http://www.fetola.co.za)), a winning mentor on the SAB Kickstart Entrepreneur Competition, and a published author across multiple publications. His passion is helping small businesses become big ones. Follow @antonres on Twitter.

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