

## CREATE ENTREPRENEURS INSTEAD OF TENDERPRENEURS

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Youth unemployment featured centrally in South Africa's policy debates during 2012. From the National Development Plan (NDP), which labelled it a 'potential time bomb', to the ANC Youth League's campaign for 'economic freedom in our lifetime', and the bloody clashes between DA and COSATU supporters about the youth wage subsidy on the streets of central Johannesburg, it became evident just how integral this theme has become to those who want to exert influence on developmental policy.

It is by no means a uniquely South African condition – as policy-makers in Spain and Greece can attest – but its character and potential consequences are exceptional and particularly disconcerting. South Africans between the ages of 15 and 34 years constitute 71 per cent of all unemployed South Africans (Stats SA 2012). A decrease in employment inevitably results in a decrease in further skills and experience transfer (National Treasury 2011; DGMT 2011). By not engaging in active skills development and learning through working, the potential for further employment diminishes. The spiralling effects of unemployment are therefore far-reaching, and the tools that the government and the private sector can leverage to stop it are limited. Assuming that these tools are being used optimally, we have to ask what else can be done to enhance people's own opportunities for employment? The promotion of an entrepreneurial spirit and the supporting infrastructure to encourage it should become central in our thinking about employment creation outside of the government and corporate South Africa.

The South African economy is in need of entrepreneurs. In 2012, major sectors, such as natural resources and manufacturing were in decline, while concern about a ballooning government salary bill also put a damper on job creation in this sphere. Given the current economic climate, the country will have to look beyond the established sectors to fire up job creation. For this reason, it remains puzzling why there seems to be so little momentum behind efforts to harmonise the creation of a stronger entrepreneurial culture.

Developments in our national discourse on this matter have not been helpful. As the infamous term 'tenderpreneur' made its way into our vocabulary, entrepreneurial enterprise became tainted with unwarranted cynicism. In loose terms, it has come to be associated with practices where individuals and/

or companies leverage their political connections, as opposed to their craftsmanship and skills, at the expense of more deserving candidates, and often also the citizens that stand to benefit from their deliverables. Although not implicit, connotations of corruption and the perversion of well-intended black economic empowerment (BEE) objectives have compounded the negative associations that many South Africans have with the concept.

Entrepreneurship and the threat posed by negative perceptions of tenderpreneurship raise interesting questions about how South Africa is fostering and promoting entrepreneurial activity. There is widespread concern that tenderpreneurs hinder the potential for non-government affiliated entrepreneurs to make their mark. It needs to be asked whether the government and other social stakeholders are doing enough to counter this perception and to promote entrepreneurship in South Africa. As successive cohorts of school leavers enter the labour market under the prevailing economic circumstances, many – especially those with lower qualifications – are doomed to join the ranks of the unemployed. The traditional sources of employment are drying up and, hence, we will have to sharpen our strategies to foster more job creators than prospective employees.

Why is our youth unemployed? Like other young people around the world who enter the labour market for the first time, they lack skill and experience. Education is no adequate substitute for experience and does not guarantee capability. If employers are not convinced that school leavers are capable of handling new tasks, they would rather not risk paying school leavers a wage, considering their relative inexperience.

The political opposition and the media frequently place blame on the government for worsening the employment situation of young people. The government has argued that miracles do not happen overnight; as far as progress is concerned, it points to public works programmes and related multibillion rand investments in infrastructure, which are likely to create more job opportunities and, importantly also, generate the acquisition of more skills and experience. These initiatives may provide the stage for entrepreneurs to step up to and show what they are capable of. Potentially, this can be the start of a flourishing post-apartheid entrepreneurial



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sector. We will have to ensure, however, that the persistence of tenderpreneurship does not thwart its huge potential.

### Questioning numbers and neutrality

While there are approximate numbers of questionable transactions before regulators and prosecutors, authoritative statistics suggesting that most government tenders are swayed by political connections are in short supply. Without clear-cut figures on what determines the awarding of government contracts, we can only assume, and assumptions have their limitations; at their very worst, assumptions can cause unnecessary damage to the integrity of entities implicated through hearsay and innuendo. Too often, extensive coverage of individual cases creates the impression of pervasiveness; thus, for the present, it may be more advisable to rely on information provided by agencies, such as the Public Protector, the Auditor-General and the Public Service Commission. Responsible citizenship requires that we act upon evidence, and work towards the improvement of the sources that we have at our disposal. The Open Government Partnership (OGP) is a substantial initiative in this regard.

### Open governance and opportunities for reform

The OGP is a project championed by several heads of state, which seeks to 'secure concrete commitments from governments to promote transparency, empower citizens, fight corruption, and harness new technologies to strengthen governance'. Although South Africa is a member of the steering committee of the OGP, there is still very little public awareness of the project in the country (ODAC 2012).

It focuses on the broad areas of transparency and accountability, and, more particularly, on reform of transparency in government business practice. The OGP seeks to 'secure concrete commitments from governments to promote transparency, empower citizens, fight corruption, and harness new technologies to strengthen governance'. By extension its emphasis, therefore, also speaks directly to the question of ethical and consistent government procurement procedures, which impacts on the degree to which prospective entrepreneurs are willing to take risks on the assumption that all tenders will be evaluated on a non-biased basis.

The initial results of the Monitor Group's *Accelerating Entrepreneurship in Africa Survey* provides another instructive source of insights into South African entrepreneurial activity (Omidyar Network 2012). The survey focused on

entrepreneurship trends in a number of countries, and the South African results, released in 2012, have provided a wealth of insights in this regard.

Together, sources like these, as well as the Global Entrepreneurship Monitor that is reported on elsewhere in this chapter, are valuable in informing our thinking about the challenges and opportunities for entrepreneurial growth in this country.

### Limitations for entrepreneurial growth

The Monitor Group survey identified the following limitations to the growth of small business in South Africa:

- » lack of proper education
- » challenges in the form of legislative and regulatory barriers to business development; and
- » lack of entrepreneurial training and awareness.

These limitations demand a more in-depth assessment of several structural weaknesses in our business environment and services for citizens.

### Education

The 2012 *School Realities* data sheet, published by the Department of Education, indicates that the highest proportion of learners (32 per cent) find themselves in the foundation phase (Grade R to Grade 3), while those in the senior phase (Grade 7 to Grade 9) represent a smaller contingent of 24 per cent (DBE 2012). This suggests high drop-out rates in the higher grades, which goes a long way in explaining the critical skills shortages that are experienced in certain sectors of the economy. This view is underscored by the World Economic Forum's latest *Global Competitiveness Report*. The report ranks South Africa 132nd out of 144 countries for the quality of its teaching and 115th with regard to access to schools (WEF 2012).

### Legislation

The legislative and regulatory barriers to business development constitute the second identified limitation to growth. According to some observers, the new Companies Act 71 of 2008 has made great headway in simplifying the process of establishing new business ventures. The practice seems to confirm this. According to the *Ease of Doing Business Survey*, conducted by the World Bank, it takes approximately 19 days to a month to register your new business in South Africa, on condition that all the relevant documentation is provided (IFC

& World Bank 2012). This places the country 53rd out of a total of 185 countries surveyed. Compared to peer countries like Brazil, where the same process takes 119 days, this is a laudable achievement, but as columnist, Ivo Vegter (2012) points out, the rules for government tenders are often too detailed and 'intimidating to the uninitiated' and frequently do not prevent corruption. Irregular practices, such as tenderpreneurship, create an additional layer of unpredictability. In effect, it creates an environment where 'playing by the rules' and meeting the required standards do not give every contender a fair chance of success. As such, it discourages, rather than promotes, an entrepreneurial culture driven by product excellence.

### Entrepreneurial training and awareness

Although a good start, the best qualifications and the highest level of education do not guarantee entrepreneurial success. Start-up businesses can fail just as quickly as they begin, because of a lack of solid entrepreneurial skills training. Addressing this situation necessitates the introduction of focused coursework on entrepreneurial development at school level. While it requires dedicated resources and may have to compete with lobbyists who correctly advocate for the prioritisation of mathematics and science training, a compelling argument can also be made for an entrepreneurship curriculum. If the objective of quality education is to create jobs, we cannot simply assume that there will be enough vacancies to be filled in traditional occupations. As recent research by the World Bank and World Economic Forum shows, entrepreneurial activity is more likely to have an impact on unemployment under the current deflated economic conditions than are industries in the traditional spheres (Holly 2012). This needs resources and co-ordination, backed up by stern commitment. All this is possible, but may be difficult, given the multiple challenges that both education departments are experiencing at present.

### The contribution of government

Should we lay exclusive blame at the door of the government for the apparent lack of co-ordination and/or enthusiasm to create a conducive entrepreneurial environment? Given the complexity of government structures and processes, this question may be too simplistic. Yet, it is possible to identify certain areas where the government's action (or inaction) delays progress.

Proper education is a critical cog in the wheel, and there is no doubt that poor performance in this regard detracts from commensurate efforts elsewhere. The government has an obligation to provide education for all learners and to assist those who cannot go to school to obtain training and qualifications through other means. Assessments elsewhere in this publication show that much still needs to be done in this regard.

In addition, the government is responsible for passing

legislation that assists in the creation of small businesses and recognises the challenges that entrepreneurs face in getting their ventures off the ground. Such efforts have been made, but there is still a large gap between the provisions and their practical implementation. This has been the case particularly for many business owners from previously disadvantaged communities in their experience with broad-based black economic empowerment (BBBEE) legislation.

In theory, BBBEE aims to promote wealth creation across a broader spectrum of South African society, and to assist business owners from previously disadvantaged backgrounds to gain a foothold in the economy. Unfortunately, the practical implementation of these policies has drawn criticism from those who claim that a small group of politically connected individuals has exploited them for their own narrow benefit, thereby effectively linking tenderpreneurship to BBBEE. Such criticism has emerged from all sides of the political spectrum and, as a result, the government has come under increasing pressure to remedy this situation. In 2011, amendments were introduced to reduce the potential influence of tenderpreneurial practices in the procurement arena. These reforms were of critical importance, because an estimated 30 per cent of the economy is driven by state procurement activity alone. In terms of these new regulations, bidders will be required to present scorecards that prove their BBBEE compliance. Potentially, this will eliminate the most obvious irregularities associated with the awarding of tenders. In terms of the practice of 'fronting', where company governance structures are artificially restructured to give the false impression of black ownership, a company will have to provide a verified scorecard. Should companies be deemed to fall short in terms of compliance they will be disqualified from the tender process. In addition, these scorecards will force business owners to ensure that essential areas of business development, including skills and entrepreneurial acumen, are established and provisionally funded (Steyn 2011). Whether this policy has made any dent in irregular tender practices is unclear at this stage and is probably too early to ascertain.

The evidence suggests that the government is working to ensure that tender irregularities are accounted for, by introducing the relevant policy structures. Two important frameworks that have been rolled out thus far are:

- » the National Youth Economic Empowerment Policy and Implementation Framework (2008); and
- » the Integrated Youth Development Strategy (National Youth Development Agency) (2008).

Both documents have pushed for greater investment in youth development.

But more momentum is required. At present there is very little else that speaks to the urgency of supporting youth entrepreneurship.



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## South Africa and the OGP

Encouraging government transparency and accountability is as essential to fostering growth as are the right economic policies. As a signatory to the OGP, which represents a commitment from 50 governments to promoting open, transparent and accountable governance, South Africa has much to gain from the development of uniform reporting standards (see OGP 2012a). Ultimately, the OGP seeks to ensure that governments act transparently and that their citizens are able to hold them to account. Investment by one signatory in another is therefore backed up by a common understanding (and guarantee) of the transparency and accountability practices to which both subscribe. Although significant steps have been taken to ensure South Africa's compliance with the objectives of the OGP, there are still some commitments that South Africa has not fully followed through. The controversy around the Protection of State Information Bill offers a case in point and has clouded perceptions of the country's full commitment to the spirit of the OGP's objectives (OGP 2012b). This potentially detracts from our ability to attract investment from those that seek guarantees for investment stability. A government that can be held to account would conduct its procurement processes transparently, thus eliminating the gap where undesirable practices, such as tenderpreneurship, could occur. As pointed out above, the newly introduced BBBEE legislation provides an example of attempts to fill this gap, but it must be asked whether this is indeed enough.

The promotion of more stringent checks and balances applies not only to tenderpreneurship, but also to financial management processes within the government. 'Nkandlagate', the alleged exorbitant expenditure of close to R250 million on the private home of the president, provides but one example in this regard. If we are to hold our government to account to ensure a transparent procurement process, it should be much easier to navigate through the smoke and mirrors created by different departments, apparently to sow confusion amongst critics of the Nkandla millions. Several observers have claimed that for all the opulence under construction, the price tag still suggests grossly overinflated prices.

Do incidents like these relate at all to the question of youth entrepreneurship? Without doubt, they do. The bad publicity serves to reinforce an impression that qualifications, training and financial risk do not matter as much as having the right connections. While such practices may offer short-term gains for the immediate beneficiaries, the country will pay the longer-term price for the erosion of its entrepreneurial talent and depth.

## What needs to be done?

What would a supportive structure for promoting youth in the economy look like? At present, the following bodies are mandated, in differing degrees, to promote successful outcomes for small business development: the National Youth Development Agency (responsible for the promotion and co-ordination of youth development); the Small Enterprise Development Agency (working in collaboration with the government to advance small enterprises); and the National Small Business Chamber (promoting the growth of small business, by creating a network of small business owners). While each works towards its specific mandate, they mostly do so in isolation from each other, which leads to duplication and often wastage. As such, there is a need for more collaborative efforts, where the strengths and networks can complement each other. This would work best through the targeting and prioritisation of specific sectors and services. Working partnerships must be developed with the government, activities must be co-ordinated, and adequate resources must be secured. Part of the current problem lies with the difficulty of monitoring and evaluating the individual and collective efforts of the different stakeholders; consequently, a minimal monitoring and evaluation capacity will have to be developed to assess how well these bodies are working, together with the government, in advancing the interests of entrepreneurs.

## Towards improved collaboration

Youth unemployment is always in danger of being over-politicised; therefore, we cannot rely solely on the government and opposition parties to frame how youth unemployment and the promotion of youth entrepreneurship will be tackled sustainably. It is therefore important that institutional pride is set aside in favour of collaboration between key stakeholders, such as the government, corporate enterprises, academia and civil society.

The government's *New Growth Path* (see SAGI 2012) document proposes a multi-faceted approach to reducing youth unemployment. It favours this kind of collaboration with all social stakeholders to resolve the unemployment question, and aims to increase levels of training, activity, employment and entrepreneurial opportunities for youth. The implementation of this strategy was identified as a priority for 2011 to 2012, and it would be useful for the government to assess how much progress has been made in this regard. Plans to review legislation, regulate budgetary requirements and monitor the implementation of the youth wage subsidy form part of

the strategy. Stated commitments to improving education, skills training and public employment services will also assist strategic implementation, to the extent that they actually take shape in practice. While increased collaboration between multiple sectors, as proposed, promises a better chance of success, much will depend on implementation, which is notoriously uneven within our bureaucracy.

## Conclusion

Support for further entrepreneurial activity hinges on a number of factors. This article has highlighted some of the most pressing challenges, which include inadequate education, the legislative environment and focused entrepreneurship training. In addition, it has reflected on the challenges posed by a constraining global economic climate. The role of the

government has also been highlighted, and it has underscored how critical it is to generate greater momentum towards supporting small business ventures. Ultimately, though, action on all of these will be dependent on the extent to which accountability is built into the system. Whether we create entrepreneurs, who through their ambition and skill create growth, employment and more sustainable livelihoods, or tenderpreneurs, who seek to sway government procurement with money rather than ability, will depend on the extent to which government procurement is subjected to proper transparency and accountability practices. The introduction and consistent implementation of these measures have the potential not only to stimulate growth outside of the traditional employment sectors, but also to ensure that we continue to promote the potential of South African youth to succeed even under challenging conditions.