

Investigation of the Youth Informal Entrepreneurship Landscape in South Africa

Simbarashe Murozvi

University of the Western Cape
South Africa
2760615@myuwc.ac.za

Charles Adams

University of the Western Cape
South Africa
cgadams@myuwc.ac.za

Derek Yu

<https://orcid.org/0000-0001-9813-7897>
University of the Western Cape
South Africa
dyu@uwc.ac.za

Abstract

Introduction: The South African economy is characterised by high and continuously rising youth unemployment levels and rates. While countervailing interventions have been attempted in the formal sector, support for youth employment and informal sector entrepreneurship has received limited attention from policymakers.

Purpose: This is a rare study that examined South African youth entrepreneurship by analysing all five available waves of the seriously under-utilised Survey of Employers and Self-Employed (SESE) data, focusing on youth entrepreneurial activities.

Methodology: Youth (15–34 years) and adult (at least 35 years old) informal entrepreneurs were distinguished, before deriving descriptive statistics on business activities, with a specific focus on site of operation, management, employment and net profit use in youth-owned enterprises.

Findings: Youth informal entrepreneurs were typically African own-account workers without matric (senior certificate), and operated in the wholesale and retail industry. They had decent access to electricity and piped water on the business site, but did not have e-mail or internet facilities. More than 80% did not keep any business records, while only 60% operated their businesses for the full 12 months. Nearly 90% had launched their informal businesses less than five years ago, primarily because they were unemployed. The majority needed assistance mostly in the areas of marketing, provision of an alternate site and better access to raw materials. Lastly, the majority of them spent the net profit to purchase household items instead of re-investing in the businesses.

UNISA 

South African Business Review
<https://unisapressjournals.co.za/index.php/SABR>
Volume 26 | 2022 | #11932 | 22 pages

<https://doi.org/10.25159/1998-8125/11932>
ISSN 1998-8125 (Online)
© The Author(s) 2023



Published by Unisa Press. This is an Open Access article distributed under the terms of the Creative Commons Attribution-ShareAlike 4.0 International License (<https://creativecommons.org/licenses/by-sa/4.0/>)

Originality/value: The empirical findings help the government to embark on new policy changes to better promote youth informal entrepreneurship growth.

Keywords: youth entrepreneurs; informal sector; Survey of Employers and Self-Employed (SESE)

Introduction

Youth unemployment persistently remains a severe problem in South Africa. Focusing on youth individuals aged 15–34 years, the number of unemployed increased from 3.2 to 4.3 million between 2011 and 2021, while the unemployment rate rose from 36.1% to a staggering 46.3% during the same period (authors' own calculations). Instead of working or actively seeking work, some youth individuals in modern townships seemingly spend their time engaging in non-work-related activities such as drinking alcohol, smoking, taking harmful drugs, loitering and crime (Dawson 2014).

Employment creation in South Africa is a serious challenge (particularly in the formal sector), as employment growth could not keep up with the rapidly increasing number of job seekers in the labour force, especially amongst the youth cohorts (Mahadea and Simson 2010). Structural changes in the economy, wage rigidities in the labour market as well as barriers of entry to both formal and informal sectors are the main causes of high youth unemployment (Banerjee et al. 2008; Heintz and Posel 2008; Kingdon and Knight 2005). Also, the apartheid era regulations on education and social cohesion may still impose negative effects on the previously disadvantaged population (Meiring, Kannemeyer, and Potgieter 2018).

The government has embarked on various mitigating measures, including youth-targeted policy interventions to improve the conditions of youth, such as the National Youth Policy, Employment Tax Incentive Bill, and Youth Employment Service (YES), amongst others (Dawson 2014). Nevertheless, a greater proportion of targeted youth is not aware of the available services and support, while the policy framework is criticised for being highly rigid, with less favourable measures for youth to operate efficiently and effectively (Dawson 2014). More so, the support offered is biased in terms of location and content, i.e., non-magisterial districts are highly marginalised, and training is mainly focused on start-up financing, management and operations, with less focus on policy and legislation (Dawson 2014).

Entrepreneurial activities contribute immensely to the growth of South Africa's economy. The promotion of youth entrepreneurship is one of the most advocated policies to address youth unemployment (Mlatsheni and Leibbrandt 2011). One key observation from the policy circles is the relatively small contribution the informal sector makes to the country's economic growth and job creation. Informal workers typically work in small-sized enterprises that are mostly not registered for income tax or VAT, and do not enjoy benefits such as paid leave and job permanence (Husmanns 2004; Yu 2012).

While many studies have examined the profile of informal sector workers using the October Household Survey (OHS), Labour Force Survey (LFS), and Quarterly Labour Force Survey (QLFS) data, the Survey of Employers and Self-Employed (SESE) collects more comprehensive information on informal entrepreneurial activities. Also, the existing empirical studies only conducted limited investigation on the nature and structure of informal sector activities of youth entrepreneurs, and whether significant differences exist between youth and adult entrepreneurs.

Hence, this study will fill these existing research gaps by using the under-explored SESE data to examine factors affecting the informal sector youth businesses' survival and sustainability. Youth aged 15–34 years at the time of the survey will be the priority. The empirical findings will provide insights for policymaking aimed at supporting and exploring the full potential of the informal sector.

Literature Review

Defining Informal Sector

The informal sector or economy refers to activities that are performed in and outside of informal enterprises (Husmanns 2004). These activities are neither monitored nor taxed by government agencies. The informal sector definition (as well as its appropriate measurement) remains a controversial issue (for more details, refer to Essop and Yu 2008a). However, the 17th International Conference of Labour Statistics defined informal employment based on the following: 1) Own-account workers and employers working in their informal sector enterprises; 2) Assisting family members; 3) Employees with informal jobs; 4) Members of informal producers' co-operatives; and 5) Own-account workers who work exclusively for their households (Husmanns 2004).

Core Theories on Entrepreneurship

There are four important elements in the Timmons model (see Ghee 2018): entrepreneur, opportunity, team, and resources. A good entrepreneur determines if there exists serious potential for an opportunity before deciding on the time and effort required to invest. To evaluate the feasibility of the opportunity, the person nurtures his concept or product offering based on a thorough understanding of consumer behaviour and trends from market demand, structure and analysis. Thereafter, the entrepreneur creates a team and sources the resources required for the opportunity to materialise. Team members are selected on merit based on qualities such as experience, motivation and risk tolerance (Spinelli and Adams 2016). When sourcing for resources, funds are attracted by high-potential opportunities backed up by a high-quality team (Ghee 2018).

The Moores entrepreneurship model (see Wen and Chen 2007) is based on four cycles: innovation, triggering event, implementation, and growth. In the innovation stage, the entrepreneur generates ideas and performs all feasible studies in terms of the market, product and process needed for the development of the product. It is followed by the second phase (triggering event) when the entrepreneur develops business plans by

transforming ideas into reality. During the third stage, the entrepreneur implements and mentors the project. Lastly, the entrepreneur executes strategies to grow the business (Bygrave 2010; Wen and Chen 2007).

The South African Policy Framework for Entrepreneurs

According to the National Youth Commission (NYC 1997), policies of the apartheid era provided no clear provisions for youth development through its oppressive and discriminatory system of coercion. Thus, it left a legacy of inequalities amongst the youth with regard to health, education, social and employment outcomes, and hindered their effective participation in socio-economic activities. Since the advent of democracy, South Africa has implemented several policies and legal instruments through its transformation process, which is aimed at youth development. The Constitution of South Africa 1996 includes provisions for fundamental rights and a responsibility that applies to everyone, including the youth.

As a result of the broadness of the Constitution, the South African government embarked on developing a youth targeting Act, known as the National Youth Commission Act of 1996 (Republic of South Africa 1996). This Act made provision for the establishment (in June 1996) of the NYC (1997), which was implemented as a statutory board tasked with the development of a framework for youth development. The NYC developed the National Youth Policy (NYP 2000). Although never adopted by parliament, the NYP (2002) provides a crucial framework for the development of the national youth development policy framework implemented in 2002–2007 (The Presidency 2009) and the 2009–2014 and 2015–2020 NYP.

In 2001, the Umsobovu Youth Fund (UYF) was established. The role of this fund was to create an environment for employment creation as well as skills development and transfer (Ahaibwe and Kasirye 2015). The UYF offers a youth entrepreneurship programme that comprises three main sections: enterprise funding, micro-finance, and business development services (Odeku and Rudolf 2019). The UYF agency operates in consultation with the private sector, government and key stakeholders in addressing youth social ills. The collaboration between the UYF and NYC led to the development of the National Youth Development Agency (NYDA) in line with the National Youth Development Act No. 54 of 2008 (The Presidency 2009).

The NYDA is responsible for strategically streamlining all youth development activities and programmes in the country. More so, they play a crucial role in reducing the gaps and barriers outlined by the UYF and NYC, while embarking on intensive youth development through expansion and growth in services and skills provision (Mtwesi 2014). The NYDA has given birth to the Skills Development Unit (Odeku and Rudolf 2019) and it operates together with the government, private sector and local communities. The NYDA is part of the Youth Employment Accord, which develops the education and skills of the youth and assists them in launching their enterprises.

The National Small Business Act No. 29 of 2004 made provision for the establishment of the Small Enterprise Development Agency (SEDA), which was mandated to establish a framework for small business development and the support of potential entrepreneurs (Odeku and Rudolf 2019). The Department of Trade and Industry implemented strategies to foster youth entrepreneurship, such as the Integrated Strategy on the Promotion of Entrepreneurship and Small Enterprises (2005), the National Youth Economic Empowerment Strategy and Implementation Framework (2009–2019), and Youth Enterprise Development Strategy (2013–2023). The Employment Tax Incentive Bill (ETIB) was implemented in 2014 to encourage employers to employ young work-seekers by sharing the cost of youth job creation with the private sector.

Local youth development programmes have been streamlined and influenced by the successful experience of the international community. The World Programme of Action on Youth (2000), Global Enterprise Monitor, and African Youth Charter are some of the programmes that help shape policy discussions in South Africa. However, these support programmes lack local policy experience and proper adaptation in their implementation (Rogerson 2004). Hence, the informal sector encounters enormous structural problems in its operations, because sectoral activities are not properly aligned and integrated into the current production technologies applied by established enterprises.

Despite the development and policy frameworks that have been implemented to date to address economic redistribution, job creation and international competitiveness, Rogerson (2004) noted the strong neglect of the survivalists, women as well as rural informal entrepreneurs from these support programmes. A follow-up study by Rogerson (2016) found that the government support programmes for small, micro and medium-sized enterprises and the informal economy have primarily favoured urban, exporting, and formal small- and medium-sized enterprises. Rogerson (2016) also suggested the presence of misalignment and improper intergovernmental coordination of informal sector support programmes between the three tiers of government.

Review of Past Empirical Studies on Youth Informal Entrepreneurial Activities

For studies using primary data, Dawson (2019) analysed the perceptions, economic livelihood and options available for the youth based on personal interviews at the Zandspruit settlement in Johannesburg. The author challenged the notion of unemployed youth being portrayed as idle and unproductive, based on the belief that real economic and socially credible employment only happened in the formal sector. Dawson (2019) disagreed that all youth unemployment was attributed to the non-availability of formal and informal employment, but contended that the uneducated and unskilled youth in townships refused jobs characterised by low remuneration, physical exploitation, as well as lack of job security and career growth prospects. They were rather engaged in other (sometimes illegal) income-generating activities such as car washing, hustling and zig-zagging. Dawson (2019) also noted that the expectations and

experience of youth were not well-matched as wage employment failed to cover their basic sustenance.

Neves et al. (2011) examined factors that permitted and discouraged informal self-employment based on 30 case studies. They found that the legacy of apartheid, locality, gender, and age strongly influenced people's choice to enter self-employment. The lack of self-employment sustainability was attributed to low and inconsistent streams of income, financial exclusion from credit facilities, inadequate education and skills, fear of crime and violence, and lack of specialised training. The majority of the government's industrial, trade and monetary policies supported new production techniques, which favoured capital-intensive production with fewer labour inputs. These production techniques were expensive for informal entrepreneurs to participate in the value chain, and hence hindered the growth of informal businesses. Thus, the authors advocated for government policies to promote and enlarge the capacity and effort of the informal self-employed through enterprise support that stimulates growth of the scale of operation and existing infrastructure.

Maduku and Kaseeram (2021) investigated success factors of SMMEs based on a primary survey, which interviewed 390 informal enterprises in manufacturing, transport, wholesale and retail as well as the services sectors in Gauteng. The authors found that these factors increased the odds of upgrading to a higher success category, such as education, financial literacy, income, advertising, marketing, experience, employment and having a fixed operations site.

Rogerson (2001) examined support strategies for informal small enterprises. He found these factors positively influenced enterprise growth: availability of stable markets, education, creation and special targeting of clusters, promotion of networking and informal credit schemes, access to credit, subcontracting and mentoring contracts with established role models, access to fixed infrastructure, and employee growth. He also warned against excessive financial support to the poor as this initiative could worsen their outcomes, ideology and conditions.

Moving on to studies involving secondary data, four groups are distinguished. The first group, such as Devey, Skinner, and Valodia (2003), Essop and Yu (2008a), and Wills (2009), estimated informal sector employment levels and trends as well as derived the profile of informal workers. These studies found that informal workers were lowly educated Africans involved in low-pay, unskilled occupations in the wholesale and retail industry. They did not enjoy job permanence and other benefits such as paid leave, maternity leave, pension fund, or Unemployment Insurance Fund (UIF) contributions by employers.

The second group of studies, such as Devey, Skinner, and Valodia (2006), Heintz and Posel (2008), Essop and Yu (2008b), and Yu (2012), proposed alternative approaches to distinguish informal workers. These studies questioned Statistics South Africa's

enterprise-based methodology (adopted until 2007), which identified someone as an informal sector worker if he self-perceived the enterprise where he worked was not registered. It was argued that employees might not know the enterprise registration status. Various employment relationship indicators should be considered to distinguish formal from informal employees, such as paid leave entitlement, job permanence, and firm size. Therefore, these studies suggested alternative methods to define informal workers by considering the enterprise registration status in the case of employers, but employment relationship characteristics when it comes to employees, before re-estimating the informal sector employment size.

The third group of studies, most notably Valodia and Devey (2010), Essers (2014), and Nackerdien and Yu (2019), investigated informal-formal labour market transitions with the aid of a balanced panel component of the LFS, QLFS or National Income Dynamics Study (NIDS) data. These studies found that of the employed who initially worked in the formal sector, a high proportion continued to work in this sector in the later waves. Only a small proportion of those who initially worked in the informal sector successfully transitioned to the formal sector, and they were more likely to be highly educated, married White males (Essers 2014, 13–14; Nackerdien and Yu 2019, 340–341). Nonetheless, there was no significant statistical relationship between age and this informal-to-formal transition.

The last group of studies analysed the SESE data to investigate informal activities from the entrepreneurs' viewpoint. To the authors' knowledge, only two studies took place; Fourie and Kerr (2017) and Fourie (2018) applied the first four waves of the SESE data to examine the nature and dynamics of the informal sector. Both studies excluded enterprises that were not registered for VAT but were registered for income tax from the analysis.

Fourie and Kerr (2017) examined factors associated with informal enterprise success as well as the structural nature of the informal sector from an enterprise perspective. They found that informal sector firms created employment for 15–21% of employees in 2001–2013. The majority were paid employees. Their findings further revealed that education attainment, gender, firm age, market location, operations infrastructure and record-keeping of business accounts were key contributors to employment creation and success of the enterprises. The 2018 Fourie study found that the informal economy represented 15% of total employment. There was also a noticeable increase in the propensity to hire workers over the years. The author cited numerous factors (e.g., industry, location, firm age and educational attainment of business owners) which correlated with informal entrepreneurial success.

Methods, Data and Limitations

The study that directed this paper used all five available waves (see below) of the under-explored SESE data to present a detailed analysis of youth informal entrepreneurship. Two groups of informal entrepreneurs are distinguished, namely youth (15–34 years)

and adults (at least 35 years). The 15–34 years instead of 15–24 or 15–29 years age bracket is adopted to distinguish youth, as the 15–34 years age range is used in the South African official definition of a youth (DHET 2022, 4). For both groups, descriptive statistics are derived, with more attention being paid to youth informal enterprises. These statistics reveal the characteristics of owners and their informal businesses, with a specific focus on the site of operation, business management, employment, and net profit use. Such information was only captured in the SESE, but not in the other local labour surveys.

SESE is a national enterprise survey conducted every four years since 2001 by Statistics South Africa. Five waves (2001, 2005, 2009, 2013 and 2017) have been conducted, with the full sample size in each wave being 5 837, 3372, 1 944, 2 031 and 1 658, respectively. To be eligible to take part in the survey, the enterprise must not be registered for VAT, regardless of whether it was registered for income tax or not. SESE differs from QLFS in that the latter survey examines informality from employees' perspective by specifically looking at employment conditions. Only self-employed and employers could take part in SESE to report information on informal activities from an entrepreneur's perspective. The SESE asked comprehensive questions that were not asked in the QLFS, such as business operations, management and finance, business turnover, revenue, expenditure and profit.

The SESE is also a follow-up survey from the LFS and QLFS, taking place in the same year (i.e., informal entrepreneurs who participated in the 2017 QLFS were also interviewed in the 2017 SESE). Thus, information that was only asked in LFS/QLFS can be merged with the SESE data by using the unique household number and person number variables. One limitation of the study is that the 2005 LFS education variable could not be merged with the 2005 SESE data due to differences in the derivation of a unique household number between the two datasets.

Results and Interpretation

Table 1 shows that, with the exception of 2001, the male share was more dominant amongst the youth informal entrepreneurs, but it was the case in the adult group only in the last two waves. Moreover, Africans represented a large share of informal entrepreneurs. The majority of informal enterprise owners had incomplete secondary school qualifications. This finding aligns with the Essop and Yu (2008a) findings using LFS 2006 data. Over the years, the proportion of youth with matric fluctuated between 22% and 25% whereas that of adults ranged between 7% and 18%. The share of youth with at least matric increased from the third wave onwards. The growth of educated youth joining the informal entrepreneurship landscape suggests the possible slow rate of formal sector job creation. Thus, some unemployed youth in the formal sector eventually launched their businesses in the informal sector.

Table 1: Demographic characteristics (%)

	2001		2005		2009		2013		2017	
	Youth	Adult	Youth	Adult	Youth	Adult	Youth	Adult	Youth	Adult
Gender										
Male	43.93	37.72	51.21	42.45	55.83	47.29	65.24	50.87	61.74	57.60
Female	56.07	62.28	48.79	57.55	44.17	52.71	34.76	49.13	38.26	42.50
Population group										
African	92.23	88.45	92.25	90.93	93.41	87.99	92.31	86.90	92.89	89.73
Coloured	2.85	4.16	3.08	3.40	3.43	4.39	1.54	3.62	3.29	3.48
Indian	1.56	2.59	0.56	1.35	1.04	1.28	1.91	2.74	1.85	1.70
White	3.36	4.80	4.11	4.32	2.12	6.35	4.24	6.74	1.98	5.08
Educational attainment										
Without Matric	68.63	87.39	N/A		70.17	76.11	67.93	72.80	62.87	72.91
Matric	24.70	7.73			22.46	14.81	22.73	17.20	25.38	18.14
Matric + Cert/Dip	4.87	2.51			4.61	4.20	6.89	5.24	4.91	3.51
Degree	1.33	1.50			1.03	3.28	1.90	3.49	6.56	4.75
Other/Unspecified	0.47	0.87			1.72	1.59	0.57	1.28	0.28	0.69

Source: Authors' calculations using the 2001–2017 SESE data

Table 2 shows that the largest proportions of youth entrepreneurs operated within the wholesale and retail trade industry (51.9% in 2017), followed by the community, social and personal (CSP) services (19.0%) and construction industry (12.9%). The youth businesses in manufacturing showed a 4-percentage-point increase from 2001 to 2005, before a sharp and steady decline took place until 2017.

The majority of informal enterprises were self-employed enterprises owned by single owners. However, the proportion of youth informal entrepreneurs who created employment increased steadily from 12% to 19% over the 16 years. Moreover, growth of the share of partnerships or joint ownership increased initially, followed by a sharp decline in the last two waves.

Table 2: Location of operation characteristics (%)

	2001		2005		2009		2013		2017	
	Youth	Adult	Youth	Adult	Youth	Adult	Youth	Adult	Youth	Adult
Industry										
Manufacturing	7.11	10.23	11.47	12.61	5.91	11.64	5.16	8.38	4.43	8.28
Construction	3.28	3.04	12.68	7.61	10.40	9.22	11.06	10.01	12.91	11.14
Wholesale & retail	74.85	66.55	50.60	52.47	60.75	55.39	56.23	53.32	51.87	51.98
Finance	4.94	8.46	6.30	3.52	3.44	2.88	7.02	8.23	6.61	8.14
CSP services	6.77	5.48	10.18	10.68	12.87	9.57	16.70	11.07	18.98	9.83
Other	2.75	6.20	8.77	13.12	6.64	11.29	3.84	9.00	5.18	10.62
Business type										
Own-account worker	88.15	83.46	86.34	86.86	84.16	80.00	76.81	75.16	80.92	80.93
Employer	11.85	16.54	13.66	13.14	15.84	20.00	23.19	24.84	19.08	19.37
Ownership										
Single owner	95.54	96.28	92.71	95.42	69.32	69.73	87.27	89.65	92.24	92.86
Not single owner	4.46	3.72	7.21	4.58	30.68	30.27	12.73	10.35	7.76	7.14
Location										
Own space within owner's dwelling	20.26	29.02	15.08	22.57	17.94	22.88	20.01	27.91	15.35	23.68
Not own space within owner's dwelling	36.56	32.56	27.38	30.79	26.73	27.40	21.92	21.61	16.18	17.34
Structure attached to owner's dwelling	4.16	6.52	8.25	8.30	3.57	6.35	4.57	6.20	3.92	5.91
Non-residential building	3.34	2.69	6.88	3.06	2.35	4.90	6.63	4.15	3.76	5.06
Footpath / Street / Open space	9.62	7.50	12.53	9.13	13.81	9.62	9.28	6.79	12.31	11.55
No fixed location	18.18	13.21	17.04	16.21	18.37	13.21	19.93	17.47	27.74	19.55
Customers' homes/offices	1.76	2.13	2.53	2.86	6.52	4.52	6.88	4.26	7.40	5.28
Other	6.12	6.34	10.3	7.08	10.71	11.12	10.78	11.61	13.06	10.86

Source: Authors' calculations using the 2001–2017 SESE data

In terms of operating space, three categories accounted for the largest shares: own space within owner's dwelling (27.9% in 2017), not own space within owner's dwelling (21.6%), and no fixed location (17.5%). Also, while not shown in the table, most youth and adult informal entrepreneurs (at least a 60% share in all waves) operated mostly from their permanent spots or location, which they did not pay for.

Figure 1 shows that most of these entrepreneurs had access to electricity and piped water, but poorer access to flush toilets on site. Nonetheless, the share of youth enterprises with access to electricity, water and flush toilets on site increased over time. This shows the government's commitment to improving services and infrastructure within the informal sector. Advancement in technology has made communication through cell phones more convenient, and its use increased sharply from 18% to 85%. While not shown in the figure, note that only 1% of youth entrepreneurs used the Internet or electronic mail for communication. Also, in the last two waves, there were still 11% of youth entrepreneurs with no mode of communication.

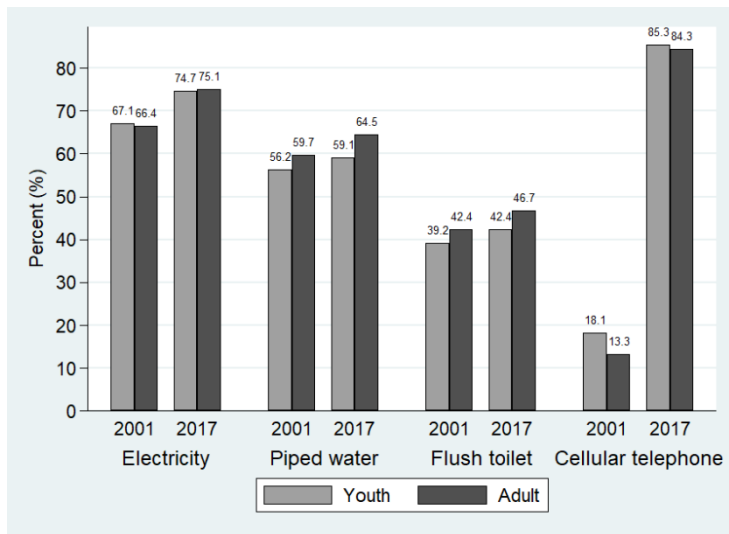


Figure 1: Availability of facilities on site

Source: Authors' calculations using the 2001 and 2017 SESE data

Table 3 illustrates the business operation characteristics. Over the years, about 80% of youth informal entrepreneurs did not keep any formal accounts of their businesses. Moreover, about 60% of youth informal entrepreneurs operated their businesses for all 12 months of the year (this proportion was always at least 10 percentage points higher amongst the adult cohort).

	2001		2005		2009		2013		2017	
	Youth	Adult	Youth	Adult	Youth	Adult	Youth	Adult	Youth	Adult
Records kept for business										
Simple informal records	12.04	11.61	17.08	13.37	13.04	11.49	14.70	10.74	9.09	10.37
Some accounts kept	4.10	4.10	6.48	3.59	5.97	5.15	4.34	6.34	4.07	6.15
Full annual accounts	1.77	3.05	2.70	4.26	2.42	4.65	5.59	7.36	6.24	5.44
No accounts kept	82.03	81.25	73.75	78.77	78.57	78.71	75.37	75.56	80.61	78.04
Number of months the business operated										
0–2 months	7.49	4.17	4.89	3.28	9.36	3.55	10.35	4.94	5.25	3.87
3–5 months	16.06	9.35	10.95	5.94	11.47	6.46	12.16	6.42	7.61	5.92
6–8 months	9.51	9.10	13.68	6.72	11.69	10.51	12.54	10.34	16.23	10.69
9–11 months	6.78	6.67	5.39	5.54	7.55	5.57	7.90	7.18	13.68	9.86
12 months	59.91	70.32	65.08	78.36	59.93	73.91	57.05	71.13	57.24	69.66
Unspecified	0.24	0.39	0.00	0.19	0.00	0.00	0.00	0.00	0.00	0.00
Main reason why active for less than 12 months										
Seasonal factors	5.54	11.47	3.06	8.04	5.29	9.86	4.40	9.51	9.31	9.81
No customers	7.31	16.05	10.16	13.88	18.08	25.52	18.15	28.46	26.95	27.34
Lack of funds to buy supplies	25.02	18.99	20.46	20.16	7.41	10.23	12.31	9.49	6.36	8.20
Business created during last 12 months	36.71	27.08	47.31	37.86	47.68	32.92	42.66	28.88	38.06	36.36
Other	21.07	21.22	19.01	20.06	20.63	21.27	22.48	23.66	19.31	18.28
Unspecified	4.36	5.19	0.00	0.00	0.90	0.20	0.00	0.00	0.00	0.00
When the business started operations										
Less than 1 year ago	33.44	20.06	26.81	14.03	30.61	16.59	30.12	16.06	23.15	15.79
1–3 years ago	38.07	30.31	38.07	31.82	27.16	23.95	25.89	22.79	30.91	19.58
3–5 years ago	16.17	18.66	19.57	20.58	18.05	15.82	19.70	16.84	20.48	14.57
5–10 years ago	8.74	15.84	11.32	16.75	16.73	18.40	16.79	18.31	16.37	22.43
10+ years ago	3.25	14.60	4.22	16.65	7.45	25.12	7.46	25.23	8.93	27.28
Cannot remember	0.15	0.24	0.02	0.16	0.00	0.12	0.04	0.77	0.15	0.35
Main reason for starting the business										
Family tradition	3.13	4.86	2.06	3.81	4.13	5.02	3.94	3.98	3.94	4.89
Unemployed	64.04	54.86	69.67	66.19	73.28	64.98	69.93	67.46	74.66	69.26
Retrenched	2.51	4.64	1.49	5.23	1.32	4.98	1.78	4.52	1.31	5.37
Inadequate income	11.95	16.14	3.85	5.02	2.69	5.51	3.31	3.81	1.17	2.12
I like the activity	4.62	5.24	9.91	8.61	8.30	3.92	4.02	4.02	4.09	5.33

Table 3: Enterprise management characteristics (%)										
	2001		2005		2009		2013		2017	
	Youth	Adult	Youth	Adult	Youth	Adult	Youth	Adult	Youth	Adult
I have the skills	5.19	5.23	5.49	3.86	6.98	8.20	8.56	6.41	10.28	7.12
Other	8.35	8.86	7.53	7.28	3.30	7.38	8.45	9.81	4.57	5.92
Needing money to start the business										
Do not need money at all	33.26	41.78	22.39	26.31	32.70	36.46	37.31	43.04	37.72	42.83
Need own money + did not borrow	46.17	45.59	49.83	55.19	44.30	47.30	40.68	42.83	41.24	42.10
Need own money + did borrow	1.02	0.77	0.42	0.57	2.94	1.66	4.47	1.86	2.83	2.25
Do not need own money + did not borrow	17.84	9.73	25.24	16.35	5.40	2.17	5.89	4.03	4.96	4.35
Do not need own money + did borrow	1.70	2.13	2.12	1.58	14.65	12.41	11.65	8.24	13.25	8.47
Assistance needed to grow the business (respondents can choose more than one option)										
Provision of an alternative site	21.93	17.86	34.54	26.62	35.64	28.76	35.23	25.81	50.80	35.56
Better access to loans	19.77	17.02	37.16	32.00	31.80	28.00	30.77	29.13	30.68	33.19
Marketing	27.50	25.05	41.98	40.11	41.04	37.66	47.60	36.33	52.00	46.76
Better access to supplies	22.43	18.70	37.79	36.10	33.99	32.31	29.73	27.08	38.84	32.67
Less strict regulations	10.30	8.62	18.49	13.70	24.99	22.22	18.95	21.71	23.72	23.94
Access to technology	14.87	12.08	19.52	13.21	22.98	18.67	21.81	17.12	26.89	22.72
Forming contacts with others in the same business	16.33	14.93	23.98	23.71	30.25	23.75	29.11	26.24	36.53	27.73

Source: Authors' calculations using the 2001–2017 SESE data

While not shown in the table, the average operating months stagnated at 9.5 months and 10.5 months for youth and adult entrepreneurs, respectively. The top reasons for the business operating for fewer than 12 months were as follows: it was only launched during the last 12 months (2001: 36.7%; 2017: 28.9%), there were no customers (it is concerning this share increased by four times to 28.5% in 2017), and seasonal factors (rising from 5.5% to 9.3%).

The majority of youth enterprises had been in business for fewer than five years. However, the proportion of those businesses operating for 1–3 years was the highest (30% in 2017), followed by those operating for less than one year (23%) and 3–5 years (20%). Also, the share of youth businesses in operation for at least 10 years tripled from 3% to 9% across the five waves.

Approximately two-thirds of youth cited unemployment as the top driver of informal entrepreneurship. This is followed by the “I have the skills for this business” reason, whose share doubled from 5.2% to 10.3% during the 16-year period. In terms of business financing, most youth entrepreneurs in 2017 (41.2%) indicated they used their own money to start their ventures without needing to borrow from others, whereas 37.7% reported they did not need any funds to launch the informal businesses. Nonetheless, the proportion of youth who managed to access loans over the years increased (1.7% in 2001 and 13.3% in 2017).

The majority of youth informal entrepreneurs reflected that they required assistance to grow their businesses mainly in areas of marketing, access to raw materials, provision of an operation site, better access to raw materials, and forming contacts with others in similar businesses (these respective proportions exceeded one-third in 2017). These findings suggest that the strict government regulations might have negatively affected informal entrepreneurs somewhat, and there is a need for government to address the informal business regulatory framework with entrepreneurs’ growth prospects in mind.

Figures 2 and 3 summarise the characteristics of employed labour. About 70% of youth informal entrepreneurs hired only one to two workers in the past month (see figure 2), and the mean number of workers increased from 1.7 to 2.8 over the years. The share of youth indicating that they hired one to two paid workers “last week” increased from 47.5% to 70.5% (see figure 3), while the mean number increased slightly from 1.5 to 1.7, in 2001–2017.

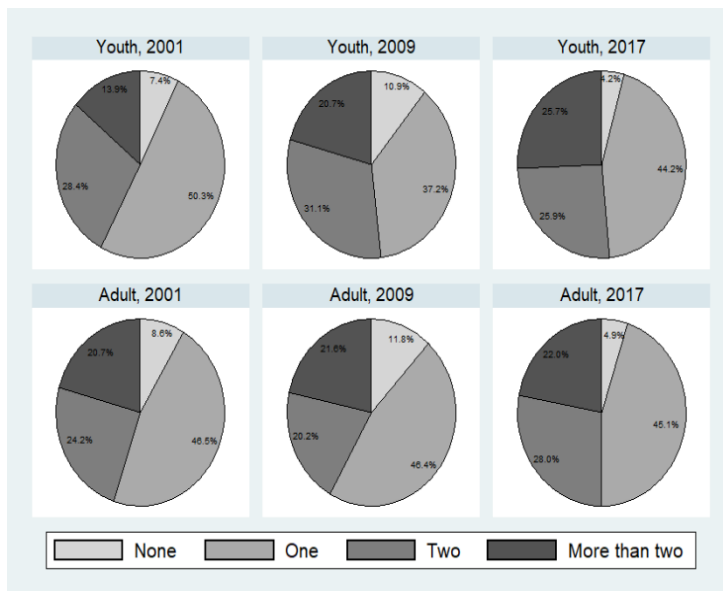


Figure 2: Total number of workers same time last month

Source: Authors’ calculations using the 2001, 2009 and 2017 SESE data

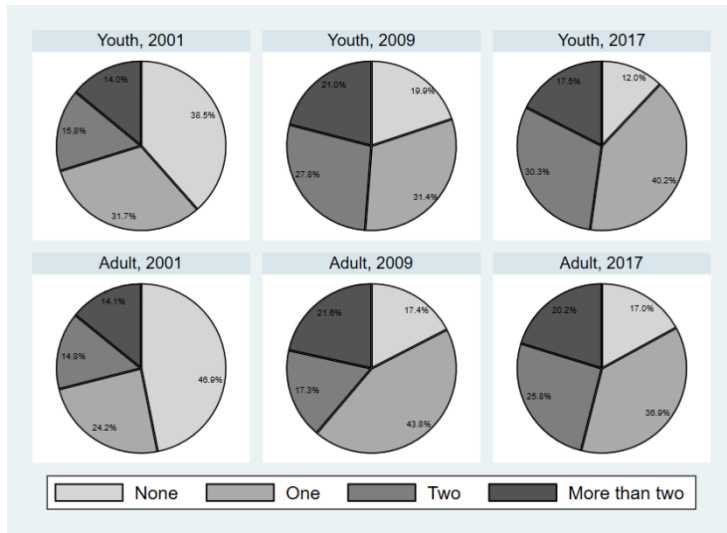


Figure 3: Total number of paid workers same time “last week”

Source: Authors’ calculations using the 2001, 2009 and 2017 SESE data

Table 4 shows the probit regressions which examined the impact of various personal- and business-level characteristics on the probability of the informal businesses being active for all 12 months, to complement the earlier table 3 results. Firstly, the youth cohort dummy had a significant and negative marginal effect in all five waves. That is, youth individuals were significantly less likely to operate their informal businesses in all 12 months compared to their adult counterparts, after controlling for differences in other characteristics. Females were also less likely to operate their businesses in all 12 months, but the average marginal effects were statistically significant in three waves. The results on the race, education and province dummy variables were somewhat mixed, as the sign and statistical significance changed over the years.

Table 4: Probit regressions on the likelihood of informal businesses active for all 12 months

Independent variable	Average marginal effects				
	2001	2005	2009	2013	2017
Age cohort: Youth	-0.070***	-0.065***	-0.067***	-0.093***	-0.096***
Gender: Female	-0.044***	-0.005	-0.003	-0.047**	-0.091***
Race: Coloured	-0.044	-0.131***	-0.085	0.082	0.005
Race: Indian	-0.020	0.011	0.027	0.118	0.043
Race: White	-0.067*	-0.034	-0.005	0.123**	-0.075
Industry: Manufacturing	0.081**	-0.025	0.062	-0.019	0.181***
Industry: Construction	-0.051	0.023	-0.077	-0.082	-0.002
Industry: Wholesale	0.030	-0.080**	0.070	0.006	0.160***
Industry: Transport	0.138***	-0.002	0.052	0.009	0.157***
Industry: Financial	0.182***	0.053	0.035	0.039	0.168***
Industry: CSP services	0.161***	0.042	0.114*	0.093	0.159***
Location: Residential	0.003	0.005	0.035	0.071***	0.007
Location: Non-residential	0.001	0.087**	0.118**	0.156***	0.106*
Location: Stalls	0.047**	0.091***	0.074**	0.090***	0.071**
Business records: Some	0.022	0.043	0.009	0.065	-0.096
Business records: None	-0.046**	-0.016	-0.078***	-0.023	-0.153***
Observations	5 184	3 004	1 709	1 792	1 425
LR Chi-square	249.26	135.59	125.05	107.38	137.83
Prob. > Chi-square	0.0000	0.0000	0.0000	0.0000	0.0000
Pseudo R square	0.0420	0.0476	0.0694	0.0538	0.0885
Observed probability	0.7409	0.8182	0.7800	0.7545	0.7642
Predicted probability (at \bar{X})	0.7518	0.8292	0.7973	0.7681	0.7866

Source: Authors' calculations using the 2001–2017 SESE data

Note: Education and province explanatory variables were also included in the regressions, but the results were not shown in the table.

*** Significant at 1%; ** Significant at 5%; * Significant at 10%

Reference groups: **Age cohort**, adults; **Gender**, female; **Race**, African; **Industry**, Agriculture; **Province**, Western Cape; **Business operations location**, No fixed or mobile location; **Business records**, Simple records

Looking at the impact of business-level characteristics, informal businesses in manufacturing, wholesale and retail, financial services as well as CSP services industry categories, in general, enjoyed a greater likelihood of 12-month business operations (reference category was agriculture), and the average marginal effects were statistically significant in numerous waves.

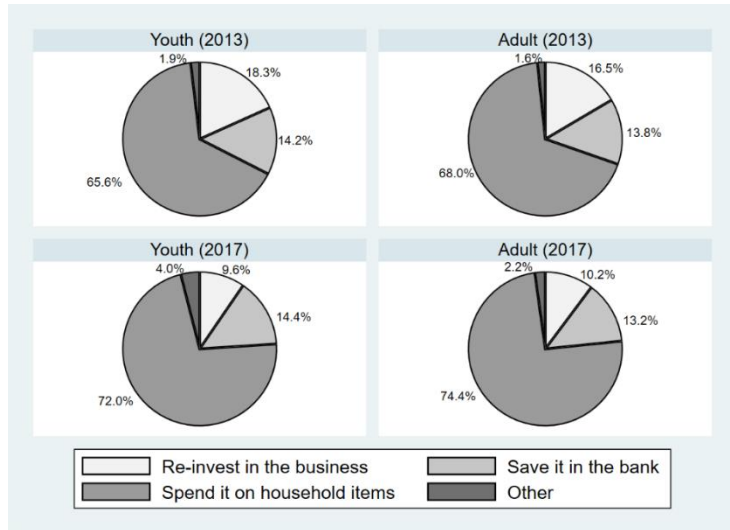


Figure 4: Use of net profit

Source: Authors' calculations using the 2013 and 2017 SESE data

Moreover, informal businesses with more stable locations (compared with the “no fixed or mobile location” reference category) enjoyed a greater probability of operating the businesses in all 12 months, with average marginal effects being statistically significant in almost all waves. Businesses that did not keep any records suffered a smaller likelihood of full 12-month operations in all five waves, and the result was significant in three waves.

Lastly, it is concerning that youth entrepreneurs spent a greater proportion of their net profit on household items over the fourth (66%) and fifth (72%) waves, while approximately 14% was saved in the bank over each of the two waves. The share of youth entrepreneurs who reinvested their profits back into the business even dropped from 18.3% to 9.6% (see figure 4).

Conclusions and Recommendations

This is a rare, comprehensive study in South Africa that analysed all five waves of the SESE data by distinguishing between youth and adult informal entrepreneurs. Youth informal entrepreneurs struggled more to sustain their businesses. At the time of wave five (2017), youth entrepreneurs still struggled severely in areas of fixed and permanent

operating locations, basic infrastructure with adequate amenities services, financial management and planning, network creation and mentorship, and marketing and advertising of their products.

Given the important contribution the informal sector provides indirectly to South Africa's economic development, the government should embark on policy changes to promote informal sector entrepreneurship growth. Businesses were negatively affected by unexpected economic shocks such as the global financial crisis and the Covid-19 pandemic. These shocks disrupt the informal businesses' cash flows, operations and supply chains, thereby causing them to suffer lower net profit and having to retrench staff. Thus, the government should implement flexible policies that allow informal enterprises to adapt with ease, such as holidays or incentives, the extension of credit and provision of advanced technology platforms (SBP 2020).

Skinner (2006) identified the lack of funding for informal sector firms as one of the major causes of closure in newly established informal ventures. However, this study found that access to funding was the third most wanted support by youth enterprises after marketing and access to a permanent operating location. This shows that informal entrepreneurs are more focused on growing their business operations as opposed to financial support. It does not mean they do not need financial support; however, they might have realised that mismanaged debts are detrimental to business growth, or they do not meet the compliance requirement for funding. Therefore, the government should adapt its obligatory compliance requirement to the needs of the specific informal sector circumstances. An umbrella regulation might be favourable to large established informal firms, but not to small or newly formed informal ventures.

The International Labour Organisation viewed the informal sector as a short-term and unwanted outcome of the formal sector's failure to create sustainable employment. This view and international policies had informed policy development in South Africa and led to the exclusion of the informal sector in policy discussion. However, evidence from this study suggests that this sector plays a crucial role in economic development. Therefore, the government needs to accord the informal sector ventures the status of a firm for both self-employed and employing enterprises. This will allow the development of enterprise-based policies.

Apart from financial support, informal sector firms require a diversity of non-financial support. The location of operation plays a key role in providing an added advantage for the sustainability of informal firms. Therefore, it is crucial for the government to strengthen good governance practices and develop infrastructure for informal ventures. Mahadea and Simson (2010) suggest that the development of informal infrastructure should be well positioned in business zones with adequate basic services and storage facilities. Furthermore, adequate security should be provided to limit crime losses.

According to Essop and Yu (2008a), the development of skill sets is crucial for informal entrepreneurs. The majority of informal entrepreneurs are uneducated, lack the required training relative to their respective fields of operations, and do not keep proper documentation of their business operations. This study found that these characteristics affect the informal entrepreneur negatively. Hence, the government needs to ensure that young informal entrepreneurs receive adequate training tailored to their special needs. Skills development should be differentiated based on the informal sector firm's size, development stage and the current environment of the venture. Moreover, adult education programmes should be created, specifically targeting informal sector firms and different aspects of the business, such as portfolio diversification, cashflow management, bookkeeping, marketing and advertising.

Technological advancement during the Covid-19 pandemic allowed many informal sector firms to sustain themselves. Most importantly, the creation of online platforms widened the customer base for many young entrepreneurs as they were able to market and advertise their products to a broader customer base. Therefore, the government must promote awareness of digital platforms for e-commerce as these open up new sales channels and markets for informal entrepreneurs. Overall, the government needs to restructure its support offering and tailor it better towards the needs of informal sector entrepreneurs.

References

- Ahaibwe, Gemma, and Ibrahim Kasirye. 2015. "Creating Youth Employment through Entrepreneurship Financing: The Uganda Youth Venture Capital Fund." Economic Policy Research Centre (EPRC) research series No. 122. Kampala: Makerere University.
- Banerjee, Abhijit, Sebastian Galiani, Jim Levinsohn, Zoë McLaren and Ingrid Woolard. 2008. "Why Has Unemployment Risen in the New South Africa?" *The Economics of Transition* 16 (4): 715–740. <https://doi.org/10.1111/j.1468-0351.2008.00340.x>.
- Bygrave, William. 2010. "Chapter 1: The Entrepreneurial Process." In *The Portable MBA in Entrepreneurship*, edited by William Bygrave and Andrew Zacharakis, 1–26. New Jersey: John Wiley & Sons. <https://doi.org/10.14738/assrj.510.5541>.
- Dawson, Hannah. 2014. "Youth politics: Waiting and Envy in a South African Informal Sector Settlement." *Journal of Southern African Studies* 40 (4): 861–882. <https://doi.org/10.1080/03057070.2014.932981>.
- Dawson, Hannah. 2019. "Declarations of Independence: Youth, Work and Distribution in Urban South Africa." Unpublished paper presented at the Social Dynamics Workshop. https://coms.events/ASAUk2018/data/abstracts/en/abstract_0297.html.
- Department: Higher Education and Training (DHET). 2022. "Fact Sheet on 'NEETs' (Persons who are not in employment, education or training)." Pretoria: Department: Higher Education and Training.

- Devey, Richard, Caroline Skinner, and Imraan Valodia. 2003. "Informal Economy Employment Data in South Africa: A Critical Analysis." Proceedings of the TIPS & DPRU (Trade and Industrial Policy Strategies and Development Policy Research Unit) Forum, 8–10 September, Johannesburg.
- Devey, Richard, Caroline Skinner, and Imraan Valodia. 2006. "Chapter 15: Definitions, Data and the Informal Economy in South Africa: A Critical Analysis." In *The Development Decade? Economic and Social Change in South Africa, 1994–2004*, edited by Vishnu Padayachee, 302–323. Cape Town: HSRC Press.
- Essers, Dennis. 2014. "South Africa Labour Market Transitions During the Global Financial and Economic Crisis: Micro-level Evidence." Working Paper 2014/115. Helsinki: World Institute for Development Economic Research. <https://doi.org/10.35188/UNU-WIDER/2014/836-0>.
- Essop, Hassan, and Derek Yu. 2008a. "The South African Informal Sector (1997–2006)." Stellenbosch Economic Working Papers 03/08. Stellenbosch: Stellenbosch University.
- Essop, Hassan, and Derek Yu. 2008b. "Alternative Definitions of Informal Sector Employment in South Africa." Stellenbosch Economic Working Papers 21/08. Stellenbosch: Stellenbosch University.
- Fourie, Frederick. 2018. "Chapter 5: Informal Sector Employment in South Africa: An Enterprise Analysis Using the SESE Survey." In *The South African Informal Sector: Creating Jobs, Reducing Poverty*, edited by Frederick Fourie, 103–150. Cape Town: University of Cape Town Press.
- Fourie, Frederick, and Andrew Kerr. 2017. "Informal Sector Employment Creation in South Africa: What Can the SESE Enterprise Survey Tell us?" REDI Working Paper No. 32. Cape Town: Research Project on Employment, Income Distribution and Inclusive Growth. School of Economics, University of Cape Town.
- Ghee, Wee Yu. 2018. "An Application of Timmons Model in the Mini Entrepreneurial Logistics Project." *Advances in Social Sciences Research Journal* 5 (10): 511–520. <https://doi.org/10.14738/assrj.510.5541>.
- Heintz, James, and Dorrit Posel. 2008. "Revisiting Informal Employment and Segmentation in the South African Labour Market." *South African Journal of Economics* 76 (1): 26–44. <https://doi.org/10.1111/j.1813-6982.2008.00153.x>.
- Husmanns, Ralf. 2004. "Defining and Measuring Informal Employment." Geneva: Bureau of Statistics, International Labour Office. <https://www.ilo.org/public/english/bureau/stat/download/papers/meas.pdf>.
- Kingdon, Geeta, and John Knight. 2005. "Unemployment in South Africa 1995–2003: Causes, Problems and Policies." Economics Series Working Paper GPRG-WPS-010. Oxford: University of Oxford.

- Maduku, Harris, and Irrshad Kaseeram. 2021. "Success Indicators among Black-owned Informal Small Micro and Medium Enterprises (SMMEs) in South Africa." *Development Southern Africa*. <https://doi.org/10.1080/0376835X.2021.1913997>.
- Mahadea, Darma, and Richard Simson. 2010. "The Challenges of Low Employment and Economic Growth in South Africa." *South African Journal of Economics and Management Sciences* 13 (4): 391–405. <https://doi.org/10.4102/sajems.v13i4.92>.
- Meiring, Tiaan, Catherine Kannemeyer, and Elnari Potgieter. 2018. "The Gap between Rich and Poor: South Africa's Society Biggest Divide Depends on where you Think you Fit in." SALDRU Working Paper Number 220. Cape Town: Southern Africa Labour and Development Research Unit, University of Cape Town.
- Mlatsheni, Cecil, and Murray Leibbrandt. 2011. "Youth Unemployment in South Africa: Challenges, Concepts and Opportunities." *Journal of International Relations and Development* 14 (1): 118–126. <https://doi.org/10.1057/jird.2010.24>.
- Mtwesi, Anele. 2014. "An Overview of Youth Policy." *The Journal of Helen Suzman Foundation* 74, 37–41. <https://hsf.org.za/publications/focus/state-and-nation/7.an-overview-of-youth-policy-a-mtwesi.pdf>.
- Nackerdien, Faez, and Derek Yu. 2019. "A Panel Data Analysis of the Formal-informal Sector Labour Market Linkages in South Africa." *Development Southern Africa* 36 (3): 329–350. <https://doi.org/10.1080/0376835X.2018.1487830>.
- National Youth Commission (NYC). 1997. "National Youth Policy." Pretoria: Office of the Deputy President, Government of the Republic of South Africa. https://www.westerncape.gov.za/sites/www.westerncape.gov.za/files/documents/2004/11/ny_policy_2000_compressed.pdf.
- Neves, David, Michael Aliber, Jan Mogaladi, and Andries du Toit. 2011. "Self-Employment in South Africa's Informal Sector: Prevalence, Prospects and Policy." Bellville: Institute for Poverty, Land and Agrarian Studies (PLAAS), University of the Western Cape.
- Odeku, Kola Olusola, and Samsó Sifiso Rudolf. 2019. "An Analysis of the Transformative Interventions Promoting Youth Entrepreneurship in South Africa." *Academy of Entrepreneurship Journal* 25(4): 1–10. <https://www.abacademies.org/articles/An-analysis-of-the-transformative-interventions-promoting-youth-entrepreneurship-1528-2686-25-4-306.pdf>.
- Republic of South Africa. 1996. National Youth Commission Act, 1996 (No. 19 of 1996). Government Gazette 370 (17130): 15. https://www.gov.za/sites/default/files/gcis_document/201409/a19-96.pdf.
- Rogerson, Christian. 2001. "In Search of the African Miracle: Debates on Successful Small Enterprise Development in Africa." *Habitant International* 25 (1): 115–142. [https://doi.org/10.1016/S0197-3975\(00\)00033-3](https://doi.org/10.1016/S0197-3975(00)00033-3).

- Rogerson, Christian. 2004. "The Impact of the South African Government's SMME Programmes: A Ten-year Review (1994–2003)." *Development Southern Africa* 21 (5): 765–784. <https://doi.org/10.1080/0376835042000325697>.
- Rogerson, Christian. 2016. "South Africa's Informal Economy: Reframing Debates in National Policy." *Local Economy* 31 (1–2): 172–186. <https://doi.org/10.1177/0269094215613505>.
- Skinner, Caroline. 2006. "Falling through the Policy Gaps? Evidence from the Informal Economy in Durban, South Africa." *Urban Forum* 17 (2): 125–147. <https://doi.org/10.1007/s12132-006-0002-y>.
- Small Business Research Specialists (SBP). 2020. "Reflections on the Impact of Covid-19 on Small Businesses (SMEs) in South Africa." Pretoria: Small Business Institute.
- Spinelli, Stephen, and Rob Adams. 2016. *New Venture Creation: Entrepreneurship for the 21st Century*, 10th edition. New York: McGraw Hill Education.
- The Presidency. 2009. "The National Youth Policy 2009–2014." Pretoria: The Presidency. <https://www.gov.za/documents/nationalyouth-policy-2009-2014>.
- Valodia, Imraan, and Richard Devey. 2010. "Formal-informal Economy Linkages: What Implications for Poverty in South Africa?" *Law, Democracy and Development* 14 (1): 133–158. <http://dx.doi.org/10.4314/idd.v14i1.13>.
- Wen, Chao-Tung, and Yi-Wen Chen. 2007. "The Innovation Process of Entrepreneurial Teams in Dynamic Business Plan Competition: From Sense-making Perspective." *International Journal of Technology Management* 39 (3–4): 346–363. <https://doi.org/10.1504/IJTM.2007.013505>.
- Wills, Gabrielle. 2009. "South Africa's Informal Economy: A Statistical Profile." Urban Policies Research Report No. 7. Manchester: Women in Informal Employment: Globalizing and Organizing (WIEGO).
- Yu, Derek. 2012. "Defining and Measuring Informal Employment in South Africa." *Development Southern Africa* 29 (1): 157–175. <https://doi.org/10.1080/0376835X.2012.645649>.