

UNIVERSITY OF CAPE TOWN



DEPARTMENT OF SOCIAL DEVELOPMENT

Exploring the circumstances and experiences of youth immigrants when establishing and running a successful informal micro-business

A minor dissertation submitted in partial fulfilment of the requirements for the
award of the degree of Master of Social Science in Social Development

By

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ABSTRACT

In the era of rampant youth unemployment, governments are rethinking strategies to respond to this global crisis. At the centre of these strategies is the promotion of youth-owned informal micro-businesses. While literature acknowledges the challenges faced by youth in running their informal micro-businesses, there is much less in the way of information that explores immigrant informal businesses. This is a qualitative study aimed at exploring the circumstances and experiences of youth immigrants when establishing and running a successful informal micro-business. This study was conducted amongst youth owners of informal micro-businesses and four service providers in Cape Town. Twenty in-depth interviews were done with these participants. The four service providers represented a non-governmental organisation (NGO), a government department, a commercial bank and a government funding agency. The study indicated that the reasons why immigrant youth start their informal micro-businesses varied. For the unemployed it was a solution to unemployment, some of those who were working did so because they wanted to earn more, while others desired a flexible work environment. In addition, the study showed that there are many challenges faced by immigrant youth during the establishment and growth phases of their businesses. Challenges include difficulties in accessing capital, securing an area from which to operate, cultural barriers, theft and robbery, and customers who do not want to pay. Though most of these are similar to the challenges experienced by young business owners in South Africa and elsewhere, there were, however, other challenges that were unique to immigrant youth. In this regard, they could not get support from any of the stakeholders mainly because they did not qualify for any funding or training programmes from the service providers since they were immigrants. To deal with these challenges youth employed several strategies, like the development of social networks, marketing, taking advantage of the location and utilising their positive attitude to succeed. The service providers interviewed had a limited knowledge of these challenges. This shows that there is a lack of research conducted and thus they are not in touch with what is happening to these youths. The study is thus important to policy makers and programme planners as it enables them to learn from the challenges faced, so that policies and programmes can address stumbling blocks faced by immigrant youths. The study also encourages stakeholders to rethink immigrant-owned businesses which appear to be neglected at present.

DEDICATION

I dedicate my work to those who inspired me to conduct this study:

To the youth who are in poverty, searching for economic empowerment and wanting to be successful business owners, but are failing and yet still believe that even in such situations there is light at the end of tunnel.

To stakeholders in charge of youth development programmes and policies, who know that change is possible even amidst challenges, I also dedicate my work.

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ACRONYMS

BT	Business Trust
DPLG	Department of Provincial and Local Government
DTI	Department of Trade and Industry
ILO	International Labour Organisation
IMF	International Monetary Fund
NGO	Non-governmental Organisation
NSFAS	National Student Financial Aid Scheme of South Africa
NYDA	National Youth Development Agency
PGWC	Provincial Government of Western Cape
RSA	Republic of South Africa
SADC	Southern African Development Community
SEDA	Small Enterprise Development Agency
SEFA	Small Enterprise Finance Agency
SETA	Sector Education and Training Authority
StatsSA	Statistics South Africa
UNESCO	United National Education Scientific and Cultural Organisation
USC	United States Chamber of Commerce
WB	World Bank
WEF	World Economic Forum

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CHAPTER 1: INTRODUCTION

1.1 Introduction

Youth unemployment has become a global crisis. It is a complex phenomenon and has worsened recently as policy-makers around the world have consistently failed to come up with strategies to address this problem (Turton & Herrington, 2012). In South Africa (SA), the youth unemployment rate is at 48% (RSA, 2011). Though several studies have attempted to explain this challenge, fewer solutions have been proposed to curtail this challenge (Berry, Blottnitz, Cassim, Kesper, Rajaratnam & Van Seventer, 2002). Unemployment has adverse implications for youth and precipitates vulnerability and marginalisation (International Labour Organisation (ILO), 2006). In RSA thus immigrant youth are also affected by this challenge (Provincial Government of Western Cape (PGWC), 2007). In addition, Borjas (2004) notes that immigrants have higher unemployment probabilities than non-immigrants hence it is for this reason that this study focuses on immigrant youth from southern African countries.

The RSA government's response to unemployment has been twofold. The first intervention is supporting formal businesses so that they can grow and increase their labour absorption capacity, and the second is by supporting informal businesses as a means to promote employment (Rogerson & Preston-Whyte, 1991). This study focuses on the latter. The informal sector is seen as a type of 'safety net', providing employment and income-generating opportunities for those excluded from formal sector employment (PGWC, 2007). This sector is increasingly becoming significant in many developing countries as a means to absorb considerable numbers of unemployed and underemployed citizens (Portes, Blitzer & Curtis, 1986). Moreover, it is acknowledged as an important strategy that can leverage the energy of youth to expand the creation and supply of jobs (Rogerson & Preston-Whyte, 1991). It is in the light of these developments in response to unemployment that this study focuses on the informal sector.

Research about the informal sector has generated a body of knowledge which deepens an understanding of these businesses (Rogerson & Preston-Whyte, 1991). The government of RSA has implemented programmes, enacted policies and set up agencies targeting informal enterprises. Studies conducted have, however, revealed that there are challenges that inhibit the establishment and growth of these enterprises. Establishing successful informal enterprises in SA

is cumbersome and complex (Tim, 2011). The constraints include access to financial services; skills training; physical infrastructure and basic services; business-related infrastructure; and the impact of regulations (Cupido, 2002; Berry et al., 2002; Rogerson & Preston-Whyte, 1991). This study was an exploration of the circumstances and experiences of youth immigrants when establishing and running a successful informal micro-business.

1.2 Setting of the study

RSA is a country in southern Africa. It has a population of about 52.9 million and of that population 18.9 million are youth of ages 15 to 34 (StatsSA, 2013). This shows that youth constitute a larger population than any other groups (children and adults). Added to this is an influx of immigrant youth into South Africa. These live mainly in metropolitan cities. Cape Town has attracted many immigrants because of its economic opportunities and many establish informal businesses (Rogerson, 1997; PGWC, 2002). Because many of the African immigrants to the Western Cape are illegal, it is not easy to establish the exact number of migrants presently living in this province (City of Cape Town, 2010).

In RSA, the informal sector is relatively small by international standards (ILO, 2002). It accounts for 20% of aggregate employment (PGWC, 2007). This sector accounts for about 12% of Cape Town's economic activity and employs 18% of its economically active residents (City of Cape Town, 2006). Moreover, informal sector workers are known for receiving a lower monthly salary than those in the formal sector (PGWC, 2007). This shows that this sector still occupies a peripheral place in the country's economy. Moreover, an estimated 5.5% of enterprises in RSA is owned by youth, yet they constitute a larger segment of the population. This reinforces the point that youth have limited business opportunities (Curtain, 2004). The meaningful participation of youth in the economic landscape remains a challenge for South Africa (Curtain, 2004).

The study was conducted in Khayelitsha which is located in the Western Cape Province. It is Cape Town's biggest township and the second largest in South Africa (Business Trust & Department of Provincial and Local government (BT & DPLG), 2007). It is part of the City of Cape Town's Metro South East Region, commonly known as Cape Town's poverty trap (BT &

DPLG, 2007). This township is situated far from the centres of economic opportunity due to its distance from the city, and transport costs to travel to the city are high.

The majority of households (62%) lives in shacks or informal settlements, while 26% live in houses on a separate stand and 6% of households live in informal housing (University of Stellenbosch, 2011). In Khayelitsha overcrowding within particular areas and within households is common (BT and DPLG, 2007). There is a high level of unemployment, violence, and criminal activities. Its history, and the legacy of its apartheid planning as a ‘dormitory town’, continues to shape its development needs (City of Cape Town, 2006). The unemployment rate in Khayelitsha is 50.8% (BT & DPLG, 2007). Of the employed workforce, 44.1% is in relatively unskilled occupations (University of Stellenbosch, 2011). Since there are few formal local job opportunities in Khayelitsha, and a huge reliance on transport because of its distance from economic nodes, a significant portion of the population, including immigrant youth, is involved in informal businesses (PGWC, 2007).

1.3 Research problem

The study is done in the light of immigrant youth unemployment and the fact that the informal sector is being used as a strategy to respond to this challenge, as explained in Section 1.1. It explores the circumstances and experiences of youth immigrants when establishing and running a successful informal micro-business. A great deal of research has been done to understand the informal sector (Rogerson, 2007; Tim, 2011; Berry et al., 2002), but PGWC (2007) states that research about the informal sector, has been somewhat lacking in the Western Cape. While recent studies, for example Witbooi, Cupido, and Ukpere (2011) and Chikamhi (2011) have investigated the informal sector in the Western Cape, Fatoki and Patswawairi (2012) argue that few studies have been done in which immigrants have been targeted, thus immigrant entrepreneurship remains largely unexplored. Moreover, USC (2012) argues that researchers are familiar with the success stories of immigrants, but few realise how many immigrants have started new businesses, and are unaware of their experiences and circumstances. This study thus targets successful micro-enterprises in the Western Cape to explore experiences regarding the journey travelled from establishment to growth as a successful informal micro-business. It aims to hear the voices of business owners who seem to have been overlooked in previous studies and ascertain their circumstances and experiences using a qualitative approach.

1.4 Rationale and significance of the study

Sherifat (2011) states that an understanding of barriers and challenges faced in the process of establishing a business is the first step towards improving the performance of the businesses. Since it is hoped that the study will be used to inform policy makers around immigrant-owned informal micro-businesses, exploring circumstances and experiences in establishment and growth of these enterprises is imperative. The United States Chamber of Commerce (USC) (2012) notes that few policymakers understand the importance of immigrant entrepreneurial activities in today's economies, hence by exploring the circumstances and understanding the circumstances this study can add value to and inform policies.

This study is driven by the need for the inclusion of youth in the economy. In the developing world, high youth unemployment represents lost potential for national economic transformation, and high numbers of economically frustrated youth may contribute to social instability (World Economic Forum (WEF), 2012). Their inability to find employment creates a sense of vulnerability, uselessness and idleness among young people (ILO, 2006). This notion substantiates the fact that research focusing on the economic empowerment of youth is necessary. There may be social costs related to youth exclusion if development programmes do not focus on youth. Since the informal micro-businesses have become a strategy to respond to unemployment, understanding youth-owned businesses in this sector from a social development perspective may contribute to the reappraisal of programmes for economic empowerment of youth. RSA's National Youth Development Agency (NYDA) (2011) notes that youth development needs an intentional comprehensive approach that provides space, opportunities and support for young people to maximise their individual and collective creative energies for personal development as well as the development of the broader society of which they are an integral part. This study aims to offer such an approach. The reasons for conducting such studies are, first, that they can recapture the productive potential of underutilised youth in the economic sphere (ILO, 2006). The second is that they can rekindle the productive potential of youth and ensure the availability of suitable employment opportunities for them (Ryan, 2001). Third, a focus on youth is imperative in that they are the drivers of economic development in a country (ILO, 2006).

The promotion of youth businesses as a possible source of job creation, empowerment and economic dynamism in a rapidly globalising world has, in recent years, attracted increasing

policy and scholarly attention (Chagunta, 2002). Despite this, there has been no systematic attempt to investigate youth entrepreneurial challenges in Africa (Chagunta, 2002). This has resulted in a lack of an adequate understanding of the potential benefits of youth businesses as a means of improving youth livelihoods. Immigrant youth in SA are trapped in a vicious cycle of poverty due to unemployment. This has pushed a number of these immigrants to establish informal micro-businesses (PGWC, 2007). Mead and Lindblom (1998) note that in southern Africa it is estimated that 1% of new micro-enterprises make the transition to a successful established small enterprise. This notion shows that there are many challenges faced by informal micro-enterprises hence research is necessary.

1.5 Research goal

The broad goal of this study is to explore the circumstances and experiences of youth immigrants when establishing and running a successful informal micro-business.

1.6 Main research questions

1. What is the understanding that immigrant youth and service providers have of the formal and informal sectors of the economy in South Africa?
2. What are the views of immigrant youth and service providers about why immigrant youth start informal micro-businesses?
3. What are the views held by immigrant youth and service providers on the major challenges that immigrant youth face in running their informal micro-businesses?
4. What are the strategies that immigrant youth employ to overcome these challenges?
5. What are the sources of support that youth draw on for their business?

1.7 Research objectives

1. To ascertain the understanding of immigrant youth and service providers of the formal and informal sectors of the economy in South Africa.

2. To explore the views of immigrant youth and service providers as to why immigrant youth start informal micro-businesses.
3. To explore the views of immigrant youth and service providers about the major challenges that immigrant youth face in running their informal micro-businesses.
4. To ascertain the strategies that immigrant youth employ to overcome these challenges.
5. To identify the sources of support the youth draw on for their business.

1.8 Clarification of terms

This section defines some of the key terms that were used in this study. These terms are contested but the researcher explains how they are used in the context of this study. The terms are discussed in more detail in Chapter 2.

- **Youth**

According to the South African National Youth Policy (NYP) (2009) youth are young men and women between the ages of 14 and 35 years. The researcher targets youth of 26-34 years, a smaller group than that specified in the NYP (2009). This is so because age influences entrepreneurial activity and the prevalence of early-stage entrepreneurial activity tends to be relatively low in the 18-24 years cohort and peaks among the 25-34 years cohort (Herrington, Kew & Kew, 2010).

- **Immigrants**

Immigrants are people who have left their countries of origin and have settled in another country (Canadian Council for Refugees, n.d.). These people are classified into two categories: legal and illegal immigrants. The illegal immigrants are those people who enter a foreign country but do not meet that country's requirements for legal entry (UN, 2000). In this study the focus is on legal immigrants who have permits to work in South Africa. These immigrants are from southern African countries.

- **Informal sector**

There are three schools of thought which define the informal economy. These are the dualist, structuralist and the legalist school (see Section 2.5.2 for a discussion of these schools of thought). In this study, the researcher uses the legalist definition which targets enterprises which

are not registered with any government board, municipality or department (Small Enterprises Development Agency (SEDA), 2010).

- **Informal micro-enterprise**

Micro-enterprises are those employing four or less people (SEDA, 2010). This study targets unregistered businesses which employ four or less employees.

- **Successful informal micro-enterprise**

There is a narrow and a broader definition of success. Scholars who apply the narrow definition commonly use employment growth as a parameter (Mead & Liedholm, 1998). Other scholars link success with survival/duration in business (Van Praag, 2003). In addition, some scholars use profit as an indicator of success (Robb & Fairlie, 2007). Lumpkin & Dess (1996) argue for a comprehensive measurement of success which goes beyond a single indicator since alternative measures of firm performance may vary depending on the type and size of these firms. In this study the researcher focuses on the number of years that the business has been operating which is a minimum of two years for viability purposes. Sawaya in Berry et al. (2002) argues that in South Africa viability is measured after 42 months though it varies with contexts, hence this study targeted 2 years. The perceptions of the owner were also considered: whether they believed that their business is successful and were not considering leaving the business whenever a job opportunity arises.

- **Manufacturing business**

These are businesses that use tools or capital equipment in a production process in which raw or intermediate products are used to produce final (or intermediate) goods for use or sale as intermediaries, or as final products, either domestically or internationally (SEDA, 2012). This study is concerned with informal enterprises that manufacture goods locally.

- **Unemployment**

The narrow definition states that only those people who take active steps to find employment, but fail to do so, are regarded as unemployed (Reserve Bank of South Africa (Resbank), n.d.). The expanded definition, on the other hand, includes everyone who desires employment, irrespective of whether or not they have actively tried to obtain employment (Resbank, n.d.). Statistics South Africa uses both definitions, but currently the strict definition is regarded as the official one. Both definitions are used in this research, depending on the issues being discussed, but the researcher mostly relies on the official narrow definition.

- **Strategies**

A strategy is a business approach to a set of competitive moves that are designed to generate a successful outcome (Summer, 2009). A strategy becomes necessary for the direct achievement of the main goal in the face of opportunities and challenges (Summer, 2009). In the face of challenges, strategies are courses of actions employed to overcome these challenges, and in the face of opportunities, they are courses of actions taken by individuals to exploit opportunities to their advantage.

1.9 Research design and methodology

Marshall (1996) argues that the choice of a research design is determined by the research question, not by the preference of the researcher. The reason for conducting this research is rooted in the intense interest of the researcher in exploring youth immigrants from southern African countries that are running successful informal micro-businesses, their current circumstances and experiences. The researcher intended to hear the voice of these youth and selected service providers, hence qualitative research was necessary. The researcher believes that such information about experiences and circumstances is subjective and cannot be explored through surveys or positivist methods. A purposive sampling technique was applied to select the twenty immigrant youths and the four key informants. In-depth interviews were conducted with the use of an interview schedule and were recorded. The researcher transcribed the data collected and used data analysis methods to construct the themes and categories that emerged from the study using Tesch's (1990) data analysis method cited in De Vos and Fouché (1998). The research design and methodology used is explained in detail in Chapter 3.

1.10 Ethical considerations

Halai (2006) states that sound research is a moral and ethical endeavour and should ensure that the interests of those participating in that study are not harmed as a result of the research being undertaken. Several researchers emphasise that ethics are the cornerstone in conducting effective and meaningful research (Best & Kahn, 2006; Field & Behrman, 2004; Trimble & Fisher, 2006). In this study ethics were not detached from the whole research project. In fact, the researcher considered this aspect as a critical component in all stages. It formed the foundation of the

research process. The goal of the study, the questions to be explored, the objectives to be met and the steps to be followed were set, all bearing in mind that the moral integrity of the researcher is a critically important aspect that ensures that the research process and researcher's findings are trustworthy and valid. Above all, since the study involved subjects, as Strydom (2011) states, the research should be based on mutual trust, acceptance, cooperation, promises and well-accepted conventions and expectations between all parties involved in the research project. The researcher endeavoured to ensure this kind of cooperation and trust with the participants. Since ethics was a key component in the study, it is imperative that the researcher discusses them in this chapter.

- **Informed consent and voluntary participation**

It is generally agreed by social science researchers that informed consent is a prerequisite for all research involving identifiable subjects (Richards & Schwartz 2002). Halai (2006) states that researchers are expected to obtain informed consent from all those who are directly involved in research or in the vicinity of research. He states that this principle relates to respect for participants and the assurance that they are not coerced into participation. It also prevents the researcher from having access to information prior to consent being granted. In this study the researcher informed participants about key elements of the research, such as the purpose for, procedures and time period of the study. The researcher solicited voluntary participation from the first contact with participants until the day of interviewing. Verbal consent was asked for in the process of gaining entry during which the researcher explained the study to the participants that he had contacted in the first instance through face-to-face conversations. The researcher also gained the consent of participants through verbal agreements telephonically, as timeous follow-up calls were also made. Participants were also reminded that participation was voluntary at the start of the interview. In the interview schedule there is a clause stipulating that participation is voluntary and the participants have the right to withdraw from the study prior to or during it (see Annexure A and Annexure C). Consent was not a once-off event undertaken at the start of a project, it was rather a process negotiated throughout the course of the study, as Halai (2006) puts it. This was done so that participants did not feel obliged to participate but could withdraw from participating in the study if they wanted to.

- **Deception of subjects**

Corey, Corey and Callahan (1993) note that deception involves withholding information in order to lure respondents to participate, or offering incorrect information in order to ensure

participation. The researcher clarified the objectives of the research to the participants. Some participants asked if they would benefit financially from participating in the study. The researcher ensured that their hopes were not raised in this regard, and explained that the study was being done for academic purposes, though it may influence policy and benefit some immigrant entrepreneurs like themselves in time if some of its findings were considered by policy implementers. The researcher, nevertheless, made it clear that he was not part of the implementation body. He provided comprehensive and correct information to participants so that they clearly understood what their participation entailed.

- **Confidentiality**

Confidentiality of the information divulged by participants is central to ethical research practice in social research (Wiles, Crow, Heath & Charles, 2006). The researcher felt obliged to pay special attention to confidentiality issues. Gilgun (2010) notes that the setting in which research is conducted may be an important factor in considering a potential invasion of privacy and confidentiality. The researcher, thus, gave participants the option to choose where they wanted the interviews to be conducted. Eighteen of the twenty youth participants chose to be interviewed at their places of business. Two participants indicated that they wanted the interviews to be conducted at their homes. Service providers preferred the interviews to be conducted in their offices. In addition, the researcher conducted the interviews alone and unaccompanied, so as to avoid any threat to privacy and confidentiality. Furthermore, the researcher assured participants that their data was held in strict confidence and their anonymity protected. Participants were given an opportunity to choose the name that they wanted to be called during the interview. Though all of them preferred their own names, only pseudonyms were used on transcripts and in the report. In addition, the bank and the NGO that were interviewed requested that their organisations should not be mentioned which the researcher adhered to. The names of the four service providers interviewed and their positions have been kept anonymous. Only names of two service providers are mentioned, namely a government department and a government agency. The digital recorder was used strictly for research and was not shared with anyone else. All records about this research study were kept locked up so that no one could listen to the recorded interviews or read the transcripts other than the researcher's supervisor.

- **Participants access to the research report**

Participants were informed that an electronic copy of the final report would be made available to them. Another electronic and hard copy would be available in the UCT Library.

1.11 Reflexivity

While conducting this study the researcher was aware of his own biases as an immigrant youth studying in Cape Town, South Africa. He was aware that he could have been more inclined to believe what immigrants were saying, rather than being critical of their comments. The researcher undertook a literature review so that preconceived ideas about an immigrant's challenges regarding informal micro-enterprises could be unlearned. This enabled the researcher to learn that experiences of immigrants are diverse and different due to the context. This allowed the researcher to have a mind open to new and fresh learning from the study. The guidance of a supervisor was helpful in this regard, through commenting on work submitted and motivating the researcher to deepen the analysis. These steps reduced possible biases of the researcher.

1.12 Structure of the research report

- **Chapter : Introduction**

This chapter highlights the focus of the study. The researcher presents the background of the study, the setting of the study, the research problem, rationale and significance, the research goal, main research questions, objectives, clarification of key concepts, and the layout of the research report.

- **Chapter 2: Literature review**

The chapter sheds more light on the body of knowledge in which this study can be located. The chapter discusses and lays out the theoretical framework of the study. It includes a discussion on the background of the informal sector, legal frameworks, as well as programmes and policies that have been implemented relating to informal micro businesses in South Africa. Finally a review of various agencies, organisations and institutions dealing with youth micro informal businesses is presented.

- **Chapter 3: Methodology**

The chapter explains the research design, sampling process and procedure, data collection procedure and tools as well as the data analysis method which was used. The discussions include the rationale behind the selection of a particular method or tool. The chapter ends with a section on the limitations of the study.

- **Chapter 4 Presentation and analysis of the findings**

Following an analysis of data gathered, the researcher outlines the research findings. These are presented in the form of themes, categories and sub categories that emerged from the analysis. The findings are presented, compared with literature and discussed, with relevant quotations from the participants included to support the findings.

- **Chapter 5: Conclusions and recommendations**

The chapter draws conclusions from the study. It also sheds light on the extent to which the objectives of the study were achieved. Recommendations are offered for the consideration of the immigrant youth, government and NGOs, as well as areas for future research.

University of Cape Town

CHAPTER 2: LITERATURE REVIEW

2.1 Introduction

Since this study focuses on youth, the researcher defines the concept youth at the outset. This is followed by a section outlining the theoretical approaches that underpin the study. It was imperative to apply the social exclusion theory since it relates to marginalisation of youth in the economic landscape (see Section 1.3). The human capital theory and the social networks are relevant in that they unfold the skills and strategies relevant for a business to succeed. The informal sector is contextualised and an analysis of the challenges is stated. The researcher also discusses previous research conducted on this phenomenon followed by an emphasis on the policies, programmes, agencies and service providers designated to support these businesses in South Africa. The following section discusses how the review of literature was done.

2.1.1 Literature review methodology

As part of the planning process the researcher conducted a literature review which involved surveying of important articles, books and other sources pertaining to the research topic. Some online material was used so as to access the current debates surrounding youth unemployment and informal micro-businesses in South Africa. An in-depth review of youth policies and programmes targeting this phenomenon was done and was enhanced by visiting the government departments' official websites to check their projects and programmes. This was done mainly to contextualise the study.

2.2 Understanding the youth concept

In principle it seems easy to define 'youth'. In reality however, the term is contested and there is no single definition for it. The concept varies from culture to culture and from one society to another and within societies (Chagunta, 2002; Muzwake, 2005). The concept is also used differently by different governments, NGOs and the public in general (Mkandawire, 1996). Moreover, this group is faced with several social, economic and developmental challenges (see Section 1.4).

2.2.1 Defining youth by age

Defining youth by age is adopted mostly by countries that make it relevant to the historical and current issues that need to be addressed. The age range 15 to 24 is often used by the United Nations. The National Youth Policy 2009-2014 defines youth by age, from 14 to 35. This definition is inconsistent with the definition of youth as contained in the African Youth Charter (AU, 2006), which defines youth as those between the ages of 15 and 35 years. Moreover, the Children's Act (2005) defines a child as someone below the age of 18. This shows that some youth between 14 to 18 years are considered children. This indicates the complexity of defining youth. Muzwake (2005) argues that many young people in Africa are hindered pursue independence or sustain themselves (see Section 1.4). Though broadening the age limits was argued to be inclusive, youth are not a homogeneous group; the challenges and opportunities affecting their lives may be broadly similar but are characterized by important differences (World Bank (WB), 2006).

2.2.2 Youth as a series of transitions

The WB (2006) defines youth as a series of transitions from childhood to adulthood. This transition takes place through a process of intense physiological, psychological, social, and economic change. It is marked by the acquisition of various adult statutes marked by events such as employment, leaving school, marriage and voting, among others deriving from unique contextual circumstances. Among other transitions the WB defines youth as a transition from school to work which this study targets. This transition is not easy especially in Africa where unemployment limited business opportunity hinder this transition (see Section 1.4).

2.4 Theoretical frameworks

In this section the researcher discusses three theories that underpin this study, namely, social exclusion, social capital and human capital theories.

2.4.1 Social exclusion theory

Reducing social exclusion as an aim of youth programmes is a laudable goal of development practitioners, but the definition of, and normative justification of strategies and programmes reducing, social exclusion are complex. Toye and Infanti (2004) define social exclusion as a

concept used to describe broadly both the structures and the dynamic processes of inequality among groups in society which, over time, impact on society. Social exclusion can occur as a result of a wide variety of factors, including unemployment, poor health, a lack of education or affordable housing, racism, fear of differences, or political disempowerment (Guildford, 2000). These factors impact on access to critical resources that determine the quality of membership in society. There is a proven link between youth unemployment and social exclusion (Ryan, 2000). Regarding this study, one would see that the position of immigrants is especially dire as they lack access to capital to start their small businesses (USC, 2012). As mentioned in Section 1.4, the target group in this study is excluded from the economic landscape, because they are youth (see Section 2.6.1) as well as because they are immigrants (see Section 2.6.2), hence using this lens to study such a marginalised group provides deeper insights as to the circumstances and experiences they face.

2.4.2 Human capital theory

Human capital is defined as the knowledge, skills, competencies, and attributes embodied in individuals that facilitate the creation of personal, social and economic (Brüderl, Preisendörfer & Ziegler, 1992). Human capital theory suggests that individuals drive economic benefits from investment in education and skills (Spulber, 2009). Human capital attributes, such as personal characteristics, age, years of education and training, work experience of the owner manager and industry specific experience, determine the level of success of the business. Human capital acts as a resource that enables the success of an enterprise since it enables owners to act in new ways (Coleman, 1988). According to Cooper, Gimeno-Gascon and Woo (1994), management know-how and background of the person contribute positively to success or failure of the enterprise. This notion is supported by Brüderl et al. (1992) who argue that there is a general belief that business owners with human capital endowments will be more likely to own surviving firms.

This theory is vital in this study, since several studies have shown that human capital endowments are inseparable from the success of a business. There are different categories of skills, namely personal, technical, business operations and management skills (Smith & Perks, 2006). A combination of these skills is necessary for the success of an informal micro-enterprise. Vosloo (1994) states that personal skills like good organisational talents; good problem-solving abilities; good communication skills; the ability to handle stress effectively; good leadership qualities; a high degree of independent decision-making, and negotiation skills are necessary for success. Marketing skills are also important, as Richardson (1996) states that customer focus is

now the most important determinant of business success, and consequently marketing is a powerful force in today's society. Kuratko and Hodgetts (1989) put more emphasis on technical knowledge, stating that it enables one to 'understand how specific things work'. This is necessary knowledge, especially in the manufacturing industries where one needs to know to process knowledge or how to manufacture the relevant product and all the steps that need to be taken to do so (Smith & Perks, 2006). Furthermore, skills can lead to the manufacture of quality goods. Moreover, Garvin (1998) notes that businesses can be successful if their owners adhere to the level of quality desired by their customers.

King and Abuodha (1995) note that educated business owners are generally more responsive to policy measures than uneducated owners. Added to the notion of education is the importance of skills and experience in the industry that the youth operate in. Rogerson (2001) notes that education and training account for the success of enterprises in South Africa. Ebony Development Alternatives (1995) in Rogerson (2001) notes that its research established that successful enterprises are those whose owners had prior industry experience, usually with larger enterprises. Further, a basic level of education as well as some essential technical knowledge is of fundamental importance.

The literature has emphasised the positive contributions of the owner to the success of the business. In addition, Berry et al. (2002) state that it is the skills, behaviours and attitudes which individuals have contributed to personal effectiveness that are the key to the survival and growth of new enterprises. Brockhaus in Witbooi, et al. (2011) reviewed a number of psychological attributes necessary for the success of new business start-ups. The personal attributes mentioned were willingness to take a greater degree of risk (Alam in Witbooi, et al., 2011). In his research Witbooi et al. (2011) concludes that personal attributes are inseparable from the success of the enterprise in Africa. This shows that human capital is essential for studies about focusing on successful enterprises.

2.4.3 Social capital theory

The role of social networks in markets and economic action, outcomes and institutions is widely acknowledged and has been studied for decades by social scientists, particularly sociologists (Richardson, 1996; Coleman, 1988). Although there is no single, coherent social capital theory, three assumptions are commonly made. It is argued that social capital depends on the number of contacts, individuals with a willingness to offer help, and resources available (De Graaf & Flaph, 1988). It is evident that the requirements for business success have changed dramatically from

those of the past decade (Richardson, 1996). Businesses are beset with competition and there is a need for marketing and building relationships in order to access customers. Customer focus is now the most important determinant of business success alongside marketing, which is the segment of management practice that deals with company-customer relationships (Richardson, 1996). In addition, Cupido (2002) and Albright (2000) in Witbooi et al (2011) notes that social intelligence plays a critical role in the success of a business. The skill of networking and branding builds relationships, not only with current stakeholders, suppliers and customers but also with prospective individuals who may want to do future business with you (Cupido, 2002). This is supported by Buttle (1998) who points out that personal referral through social networks has an impact on customer behaviour. Networking by immigrants, however, is limited to co-ethnics and most immigrant entrepreneurs are not members of regional chambers of commerce (Fatoki & Patswawairi, 2012).

Social capital also facilitates entrepreneurship and start-up and network formation (Chung & Gibbons, 1997; Coleman, 1988). In his 2000 research on clothing enterprises Rogerson found that, in the majority of cases, start-up capital was secured either from family, friends or from the entrepreneur's own savings. He argues that there is a need for networks of support for businesses to succeed. This theory enables the researcher to analyse using the lens of networks as a resource for the success of their businesses.

2.5 The informal sector

The informal sector is believed to be a major contributor to employment creation (ILO, 2006). It accounts for about 60 to 80% of employment (ILO & WTO, 2009). Though a great deal of research has been conducted about this sector, an understanding of it is contested. In this section, the researcher outlines the emergency of the informal sector globally in the following subsections, and examines the definitions of and the schools of thought around this sector in an attempt to analyse it.

2.5.1 Historical background to the informal sector

The informal sector as a concept was conceived in the 1970s. It was perceived as marginal and peripheral to the mainstream economy and not linked to the formal sector or to modern capitalist development (Becker, 2004). It was rarely supported, and sometimes actively discouraged by

policy makers and governments (ILO, 1972). Additionally, it was believed that this sector would disappear once sufficient levels of economic growth and modern industrial development were achieved in developing countries (Becker, 2004). In recent years, however, the informal sector has increased to the extent that 70% of the workforce in Sub-Saharan Africa is employed in the informal economy (Becker, 2004). In fact, Zindiye & Mwangolela (2007) observe that the informal economy can lead to social and economic transformation in emerging economies. Many governments, RSA also in recent years, are preoccupied with making appropriate policy frameworks and strategies aimed at the development of the informal economy. This is due to the acknowledgement of this sector as an employment creation strategy (see Section 1.1).

2.5.2 Understanding the informal sector concept

Sherifat (2011) argues that the informal economy in developing countries should be analysed as a sector that emerges as a result of crisis. The definition is widely contested. For instance, it is referred to as the ‘irregular’ economy by Ferman, Stuart and Hoyman (1987), the ‘subterranean economy’ by Guttman (1977) and the ‘underground’ economy (Simon, 1982). These definitions show that the sector has been viewed negatively throughout history and may indicate why it is mainly operated by the marginalised and vulnerable groups in society.

There are three schools of thought that can help to define the informal sector. These approaches are the dualist approach, the structuralist and the legalist approach (Rao, 2011). The **dualist** approach considers the informal sector as comprising marginal activities, distinct and unrelated to the formal sector (ILO, 1972). This approach is based on the fact that informal activities emerge due to limited opportunities in the formal sector. Surplus labour, low economic growth and high population growth may act as catalytic agents for the underprivileged to operate in the informal sector, thereby providing income for the poor and a safety net in times of crisis (ILO, 1972; Castells & Portes, 1989). The **structuralist** school is mainly concerned with the relationship between the formal and informal sectors. This approach views informal activity as closely linked to the formal sector, though the relationship between these two sectors is not always functional. Exploitation and competition mostly ruins the relationship, hence these two sectors are referred as to the ‘centre’ and ‘periphery’ respectively (Bhorat et al., 2001). Furthermore, it is excluded from exporting its products, though not the case in RSA which makes raising money through official channels difficult (Schiebold, 2011). In contemporary economies there is less interdependency but much marginalisation, exclusion and segregation (Bhorat,

Leibbrandt, Maziya, Van der Berg & Woolard, 2001). The third and most commonly used approach is the legalist school.

Rao (2011) notes that the **legalist** school views the informal sector as being comprised of micro-entrepreneurs who choose to operate informally to avoid the costs, time and effort associated with formal registration. This sector comprises businesses that are not registered. De Soto (1989) argues that the economy will continue to produce informally as long as government procedures are cumbersome and expensive. Maloney (2004) suggests that informal entrepreneurs deliberately avoid regulations and taxation and may deal in illegal goods and services. One cannot, however, generalise that all enterprises are not registered by design so as to cut costs. The next section discusses the informal enterprises in South Africa.

2.6 Informal micro-enterprises in South Africa

Research done in South Africa regarding informal micro businesses has shown that this is not a new phenomenon in the country. According to The Presidency (2003) the informal sector has grown significantly since 1996. In 1996, around 19% of those employed were in the informal sector of the economy, rising to 26% by 1999 (SEDA, 2006). The government saw much potential in investment in the informal sector as an economic empowerment vehicle (see Section 1.1). As a result of this positive contribution, significant attention and investment, ranging from the establishment of state-initiated projects to supportive legislation, and a variety of funding mechanisms and incentives through the DTI were promoted (The Presidency, 2003). Statistics show that by 2003 2.3 million people owned at least one unregistered company (DTI, 2003).

Despite the noted contributions (see Section 1.1) of new micro-enterprises, their failure rate in South Africa is one of the highest in the world (Zindiye & Mwangolela, 2007). About 75% of new SMMEs in South Africa do not become established firms. Sawaya (1995) notes that the probability of a new SME surviving beyond 42 months is less likely in South Africa than in any other Global Entrepreneurship Monitor sampled country. This is due to the environment in which they operate. It is the adoption of the free market system that has marginalised the informal sector which has to compete with established enterprises (NYDA, 2011). This indicates that much needs to be done in order to make the South African economy conducive for emerging

informal micro-enterprises. The next two sections briefly discuss youth immigrants and micro-businesses in South Africa, the focus area of this research.

2.6.1 Youth and micro-businesses in South Africa

Increasing the number of youth owned businesses is important if issues of economic empowerment are to be addressed (see Section 1.2). In South Africa data from FinScope 2010 indicate that of those between the ages 16 and 35 who venture into business, 29% do so because they are unemployed while only 14% do so because an opportunity has arisen for them (NYDA, 2010). In many instances businesses that have been started out of desperation have been found to have failed before reaching maturity (NYDA, 2011). Data show that out of the total of 2050 youth-owned business surveyed only 279 were registered (NYDA, 2011). This shows that the largest proportion of unregistered businesses is owned by youth. It also may indicate that there are a plethora of problems that are unique to youth which affect them when it comes to registering formally.

2.6.2 Immigrants and informal micro-businesses in SA

There are a growing number of immigrants who run informal micro-businesses in SA (Rogerson, 2007). The businesses of immigrants from Sub-Saharan Africa represent a new critical element in the informal economy of post-apartheid South Africa (Peberdy & Rogerson, 2000). These authors note that there are a number of immigrants who are involved in informal micro-businesses. They are mainly involved in retail businesses, while others are in the production sector (Rogerson, 2007). However they face serious obstacles (see Section 2.7). Having discussed the informal micro-business context in South Africa, the next section deals with the main reasons why such enterprises are established.

2.6.3 Reasons behind the establishment of informal micro-businesses by immigrants

There are a number of reasons why youth immigrants start informal micro-businesses. Unemployment is predominantly the major reason why immigrants start informal micro-businesses (see Section 1.1 and 1.3). Since immigrants are at a disadvantage in the labour market, and if they are employed, often have less prestigious jobs and lower earnings compared with their South African counterparts (Borjas, 1994; Aguilera, 2005). It is with this view that USC (2012), Owusu (2005) and Agupusi (2007) argue that informal businesses are established

as an alternative to working for low wages, as a key strategy for economic growth, job generation and poverty reduction.

Other reasons noted in the literature include the need for achievement and the desire for independence (Kalitanyi & Visser, 2010). Moreover, self-employment and a desire for independence trigger immigrants to start new ventures (Moreland, 2006; Kirkwood, 2009). This shows that the reasons for starting a business vary from individual to individual.

2.7 Challenges faced by informal micro-enterprises

Challenges faced by informal micro-businesses are diverse and vary due to the nature and location of the micro-enterprises (Cupido, 2002; Rogerson, 2001). These challenges include lack of institutional support, access to finance, skills, access to lucrative markets and access to suitable working space as well as cultural challenges.

2.7.1 Financial challenges

Lack of financial support is the second most reported contributor to low new firm creation and failure, after education and training in South Africa (Olawale & Garwe, 2010). Since many new ventures are started because of high unemployment (see Section 2.7), it is clear from the onset that capital to start and manage the micro-business may not be available. In addition, there are challenges associated with accessing capital from sources of support (Cupido, 2002). Financial institutions are unable or reluctant to assist with finances because they are risk averse, and no financial institution is prepared to take risk unless the expected rate of return is high (Cupido, 2002). FinMark Trust notes that only 2% of new SMMEs in South Africa are able to access bank loans (Nieman & Nieuwenhuizen, 2009). Foxcroft, et al. in Berry et al. (2002) found that 75% of applications for bank credit by new businesses in South Africa are rejected. This is because they lack collateral security for them to secure loans.

2.7.2 Skills challenges

As discussed (see Section 2.4.2), it is less likely for someone without relevant skills and experience to start a new venture. The possibility of skills rests on training and education. This seems unlikely in South Africa due to the education system which has failed to transform the lives of youth and to impart skills which are necessary for them to be competitive in the labour

market (Altman, 2008). Moreover, Olawale & Garwe (2010) states that skills challenge is that major contributor to business failure. A lack of education and training can lead management incapacity (see Section 2.4.2).

2.7.3 Crime and violence

Businesses are the largest organised group suffering from crime and violence in SA (Gape, 1999; Isaacs & Freidrich, 2007). The Presidency (2008) notes that, by international standards crime is one of the four major constraints to enterprise operation and growth in SA. Emerging immigrant-owned businesses are likely to be victims of crime. About 30% of enterprises of all sizes surveyed for the WB's Investment Climate Report: South Africa (2005), said that crime was a major or very serious problem, and enterprises of all types were likely to rate crime among the top four constraints to doing business (The Presidency, 2008). Emerging businesses in informal settlements like Khayelitsha are likely to be victims of crime because violence, theft, robbery and other deviant behaviours are rampant in that area (PGWC, 2007).

2.7.4 Language and networking challenges

Language and networking challenges are largely experienced by immigrants. Immigrants are a potentially vulnerable group, and they take time to assimilate with the local community (Bosma, van Praag & de Wit, 2000). De Varennes (n.d.) argues that immigrants who may not master the official language(s) are detached from traditional support and family networks, exposed to a society with ways of life or cultures which they may find at times alien may face problems that can leave them disoriented and disturbed. In addition, Bowles and Colton (2007) when describing the challenges of immigrants in New York city state that immigrants contend with challenges that go above and beyond those faced by other business owners. These authors state that, among other challenges, language barriers are the major problem faced by immigrants starting businesses. Sometimes local populations may not appreciate or understand the impact and value of immigrants on economies and societies (De Varennes, n.d.). This creates tension between this group and the locals. In South Africa, immigrants face challenges especially due to the xenophobic tendencies of the local population. A number of studies suggest that many South Africans are uneasy about immigrants (Leggett, 2003).

2.7.5 Securing an area from which to operate

In his 2002 study, Cupido concludes that new ventures struggle to secure an area from which to operate. The Informal Trading Policy and Management Framework (2004) of the City of Cape Town, stipulates that anyone wanting to access an area of operation must have a South African identity document. This can pose a problem for immigrants when trying to secure an area from which to operate. This section focused on the challenges faced by informal businesses. The next section deals with the legal frameworks in South Africa that support informal micro businesses.

2.8 The legal framework in South Africa

The government has a role to play in enhancing the success of informal micro-enterprises. Berry et al. (2002) attach great importance to government promotion programmes for their growth. The role of the government is threefold, namely, to promote micro-businesses, create enabling environments and enhance competitiveness and capabilities at enterprise level (Nieman & Nieuwenhuizen, 2009). The RSA government has enacted legislation, policies and programmes to perform these functions. This section discusses the legal frameworks that have been enacted to drive the micro-enterprise sector. Table 2.1 overleaf outlines the policies and legislation.

Act/Policy/Programme/Strategy	Main objectives of the Act/Policy/Programme/Strategy
National Small Business Development Act (Act 102 of 1996)	This was the basis for the government on its positive route to creating an enabling environment for emerging and expanding SMMEs. Its main focus on the black owned SMMEs and those who were disadvantaged from the past. The Act led to the formation of the Small Enterprise Development Agency (RSA, 1996).
City of Cape Town, Informal Trading Policy and Management Framework (2004)	The framework intends to develop the sector and its participants into a commercially viable and dynamic economic sector. It aims to provide appropriate infrastructural support and entrepreneurial development services (City of Cape Town, 2004).
Integrated Small-Enterprise Development Strategy, 2005	At the heart of this strategy is promoting entrepreneurship, enabling better access to finance and markets, infrastructural facilities and business support programmes. These are focused on improving quality productivity and competitiveness and facilitation of technology transfer and commercialisation (RSA, 2008).
National Youth Policy (NYP), 2009	This policy was designed to integrate youth development into the mainstream of government policies and programmes. It aims to strategically locate youth units/directorates in such a manner that government departments both provincial and national, and municipalities take direct responsibility of youth development issues.
The National Youth Economic Empowerment Strategy and Implementation Framework (NYE) (2009-2019)	This strategy commits the DTI and its relevant stakeholders to promote economic empowerment of young people in RSA (RSA, 2009). It has three major objectives: first is to ensure that entrepreneurial skills, talent and experience are nurtured among youth, second is to ensure that youth are recognised as a key target group of need, and a resource in the development of small enterprises within national, provincial and local economies and, finally, to maximise access to financial and non-financial resources for youth who are in business or planning to enter into a business (RSA, 2009).
National Youth Economic Empowerment Policy & Implementation Framework (2012)	The purpose of this policy is to create an enabling environment for the promotion of youth economic empowerment. Create youth owned enterprises and employment, and to promote youth entrepreneurship & skills development among the youth (RSA, 2012).

Table 2.1 Policies and programmes and their major objectives

2.8.1 Analysis of the policies and programmes

It is evident that many policies and strategies are in operation. Many scholars, however, have critiqued them, stating that they replicate each other, and have done little to create effective agencies to help support business owners to start up and grow their business (Tim, 2011). The propounded critiques are presented below.

- **Irrelevant legal frameworks**

Some of the legal frameworks are irrelevant to addressing the current challenges facing the South African economy hence they need to be revised so as to face the new challenges of today's economy (Gichuru, 1997). The City of Cape Town Informal Trading Policy and Management Framework fails to support immigrants in business, yet Rogerson (1997) states that a number of immigrants are operating informal micro-businesses in RSA.

- **Good policies but less action taken**

Less effort has been made to transform these policies into a reality (Tim, 2011). Though the NYP (2009) established directorates for youth economic empowerment in most municipalities and in provincial and national departments, there is a lack of practical evidence of the transformation and empowerment of youth, especially regarding entrepreneurship and small businesses (National Treasury, 2011). There is a need for these directorates to transform plans into practice (Tim, 2011).

- **Inadequacy of these policies**

These policies are inadequate to address the complex challenges which the informal micro-businesses may face (Tim, 2011). The Integrated Small Enterprise Development Strategy does not have targets for youth, but for only small businesses in general. The policy is inadequate to help and support informal enterprises to survive the sometimes unfair competition from formal business (NYDA, 2011). Policies have failed to mainstream youth economic participation in micro-businesses, thereby turning a blind eye to the challenges and needs of youth, who may have more specific needs than do the general populace (NYDA, 2011). The following section discusses the institutions of support for informal micro businesses in South Africa.

2.9 The institutional framework in South Africa

The government has set up institutions to support new ventures. It has also embarked on an integrated approach through public/private partnerships to gain support from all the sectors of the economy in order to support the informal sector (DTI, 2009). The private sector and NGOs are also major driving forces for the success of micro-enterprises. The table below explains these institutions. This is followed by an analysis of these institutions (see Section 2.9.1).

Institution	Major Function
Department of Trade and Industry (DTI)	The DTI has a long history of transformation. From 1933 it was known as the Department of Commerce and Industry until in 1984 when it changed to what it is today. It was set up to facilitate economic growth, the heart of which is job and wealth creation. It has established institutional frameworks to support micro-enterprises. Inside DTI are the Enterprise and Industry Development Division, the Enterprise Development Unit, the Enterprise Organisation and the Trade and Investment South Africa, all of which are mandated to support enterprises in their respective fields (DTI, 2008).
City of Cape Town	The municipality has a role to facilitate the formation of informal trader associations for the ease of cooperation (Elindini Municipality, n.d). The municipality has the Economic Development Department (EDD) with the responsibility of promoting economic growth, of projects and programmes, such as entrepreneurship and informal trading business support facilities (City of Cape Town, n.d).
Small Enterprise Finance Agency (SEFA)	The Small Enterprise Finance Agency (SOC) Ltd, commonly known as SEFA, was established in 2012 through the Industrial Development Amendment Act, 2001 (DTI, 2012). This agency is mandated to regulate lending and credit guarantees to SMMEs and to support the institutional strengthening of financial intermediaries (SEFA, n.d).
The National Youth Development Agency (NYDA)	It was established in 2008 under the National Youth Development Agency Act (54 of 2008) to create opportunities for youth employment and youth entrepreneurship by developing, funding and supporting effective programmes. The agency was established in response to the high youth unemployment in the country. In response to this the agency has training centres that were established that can assist youth in imparting them with skills that may help them to be employable. In response to entrepreneurship, this agency the grant programme, which offers loans to youth who want to start entrepreneurship initiatives or start small businesses (RSA, 2008).
Commercial Banks	Commercial banks play an important role in supporting emerging entrepreneurs and informal micro-businesses. Banks provide start-up capital credit, information and advice micro-enterprises (Nieman & Nieuwenhuizen, 2009). Some banks run mentorship programmes, assisting in the writing of business plans, legal advice and financial management skills (Nieman & Nieuwenhuizen, 2009).
NGOs	There are several NGOs that offer support to youth enterprises in Cape Town. NGOs can provide business advisory services on transformation, motivation, role modelling, business orientation and facilitate entrepreneurial projects to young people through networks (De Soto, 2000).

Table 2.2 Institutions that support informal micro-enterprises

2.9.1 Analysis of the institutions

There are many institutions that offers support for micro businesses as outlined above. In spite of the availability of these institutions, however, Tim (2011) notes that the micro-business culture in South Africa remains low, hence the need to ask ourselves critical questions about the effectiveness of these support agencies. Several studies have shown that populations in emerging market democracies are excluded from participating in the formal economy because poorly designed institutions prevent them from doing so (De Soto, 2000). Turton and Herrington (2012) argue that early stage entrepreneurship is low in RSA and is 9% among youth of ages 25 to 34. De Soto (2000) identified that, weak institutions is the primary barrier to business growth and he argues that development of institutions for business reforms targeted at challenging barriers needs to be implemented. De Soto (2000) further argues that there is a need to establish

connections with informal sector associations at the grassroots level for policies to be made meaningful to these organisations. Below is a discussion of the shortfalls regarding policies relating to informal micro businesses in South Africa:

- **Lack of coordination and duplication**

As has been illustrated above, the government has many institutions whose duties and responsibilities tend to overlap (Tim, 2011). Rogerson and Reid (1997) quoted in Berry et al. (2010) note that there is poor co-ordination of service providers which results in a replication of services.

- **The bureaucratic structure and inefficiency**

Berry et al. (2002) argue that the bureaucratic structure of government agencies negatively impacts micro-businesses, who struggle with red tape in trying to obtain finance. Government lending schemes, were shunned by banks due to a high default rate, poor quality of applications and a claims process marred by red tape (Tim, 2011).

- **Lack of outreach by these institutions**

Bloch & Kesper (2000) quoted in Berry et al. (2002) note that there is a lack of outreach to micro-enterprises. Both emerging and established micro-businesses show little awareness of the existence of support initiatives. Many emerging SMMEs interviewed in Gauteng in Berry et al.'s (2002) study had never been in contact with, or even heard of, any support institution.

- **Criteria for getting support**

Though commercial banks are closer to the people since their branches are located across the country they are, however, not prepared to take risks unless the expected rate of return is high (Rogerson & Reid, 1997). The requirements to access loans remain rigid and difficult

2.10 Summary statement

This section has, through an examination of the relevant literature, highlighted the theories that underpin the study, the challenges faced and strategies employed by informal micro-businesses and the legal environment and support institutions for them that exist in SA. The next chapter outlines the methodology that was used in order to establish the circumstances and experiences of youth immigrants when establishing and running a successful informal micro-business.

CHAPTER 3: METHODOLOGY

3.1 Introduction

The goal of the study was to explore the circumstances and experiences of youth immigrants when establishing and running a successful informal micro-business. Understanding the realities of young people is not just a question of having the right research instrument, but there is the fundamental question about the approach that is taken (Wyn & White, 1997). In the light of this, it was imperative for the researcher to select the methodology that enabled participants' voices to be heard. De Vos, Strydom, Schulze and Patel (2011) argue that the research process must, as far as possible, be controlled, rigorous, systematic, valid and verifiable, empirical and critical for the data to have meaning relating to the researched phenomena. The researcher's process to answer the research questions in section 1.5 was thus done systematically. Additionally, the researcher's choices on this journey were not haphazard. Selecting the research approach, research type, research design, sampling procedure, data collection methods, tools and data analysis procedure was as far as possible informed by the questions to be explored and the goal of the study which forms the discussion in this chapter. Like any other process, however, this study had limitations that could have impacted the study. In the light of this, the chapter ends with a section clarifying the limitations of the study and explains how these were dealt with to avoid pitfalls.

3.2 Research approach

Marshall (1996) argues that the choice of research approach is determined by the research question, not by the preference of the researcher. Since this study aimed at getting the subjective interpretations of participants regarding their circumstances and experiences from commencement to the running of informal micro-enterprises, a qualitative study rooted in the intense interest of exploring, analysing and unfolding a phenomenon was imperative (Fouché & Delport, 2005). Within the context of the exploratory study the qualitative approach was relevant (Strydom, 2005). The study aimed at exploring the 'why' and the 'how' issues around immigrant youth-owned informal micro-businesses, hence, employing a qualitative exploratory approach was imperative.

The qualitative exploratory approach is grounded within the interpretive epistemology, which emphasises subjective meaning of social action (Fouché & Delpont, 2005). Bryman (2001) gives priority to this approach in that it involves seeing the world through the eyes of the participants. Blaikie (2000) notes that the approach seeks to gain the ‘insider view’ rather than the ‘outsider view’. Heath, Brooks, Cleaver, and Ireland (2009) give credibility to the use of qualitative research in issues relating to the youth, stating that it is a friendly approach. In today’s society, meanings of young people’s attitudes and actions are all too often either assumed or based on adult interpretations (Heath et al., 2009), thus hearing the voice of youth in this context has an empowering objective. The approach allowed the researcher to hear the subjective voice of the immigrant youth themselves. Moreover, since most immigrant youth are excluded and marginalised as Borjas (2004) argues, a qualitative study broke this barrier from the onset and was a step towards inclusion. The approach provided youth with opportunities to talk about their experiences and concerns in establishing and running informal micro-businesses in their own way. According to Kothari (1985), this approach unleashes the intricate phenomenon that may not be conveyed in a quantitative approach. It uncovered and contributed to an understanding of experiences in establishing and running successful informal micro-businesses. Moreover, it facilitated the researcher gaining information about the perceptions of service providers and, the own interpretations, meanings and understandings of immigrant youth about their situations and circumstances regarding the establishment and running of their informal micro-enterprises. This approach is also based on the fact that knowledge is contextual and situational (Mason, 2004). It thus enabled the researcher during the interviews with service providers to follow up responses along lines relevant to the context of the immigrant youth who operate informal micro-enterprises. Using this approach, the researcher was able to explore a wide array of dimensions like challenges faced, success stories, support structures and strategies employed in the establishment and running of informal enterprises from the perspective of both service providers and youth.

3.3 Research type

The researcher used applied research because the study aims to generate information that could be used by policy makers and programme planners. Kothari (1985) states that applied research is done to answer specific, practical questions: for policy formulation, administration and an understanding of a phenomenon. As mentioned in Section 1.1 and 1.3, this study was done in the

context of the global youth unemployment crisis, and targets informal businesses which are currently used to respond to this challenge. It is thus problem-oriented and conducted to provide potential clarification regarding immigrant owned informal micro-businesses. Since understanding the challenges faced by immigrant youth running informal micro businesses is somewhat complex, as explained in Section 1.1, applied research was critical to since it can influence institutional policies and practices to enhance an understanding of these businesses.

3.4 Research design

Delport, Fouché and Schurink (2011) refer to a research design as decisions that a researcher makes in planning the study. Since this was a qualitative study, the design was more than just a set of worked-out formulas (Delport et al., 2011). In a subjective exploration, the research design serves as a strategic framework for action that functions as a bridge between research questions and implementation of the research (Fouché & Schurink, 2011). In this study the choice of the design was influenced by the goal of the study, research questions, and research type and approach. It was appropriate for the researcher to use a qualitative research design for the purposes of this study.

3.5 Research methods

3.5.1 Research population

Research population is an aggregate or totality of all the objects, subjects or members that conform to a set of specifications or possess the attributes in which the researcher is interested (Strydom, 2005; Polit & Hungler, 1999). In this study all immigrant youth from southern African countries engaged in informal micro-businesses in Khayelitsha formed the population. However, as it was not feasible to interview the whole population, a clear sampling method and the setting out of relevant criteria for selection of participants was important (see Section 3.5.3). Even in respect of service providers, since they are diverse and many, the researcher had clear-cut criteria for selection (see section 3.5.4).

3.5.2 Sampling method

Sampling method should be ethical and feasible (Mason, 2002). Within the context of this qualitative study, a purposive sampling method was feasible and ethical. This is the most common sampling method in qualitative research where the researcher actively selects the most productive sample to answer the research questions (Marshall, 1996). Marshall argues that this sampling technique is influenced by the researcher's practical knowledge of the research area, available literature and evidence from the study itself. In reality, however, this is more than just a demographic stratification of epidemiological studies, though age, gender and social class might be important variables (Marshall, 1996). It has to conform to a set of specifications which enables one to gather rich data. In this study youth participants and service providers were chosen using criteria (see Section 3.5.3).

The researcher also employed snowball sampling method to get the desired number of participants. Strydom (2011) states that snowball sampling is used when studying the 'can be hard-to-reach' or hidden population. Since the researcher was able to get only 11 participants through site visits, employing snowball sampling method was imperative (see Section 3.5.6). This technique involved participants recommending useful potential candidates for study (Marshall, 1996). Snowballing was used through probing participants about other immigrant youth involved in informal manufacturing micro-businesses in Khayelitsha.

3.5.3 Criteria for selection of the participants

Miles and Huberman (1994) state that a more homogeneous sample is likely to generate rich information on the phenomena studied. In this study, criteria for selecting participants was vital because, although it was anticipated that the participants would be heterogeneous, the researcher strived for a more homogeneous sample with characteristics which would as far as possible advance the achievement of the goal of the study and answer the research questions. It is in the light of this argument that the researcher could not select participants haphazardly but made a strategic selection using those specific attributes. Below are the attributes of the sample that were used:

- **Geographical location:**

The participants were chosen from Khayelitsha, because of high poverty levels in the area. The majority of people in this area are unemployed and majority of those employed work in the informal sector (see Section 1.2).

- **Nationality:**

The participants were immigrant youth from southern African countries. The researcher targeted southern African immigrant youth because immigrants in SA come from different regions and may have different challenges and experiences. For this reason a sample of youth immigrants with similar attributes due to countries which they come from was targeted. PGWC (2007) argues that a large number of immigrants in SA from southern Africa, though statistics are not available due to the reasons given in Section 1.7.

- **Immigrants' status:**

The participants who made up the sample had a relevant work permit. This was deliberate, since the challenges faced by undocumented immigrants, or refugees may be different.

- **Age:**

The participants were aged from 25 to 34 years, based on the fact that the prevalence of entrepreneurial activity tends to be relatively low in the 18 to 24 years cohort and peaks among the 25 to 34 years cohort (Herrington, Kew & Kew, 2010). Targeting youth in the same age bracket (25 to 34 years) was done since they may face similar circumstances in the transitional period.

- **Nature of business:**

The businesses that were chosen were in manufacturing businesses. This was done because this sector provides a locus for stimulating employment creation and economic empowerment (DTI, 2013). Since this research was done within the context of youth unemployment, focusing on the manufacturing sector was vital.

- **Informal micro-business:**

The study targeted businesses which were unregistered by any state department or agency which qualifies them as being informal. Since they were micro-businesses, they were those employing fewer than four employees including the owner (see Section 1.7).

- **Successful informal business:**

The researcher used both broad and narrow measures of success. The researcher targeted businesses that had been in operation for at least two years which shows their viability. The perceptions of the owner were also considered as to whether they believed that their business was successful and would not leave the business in case an employment opportunity arises (see Section 1.8).

- **Gender:**

The researcher initially wanted a gender balanced sample, since the experiences may vary on account of gender. This was not possible due to the challenges of getting women who fitted the selection criteria, so the interviews were conducted with available participants, namely 18 males and two females. According to Turton and Herrington (2012), 61% of early-stage entrepreneurs are male while 39% are female. Women are still marginalised and still experience barriers of entry (Rao, Venakatachalam & Joshi, 2012). The researcher was comfortable using this uneven sample since the focus was on circumstances and experiences related to immigrant youth, regardless of gender. Using these participants did not divert the focus of the research.

- **Co-owned businesses:**

The researcher was aware that some businesses may be co-owned. In such instances the researcher interviewed one person in the business who owned a greater percentage of shares, or the one nominated by the business to take part in the study. Only one individual was interviewed per business.

3.5.4 Selection of service providers

As this was an applied research endeavour, it became imperative to investigate the service providers who are stakeholders in micro-businesses so as to be equipped with the perceptions they had of the researched phenomenon. The researcher first reviewed literature to gain an understanding of the stakeholders in the informal micro-business sector in SA, and to be sure that additional information needed to be collected from service providers. Since the previous research in this field did not target immigrants (see Section 1.3), it was vital to get the insights of service providers on this almost new phenomenon.

Nieman and Nieuwenhuizen (2009) state that micro-enterprise support is built on the greater role played by the **private sector** in provision of financial and non-financial services. Secondly,

government departments should provide an enabling policy environment, critical support services and capacity-building services that will facilitate the increased services to this sector. Thirdly, **government-owned and controlled agencies** are involved in direct implementation of support programmes. Finally **NGOs** provide business advisory services and can lobby the government on behalf of these businesses (De Soto, 2000). Selecting the right informants was central to this study. The informants chosen were people who not only understood immigrant informal micro-businesses, but came from the four stakeholder groups explained above. This provided in-depth information, informing the study from an expert point of view. In addition, this allowed for data triangulation, clarifying the findings from the youth. This is why the researcher chose organisations to represent a government department, an NGO, a government agency and a commercial bank. The researcher did not attempt to identify the population of each of the four groupings of service providers since they are large and their functions may be diverse. The following four service providers were simply decided on by the researcher for the reasons provided:

- **The private sector**

The private sector was represented by a commercial bank which provides funding and training programmes for SMMEs.

- **The NGO**

An NGO was selected which had mentoring, funding, training and enterprise development programmes for emerging businesses.

- **A government agency (NYDA)**

The NYDA was chosen as it funded youth-owned businesses and had training and mentoring programmes for youth owned businesses (see Section 2.11).

- **A government department (DTI)**

This department is in charge of trade and industry in South Africa. It designs and implements programmes and policies relating to small businesses. It was selected for this reason.

3.5.5 Summary of participants

The research used 20 immigrant youth participants who met the set criteria (see Section 3.5.3), and four service providers, making a total of 24 participants. Samples for qualitative

investigations tend to be small, for reasons that they try to answer the why and the how. Results may not be generalised (Marshall, 1996). The researcher found these 24 participants to be sufficient for the study objectives to be met.

3.5.6 Gaining entry and the selection of participants

One of the challenges in conducting research successfully is the ability to gain access to the world of the potential participants (Feldman, Bell & Berger, 2003). Successful execution of the design and data gathering is usually determined by the accessibility of the setting and the researcher's ability to build up and maintain relationships and agreements with gatekeepers and participants (De Vos, Strydom, Schulze & Patel, 2011). In this study this process entailed identifying and encouraging potential immigrant youth and service providers to participate. Gaining access however was not a simple task. The process requires some combination of strategic planning, hard work and luck (Khotari, 1985). The researcher therefore put in place a series of periodic visits to Khayelitsha. The first was in February 2012 to see the nature of informal micro-businesses. Since Khayelitsha is an area associated with violence, the researcher asked a friend who stayed in that area and had access to networks of young immigrants operating informal micro-enterprises, to accompany him. This was also done for purposes of safety and gaining entry. The researcher talked to a number of immigrants running informal micro-businesses around the Khayelitsha train station area to develop rapport with them. The fact that the researcher had knowledge of the local culture and was able to speak the local language at a basic level facilitated the entry process. Accessing participants was not a once-off event. It was rather a cyclic iterative process which was done at all the stages of the research. Fiedman et al. (2003) states that participants prefer to provide information to someone they trust. In the light of this, once a participant was selected the researcher maintained an open channel of communication through periodic telephonic calls and visits.

Once the researcher had decided to focus on businesses in the manufacturing sector, he made a second visit in March 2012 to do the initial selection of participants. The researcher managed to recruit 13 participants on this single visit, moving from one business to another. The 13 participants were three females and ten men.

A third visit made in September 2012 revealed that only 11 of the 13 participants were still available. Two participants were no longer operating in the area (one male and one female). The researcher then undertook snowball sampling through the 11 available participants and was able to recruit five more. The researcher then made a last visit for the year in December 2012, to tell

the participants about the expected data collection date in March 2013. In February 2013 the researcher visited the 16 participants to connect with them prior to interviews. In March 2013 a pilot study was conducted with two of the 16 participants. A week later, the researcher visited the recruited participants and through snowball sampling recruited six more participants who agreed to be part of the study, making a total of 20. These were operating businesses at Khayelitsha station. On this last visit the researcher set up appointments for the interviews with the participants in April. During all the visits, relevant ethics were explained to participants (see Section 1.9).

Access to service providers set in Section 3.5.4 was also not easy. The researcher targeted a bank that he was familiar with; the NGO was one that he knew provided services to youth located in Cape Town after researching on the internet. The government department and agency were selected for the reasons in Section 3.5.4. The process started by searching for contact details of the participants on their websites. The organisations were contacted telephonically in February 2013. The researcher was given the contact email address of the manager over the phone. He then set up an appointment with the manager through the email. On the first appointment an explanation of the research was given to the participants. An appointment was set up for interviews in March. A follow-up call was made to the participants prior to the appointment date as a reminder. During the course of all communication and contacts, the ethical considerations were explained to the participants.

3.5.7 Data collection

This section discusses the data collection method and tools used and the rationale behind such choices.

3.5.7.1 Data collection method

As this study was a qualitative study only qualitative data collection method was applicable. The researcher used in-depth interviews. Greeff (2011) defines in-depth interviews as attempts to understand the world from a participant's point of view, to unfold the meaning of people's experiences, and to uncover their lived world prior to scientific explanations. Heath et al. (2009) states that in-depth interviews provides a channel for the expression of opinions and experiences of oppressed groups which other methods like questionnaires do not provide. In this study in-depth interviews helped the researcher to gain knowledge about the perceptions and experiences of participants at the start-up and growth phases of their enterprise. An understanding of such

experiences could have been difficult to explore using questionnaires since they limit participants in explaining their story. In-depth interviews allowed for a conversation between the researcher and the participants. They helped the researcher and the participants to be actively involved in the conversation. Additionally, it provided a more relaxed atmosphere in which to collect information. Participants felt that they were not limited as regards their response to questions that were asked. All the questions were open-ended and were followed up with probing questions to gain clarity. Moreover, the process gave freedom to the participants to air their views which, in turn, gave them control over the interview.

As far as the interviews with the young entrepreneurs were concerned, the shortest took approximately 30 minutes and the longest an hour and twenty minutes. Eighteen interviews were conducted at the participants' place of operation and two were done at their homes. The interviews of the service providers took about 45 minutes to 1 hour. They were interviewed in their offices. All the interviews were conducted in English, after confirming with the participants that they were comfortable to converse in English. Heath et al. (2009) assert that in-depth interviewing is relevant to research about youth since open-ended questions give modes and discourse familiar to youth and they may give opportunities for them to ask questions if they feel so which avoids a 'question – answer' approach to interviewing. The youth participants and service providers asked questions of clarity and at times requested the researcher to elaborate. They also asked for the rationale behind some of the questions the researcher asked. This was evidence that this method gave the participants liberty to air their thoughts, thereby allowing them to be partners in, rather than objects of the study. To improve the quality of data collection process, the researcher first conducted a pilot interview so that deficiencies and mistakes could be addressed before the actual interviews (see Section 3.5.8).

3.5.7.2 The interview schedule

An interview schedule is a set of questions written to guide interviews (Khotari, 1985). Because this was a qualitative study, the interview schedule was used as an instrument to engage participants and designate the narrative terrain. Mason (2002) is of the view that the interview schedule forms the backbone of a qualitative design. The researcher worked with the supervisor in designing the interview schedules for the youth and key informants. The researcher used a language that is comprehensible and relevant to immigrant youth in informal micro-businesses. Leading questions were avoided as this could distort data. The schedules had open-ended questions. The schedules started with the introduction section and ended with the concluding

sections. These two sections were important in seeking consent and reinforcing ethics. The introductory section enabled the researcher to seek consent, explain that participation was voluntary, and to explain the aim of the study. In the concluding section confidentiality was reinforced. The researcher adopted a logical structure by grouping questions into sections and proceeding from the general to the specific. The questions were arranged from simple to complex. Additionally, questions were made simple and jargon was avoided as far as possible. In the discipline of Social Research it is recommended that research questions, design and methods are compatible (Bailey, 2005). Following this notion, the researcher arranged the interview schedule for the immigrant youth into five sections (see Annexure A) while that of the service providers had three sections (see Annexure C). These sections were influenced by the main research questions and the objectives of the study. Those questions responding to a similar objective and research question were grouped together. The structure of the interview schedule was communicated to the respondents through a brief introductory outline of the areas to be covered, so that they would know where the conversation was going. The schedule was used in a flexible way, as a guide. The researcher did not need to use all the listed probing questions. They were stipulated simply to serve as a reminder to the researcher about what data needed to be collected.

3.5.7.3 The factsheet

To ensure that correct information about youth participants was captured, the researcher made use of a factsheet as a record. The factsheet recorded, but was not limited to age, gender, nature of business, country of origin and number of years in the business. Such information was useful to ensure that the criteria for selection were complied with (see Annexure B). The participants were asked to fill in the biographical information at the beginning of the interview.

3.5.7.4 The digital recorder

The researcher used a digital recorder to record all the interviews. Consent was given before recording interviews. This made possible to capture all the data from youth participants before transcribing and analysing it. The interview process for youth participants flow in a smooth manner since the interview was not distracted by taking notes.

3.5.8 Pilot study

Cochran and Cox (1992) state that a good research strategy requires careful planning and a pilot study is often part of this strategy. A pilot, or feasibility interview, is a small experiment designed to test tools and gather information prior to a larger study in order to improve the

latter's quality and efficiency (Lancaster, Dodd & Williamson 2004). The pilot study was conducted to reveal possible deficiencies in the design, proposed instrument and data collection procedure so that these can then be addressed before time and resources are expended on a large scale study. In this study the pilot interview was conducted two weeks before the full study. The researcher interviewed two participants based on availability. The researcher then listened to the recorded interview to re-visit the interview and to self-reflect. The researcher set up a meeting with his supervisor to discuss the lessons learnt. The pilot study provided vital information as to the clarity of the instrument and how long each interview could take. The pilot study showed that interviews were likely to be a minimum of 45 minutes. The instrument was found to be user-friendly and the flow of questions was coherent. Moreover, the researcher learnt that the questions were clear since all of them were understood. The researcher learnt to improve voice projection and to improve his probing skills. The researcher's confidence and efficiency in responding to the participants were boosted. Strydom (2005) states that information emerging from a pilot study can enable a tentative estimate to be made of the cost and length of the main investigation. This study gave the researcher insight on the feasibility of the study as it showed that only costs of photocopying the interview schedule, time and transport were needed. The study was found to be feasible and the researcher planned for these requirements in advance.

3.5.9 Data analysis

Patton (2002) defines data analysis as a process of reducing the volume of raw information, sifting significance from trivia, identifying significant patterns and constructing a framework for communicating the essence of what the data reveal. The gathered data was transcribed, which was a process of transforming data into written text before analysis started. The researcher transcribed the interviews himself to ensure confidentiality, the recorded voices and the transcripts were kept locked up in a secure place. Pauses and other noticeable behaviours were transcribed as well. Notes taken during the service providers' interviews were written out clearly. In executing the analysis process the researcher inspected and analysed data with the goal of highlighting useful information which is necessary for suggesting conclusions. The researcher used Tesch steps (1990) in De Vos and Fouché (1998). The steps which were followed are given below:

Step 1: The researcher read the transcripts to have a holistic understanding of data collected.

Step 2: After all the transcripts were read the researcher selected and read one particular interesting transcription with the view to understanding the participants' responses in relation to the objectives of the study.

Step 3: The researcher studied the transcriptions in order to identify themes. After finding themes, the researcher discussed them with the supervisor to get her input.

Step 4: In this step the researcher used individual themes as the unit for analysis and not the physical linguistic units like word, sentence, or paragraph.

Step 5: Identifying themes on all transcripts: the researcher took all the transcripts and repeated Step 3 carefully to clarify the categories and sub-categories by looking at their interconnectedness. Categories were generated inductively from the transcripts by the researcher.

Step 6: The researcher finalised the themes, categories and sub-categories that emerged.

Step 7: The researcher assembled data under explicit themes, categories and sub-categories. After identifying themes the researcher coded data. Consistency was checked, in most cases through an assessment to see if there is consistency in and interconnectedness of data in each theme.

Step 8: The researcher compared themes, categories and sub-categories with transcripts to check for data which has been left out. Coding consistency was checked and coding revised in a cyclic iterative process until sufficient coding consistency was achieved (Miles & Huberman, 1994).

3.5.10 Data verification

Without rigour, research is worthless, becomes fiction, and loses its utility (Morse, Barret, Mayan, Olson & Spiers, 2002). The determination of whether information gathered during the process of data collection is complete and accurate is thus important. Because this is a qualitative study the results cannot be generalised (Babbie & Mouton, 2010). To test the trustworthiness of this study, one needs to observe the research standards and methodology applied by the researcher. Since the study has a clearly laid out methodology, it is practical to apply the research to a similar context. Confirmability is determined by checking the internal coherence of the research product, namely, the data, the findings, the interpretations and the recommendations (Wolcott, 1990). The researcher checked the internal coherence through proofreading. The researcher ensured that the study was coherent and that the recommendations were well thought out and informed by the findings.

3.6 Limitations of the study

The researcher acknowledges the fact that there is no study that is perfect and without limitations. This section discusses the limitations of the research design and methodology.

- **Research approach**

A qualitative approach is confined to subjectivity thus findings are unique to the relatively few people included in the research study. This may make the study vulnerable to the presence of biased views of the participants (Grinnell & Unrau, 2008). Good qualitative research hence depends on the honesty of the participants. This may be problematic if participants decide to be dishonest. Because the researcher followed ethical guidelines and built relationships of trust with participants, it is hoped that such possible biases were limited.

- **Sampling**

The subjective nature of non-probability sampling does not permit making inferences, which might apply to the entire population (Strydom, 2005). Though it cannot be generalised (see Section 3.5.2), it can generate valuable and a deeper understanding of the phenomenon studied.

- **Data collection method**

In-depth interviews allowed the interviewer to clarify and probe around. However, the drawback to in-depth interviewing is that it depends heavily on the competency of the researcher's interviewing skills (Wolcott, 1990). In addition, Plummer (2001) states that qualitative interviewing also is dependent on the respondent's capacity to verbalise, interact, conceptualise and remember. Moreover, such interviews can be time-consuming since many questions may be asked (Khotari, 1985). Furthermore, there could have been problems relating to some participants failing to understand the questions due to language problems, since English is not their home language. Little data could have been gathered in cases if language became a barrier. The researcher had to use simple conversational English in the schedule to facilitate conversation. Whatever the participants did not understand was clarified. To improve his competency, the researcher was trained in 2011 during the Honours Course by the supervisor through role playing on how to conduct in-depth interviews. In addition, the researcher conducted a research project in his Honours year. Lastly, he conducted the pilot study to learn lessons to ensure that he was understood by the participants. It is hoped that such training may have enhanced data collection methods.

- **The digital recorder**

The use of a recorder allowed the researcher to capture or record verbal data which facilitated the process of transcribing. This apparatus was viewed with suspicion by service providers and they did not agree to be recorded. The researcher had to take notes during the interviews.

- **Data analysis**

Qualitative data analysis often takes time, is strenuous and can easily be influenced by the researcher's personal biases and idiosyncrasies. Important information said explicitly or implicitly may be overlooked by the researcher due to these biases. This may compromise the accuracy and credibility of research findings. To limit this problem, the researcher used Tesch's (1990) data analysis procedure and followed the steps rigorously and thoroughly so that the data gathered emanated from the data collected.

3.7 Summary statement

This chapter has discussed the research methodology and the rationale for choosing such a journey, the possible limitations of the methodology and how the researcher managed to deal with these limitations. The next chapter focuses on the presentation and analysis of the findings.

CHAPTER 4: PRESENTATION AND ANALYSIS OF THE FINDINGS

4.1 Introduction

The study brought insights into the circumstances and experiences of youth immigrants establishing and running a successful informal micro-business in Khayelitsha, Cape Town. As a preamble the study required the researcher to solicit the participants' understanding of the informal sector. The study indicated that participants defined this sector is basing on registration. Informal micro-businesses were not started by default but there were several push and pull factors. Most of them desire to join the formal sector because they acknowledge the benefits associated with this. The journey to establish the business was succumbed with a plethora of challenges. These youth also indicated that they did not get support from the service providers due to a number of reasons. Though, these challenges could have led to business failure, however this was not the case with immigrant youth. They employed several strategies to deal with these challenges for them to succeed. The analysis of these findings is the central discussion in this chapter.

From the onset, a profile of each participant is tabulated below (see Table 4.1). This is followed with a brief clarification of the content in the table. Table 4.2 profiles the service providers and a section to clarify it. Table 4.3 presents themes and categories that emerged from the study. Finally, a presentation of findings and analysis follows this table

4.1.1 Profiling participants

Pseudonym	Age	Gender	Country of Origin	Education level	Year of establishment	Previously employed	Nature of business
Gerald	30	Male	Zimbabwe	Tertiary	2008	Yes	Carpentry
John	31	Male	Zimbabwe	Tertiary	2010	Yes	Carpentry
Petty	31	Female	Zimbabwe	Tertiary	2004	No	Sewing business
Privi	31	Female	Zimbabwe	Tertiary	2004	Yes	Sewing business
Chamvari	27	Male	Malawi	Tertiary	2010	Yes	Carpentry
Tatenda	26	Male	Zimbabwe	Tertiary	2008	Yes	Upholstery
Dana	30	Male	Zambia	Tertiary	2007	No	Leather processing
Tariro	27	Male	Zimbabwe	Tertiary	2010	No	Leather processing
Taziva	26	Male	Zambia	Tertiary	2009	Yes	Creative business
Fidza	32	Male	Zimbabwe	Tertiary	2008	No	Leather processing
Tari	31	Male	Zambia	Tertiary	2009	Yes	Creative business
Muto	26	Male	Zimbabwe	Tertiary	2010	No	Carpentry
Temba	29	Male	Zimbabwe	Tertiary	2010	No	Upholstery
Rugaba	30	Male	Zimbabwe	Tertiary	2010	No	Leather processing
Reason	30	Male	Malawi	Tertiary	2005	No	Leather processing
Shanda	31	Male	Zimbabwe	Tertiary	2010	Yes	Creative business
Lino	27	Male	Zimbabwe	Tertiary	2009	Yes	Creative business
Kudzai	26	Male	Malawi	Tertiary	2009	Yes	Upholstery
Sam	32	Male	Zimbabwe	Tertiary	2005	Yes	Upholstery
Simba	27	Male	Zambia	Tertiary	2007	Yes	Upholstery

Table 4.1 Profile of the participants

Eighteen of the participants were men and only two were women, as there were only two women that met the selection criteria for the study. The aim was not to exclude women. The possible reasons to this are explained in section 3.3.5.1. In addition, this can reinforce the view of Rao, Venakatachalam and Joshi (2012) that there is a gender dimension to the challenges of the informal sector. Although the purpose of the study was not to explore the dimensions of the challenges, it helps to clarify the sample that was used.

As seen in the table, participants indicated they had acquired tertiary education. The educational qualifications of the participants could have played a role in determining the success of these immigrant youth since Berry et al. (2002) argued that education and training can contribute to and enhance the success of an enterprise.

These participants come from three countries in southern Africa: Malawi, Zambia and Zimbabwe, with the majority from Zimbabwe. The age bracket of the participants was 26 to 31 years. This was in accordance with the reasons set out in section 3.3.5.1.

The businesses in which these immigrant youth were involved were the sewing business; carpentry; upholstery; leather goods and creative businesses. Creative businesses included making pottery, decorating flowers, and crafting chairs. Leather goods included making belts and African shoes.

4.1.2 Profiling service providers

Participant	Nature of the organisation	Services provided
Org B	A banking and financial lending organisation	Commercial banks play an important role in supporting emerging entrepreneurs and SMMEs. This bank show support to emerging SMMEs and entrepreneurs through schemes to not only fund but also provide mentorship, assist in writing business plans and legal advice (see Table 2.2).
Org D	DTI	*
Org F	NGO	This NGO designs and implements high-impact enterprise development. It offers a range of business support programmes like, skills development, business growth and mentorship solutions through their proven and effective programmes, as well as through tailored support and bespoke business development solutions (see Table 2.2).
Org N	NYDA	*

Key

*see Table 2.2

Table 4.2 Profile of service provider organisations

Service providers represented each major sector of the economy (see Section 3.5.4).

4.1.3 Themes and categories

This section will tabulate themes and categories that came out from the analysis of the data that was generated through the interviews. These themes and categories are used to frame the discussion that follows in Table 4.3.

Themes	Categories and sub-categories
4.2 The formal and informal sector dichotomy	4.2.1 Regulation and the informal sector 4.2.2 Reasons for operating in the informal sector 4.2.2.1 Complex requirements to join the formal sector 4.2.2.2 The tax burden in the formal sector 4.2.3 The advantages of the formal sector 4.2.4 Summary of the formal and informal sector dichotomy.
4.3 The reasons for starting informal micro-businesses	4.3.1 The informal micro-business as a response to unemployment 4.3.2 In search of better income 4.3.3 The attraction of self-employment 4.3.4 Summary of the reasons for starting the informal micro enterprises.
4.4 The challenges faced by immigrant youth	4.4.1 Challenges at the start-up 4.4.1.1 Cultural barriers 4.4.1.2 Securing area from which to operate 4.4.1.3 Lack of start-up capital 4.4.2 Challenges in managing growth 4.4.2.1 Risk and security 4.4.2.2 Customers who do not want to pay 4.4.2.3 Lack of business skills 4.4.4 Summary of challenges.
4.5 The strategies employed to overcome challenges	4.5.1 Building social capital 4.5.1.1 Developing networks to secure an area from which to operate 4.5.1.2 Social capital to get start-up capital 4.5.1.3 Social capital for safety 4.5.2 Marketing and public relations strategies 4.5.3 Exploiting location of business to their advantage 4.5.4 Influencing their business with their attitude 4.5.5 Utilising their education 4.5.6 Manufacturing quality goods 4.5.7 Summary of the factors behind success.
4.6 Sources of support for informal micro-businesses	4.6.1 Training support for immigrant informal micro-businesses 4.6.2 Financial support for immigrant informal micro-businesses 4.6.3 Civil society organisations, government and immigrant owned informal micro-businesses. 4.6.4 Summary of immigrant youth support

Table 4.3 Themes and categories

4.2 Formal and informal sector dichotomy

Participants' perception of the basis of the difference between the formal and informal sector was that the informal sector entails those businesses not registered with a government department or agency. On the one hand the formal sector is perceived as being composed of registered businesses, difficult to join due to complex procedure and regulations. On the other hand, the informal sector is composed of unregistered businesses with fewer restrictions to join

and operate in. Youth business owners felt that it is more advantageous to operate in the formal sector than in the informal sector and the reasons for this are discussed in Section 4.2.2.3.

4.2.1 Regulation and the informal sector

Most of the participants indicated that the informal sector consists of businesses not registered with any government department or government board. A minority stated that the informal sector comprises businesses that are normally run by the poor.

The informal sector refers to the unregistered businesses and the formal businesses are the registered ones. (Gerald)

The informal sector is mostly run by the poor who cannot afford to register their businesses. (Petty)

The key informants were in agreement with the youth. They mentioned that regulation is the basis of the difference. They emphasised that informal businesses do not pay tax. They also mentioned that these businesses are predominantly survivalist enterprises run by people responding to economic shocks. This can be linked to what Petty mentioned that the informal sector was made up of businesses linked to the poor.

This is the unregistered businesses which provide basis for one to join the formal sector. These businesses do not pay tax and normally are operated for survivalist purposes. You can start it with less capital. (Org N)

Unregulated and unregistered businesses, some of which are quite large and successful. (Org F)

Registration forms the basis of differentiating between the two sectors. It is the basic characteristic that differentiates the two. Literature has defined the formal sector as economic activities that occur within the purview of state regulation (Maloney, 2004). StatsSA (2003) also supports the notion that informal businesses are unregistered. The view that the informal sector is run by the poor, as held by Petty implies that it is composed of survivalist enterprises. The view that the informal sector is run by the poor and marginalised groups, is supported by researchers like Muller (n.d), who argues that the informal sector accommodates the unskilled and the uneducated.

On the contrary, however, as noted by Org F, not all businesses in the informal sector are survivalist, some are large and successful. This indicates that not all businesses in the informal

sector are survivalist. Some are opportunity based and are successful, hence informal sector businesses should not be mistaken as a term referring to survivalist businesses. This is supported by Nieman and Nieuwenhuizen (2009) who argued that informal sector businesses are operated on a basis of opportunity rather than necessity.

4.2.2 Reasons for operating in the informal sector

There were several reasons as to why immigrant youth choose to operate in the informal sector. For most of them there were barriers to entry into the formal sector. The formal sector was found to be complex with rules and regulations while the informal sector was accessible and feasible to the immigrant youth, with fewer restrictions and legal requirements. More than just rules were the misconceptions that immigrants have about the cost of registering their businesses and tax.

4.2.2.1 Complex requirements to join the formal sector

The informal sector was easier for them to enter and operate than the formal sector since requirements to start were achievable and reasonable to the immigrant youth. Joining the formal sector is complex due to the rules and procedures that need to be followed hence the informal sector was a feasible option for the participants. A number did not have the necessary documentation for them to register at the time they established their businesses.

For us foreigners, it is easy for us to operate in the informal sector. It is difficult for us to register formally. The department needs a business permit which I do not have; I only have the work permit. (John)

When I started this business I had no work permit till last year when I got it, hence it was not possible for me to register the business. (Tatenda)

Service providers also noted that the formal sector requires many procedures. Most of the youth, therefore, join the informal sector because of its feasibility. Operating in the informal sector is an advantage in some ways, as one does not need to join any professional body, or submit annual reports to the government which is cumbersome. Org D. mentioned the complexity of the procedures necessary for businesses to be considered formal. He stated that for companies to be considered formal, they not only have to register with the Companies and Intellectual Property Commission (CIPC) but need to register with SARS to get a tax clearance certificate and with a body which their business belongs to. This may be costly and time-consuming.

When I say registered, that means they need to be registered with CPIC first and the SARS for them to get a tax clearance certificate. They also need to be registered with a board which they belong to. You see there are a whole lot of channels that the businesses need to undergo for them to become formal. They also need to submit annual turnover reports. (Org D)

The youth and service providers in this study mentioned that the formal sector is becoming an increasingly complex sector which one cannot join without the required documentation. It is for this reason that most of the participants operate informally. The informal sector is rather an escape route from the complexity associated with the formal sector. For a business to be formal it has to register with the three bodies mentioned above, making it a bureaucratic and cumbersome process. The need to submit annual turnover reports to the government feeds into the strict regulations of being formal. It is with these challenges in mind that De Soto (1989) argues that the informal sector will continue to produce informally so long as government procedures are cumbersome and expensive. Additionally, Rao (2011) outlines the position of the legalist school which sees the informal sector as being comprised of micro-entrepreneurs who choose to operate informally to avoid the costs, time and effort of formal registration, and that they continue to produce informally so long as government procedures are cumbersome and expensive. It is worth noting that not only immigrants face this challenge as Cupido (2002) notes that joining the formal sector is complex, even for the locals, who were subjects of his study. The barriers to register are evidence of the structural exclusion which youth face. In addition to these complex rules is the tax burden, which is discussed in the following section.

4.2.2.2 The tax burden in the formal sector

The youth participants did not mention the issue of tax. Most service providers, however, were of the opinion that businesses operate informally so as to avoid the payment of tax. Many informal entrepreneurs may have only a limited knowledge of tax since they did not mention anything relating to it. One service provider, however, mentioned that it is only through the narrow understanding of paying tax that the informal sector can be seen as a non-paying sector. Tax is, in fact, paid indirectly in the form of Value Added Tax (VAT), as noted by one service provider. This is done through the purchase of raw materials and using their income to buy basic necessities. The narrow view that informal businesses do not pay tax can thus be critiqued on this basis.

There is no tax burden. They are not held up to the same requirements and expectations as a formally registered business. (Org F)

It also expands the tax base. Remember the people that operate in the informal sector buy in shops and they pay VAT. (Org N)

Maloney (2004) supports the arguments of the service providers when he suggests that informal entrepreneurs deliberately avoid regulations and taxation and may deal in illegal goods and services. Moreover, Rao (2011) from the legalist school, views the informal sector as being comprised of micro-entrepreneurs who choose to operate informally to avoid taxation. This shows that tax may be causing businesses to operate informally, as service providers suggested.

4.2.3 The advantages of the formal sector

The immigrant participants indicated that if they were to join the formal sector they would be in a better position to access some resources, like securing an area from which to operate. They also argued that if one operates in the formal sector, one is able to get loans. The other advantage mentioned was that formal businesses attract business customers in the formal sector. The youth assumed that formal businesses can only buy from formal or registered businesses. Joining the formal sector would enable them to attract big wholesalers so that they could supply them. Though the informal business may be relevant to a poor community like Khayelitsha, most of these immigrants desired to expand their markets beyond the local community but they believed that this could only be achieved if their businesses were registered.

I would like to register my business, that will put me at an advantage in cases where I need a loan or to operate in busy places like in town. (John)

I went to borrow funds from a bank but they could not assist since they need registered businesses and surety. (Privi)

I would be happy to join the formal sector because if you are registered that can also attract a lot of customers and you can supply big furniture companies. (Rugaba)

The service providers also noted that there are challenges associated with the informal sector and they indicated that operating formally is at an advantage than operating informally. The advantages articulated by the service providers are similar to the ones noted by the participants.

.....but also an opportunity to apply for government initiatives and funds, commercial loan finance etc, which unregistered, informal businesses do not have. (Org F)

The above quotations show that formal businesses are also more inclined to assist formally registered businesses. Anyone wanting to get a loan needs to have a registered business. The

participants bring to the centre the peripheral relationship between these two sectors (Bhorat, Leibbrandt, Maziya, Van der Berg & Woolard, 2001). Though participants aspire to compete with formal traders and to expand their market frontiers to big wholesalers, it seemed difficult, if not impossible, since they indicated that for them to access the formal market they need to be registered. This is supported by NYDA (2011) that informal enterprises face challenges to survive the sometimes unfair competition from formal business. The informal sector is seen as marginalised and is thus hindered to conduct business with official institutions or large formal businesses. In reality, one would see that it is a case of marginalisation, exclusion and segregation as argued by the structuralist perspective.

4.2.4 Summary of the formal and informal sector dichotomy

The participants and service providers have made a distinction between the two sectors and registration was the main basis for the difference. The business owners mentioned that they desire to join the formal sector but it is complex and regulated and has barriers to entry. There are structural procedures that exclude youth. The service providers indicated that businesses are operated informally because of the tax burden. Faced with these barriers, immigrant youth join the informal sector. Informal businesses can be seen as a response to several push and pull factors which the following section discusses.

4.3 The reasons for starting informal micro-businesses

There are several factors behind the immigrants wanting to start their own informal micro-businesses. These businesses were started as: a response to unemployment, in search of a better income so as to cope with having to send remittances home, and as the outcome of search for a flexible work environment.

4.3.1 The informal micro-business as a response to unemployment

Most of the youth participants highlighted that their informal micro-businesses are a survival strategy in the era of unemployment. These businesses are a tool to enable immigrant youth to fit in the foreign urban livelihood. These participants faced difficulties finding employment; these businesses were thus a ray of hope in such situations.

I came here and I spent 9 months without getting any formal employment and I was left with no option but to start my own business. (Reason)

We found hope in informal businesses as foreigners. It was hard to find employment which made it hard for us to put food on the table. (Dana)

Imagine the South Africans are unable to find employment, how much more is the problem to us immigrants. I chose not to look for a job but to create jobs. (Fidza)

The key informants are in agreement that the informal micro-businesses are a means to respond to unemployment. The informal sector is seen by both the participants and key informants as an integral component of the South African economy.

It is necessary with the rate of unemployment which our country is facing. The informal sector can be a way to respond to this challenge. (Org N)

The informal sector is really a necessary component of the economy. Imagine all the people that operate in the informal businesses they have a lot of potential that needs to be harnessed for national development. The informal sector creates employment. (Org D)

Immigrants face challenges in finding employment, thus choosing to run informal micro-businesses is a strategy when facing the challenge of unemployment in a foreign country. Borjas (1994) supports the view of these immigrants that they face challenges in finding employment. Additionally, Owusu (2005) is of the view that new ventures are started because of high unemployment. This sector is a necessary component of the South African economy. With unemployment in South Africa being so high, one can agree that strategies promoting employment are necessary. The role of the informal sector in creating employment should not be underestimated. South Africa's informal sector is estimated at 23% of total employment (PGWC, 2007). This shows that a significant number is employed in the informal sector. The informal sector is shown as a livelihood strategy. It thus forms the basis of analysis of immigrant youth's strategic responses to economic crises, in a foreign land. Youth participants who were employed but left to join this sector did so to earn a better salary.

4.3.2 In search of better income

Of the twelve immigrants who were previously employed (see Table 4.1) five of them indicated that they were paid less than their current earnings, so it is clear that it is not only unemployment that draws people to the informal sector. The participants' salaries from their previous jobs were not enough to feed their families, so they started their own businesses out of the need to better their earning potential. Participation in informal micro-businesses gives hope to the previously

underpaid immigrants, since they are able to meet their living expenses, something that they could barely do when employed in formal businesses.

When I was working the salary which I was getting was not enough for me to feed my family, so I decided to opt for doing my own business. With this business I can feed my family and have surplus to send back home to Zambia. (Taziva)

I have a little daughter now and I don't think that I was going to provide for this baby if I had continued working for that organisation. (Privi)

The service providers did not mention this reason. The youth indicated that they were motivated by the potential offered by an informal micro-business to get a better salary which could match the effort they put into it. Immigrants are a vulnerable segment of the population, both in the labour market and as workers in a foreign land because sometimes they are underpaid (Borjas, 2004). In such challenges, the informal sector becomes a path out of the constrained labour market and the less paying jobs. Even immigrants in other countries start these ventures in response to low wages. This view is supported by the USC (2012) which reports that many immigrants establish businesses as an alternative to working for low wages. This emphasises the reason behind the immigrants' choosing to start their own businesses. To them higher returns on labour investment is acquired through operating their own business rather than being an employee. Thus the informal sector is chosen, not only as a response to unemployment, but also to the low wages they earn when they work in the formal sector.

4.3.3 The attraction of self-employment

Apart from the factors mentioned above, participants also indicated that they derived a sense of satisfaction from being self-employed and having the freedom of having a flexible work environment. Moreover, participants hoped to find something that they call their own and be their own bosses. The immigrant youth felt that this gave them confidence and empowered them to live the life that they want, for example Lino said:

I really wanted to be my own boss and make money doing things that I enjoy. This means that I am in control of my destiny, no one can fire me as and when they want. (Lino)

The service providers did not mention about the desire for self-employment. They do not see the pull factors to start informal businesses. They only indicate that immigrants are pushed by unemployment. The immigrants stated that besides getting employment which is what various

authors have indicated as the main reason for engaging in informal micro-businesses the desire for flexibility is also one of the motivations. Moreland (2006) argues that self-employment constitutes the most important aspect of starting new ventures. He argued that this is so because workers desire independence and to be their own bosses. In support of this, Kirkwood (2009) argues that the desire for independence triggers individuals to start their own businesses. This shows that besides financial gain, the need for flexibility and independence also motivates immigrants to start their own businesses.

4.3.4 Summary of the reasons for starting the informal micro-enterprises

It is clear from the study that reasons for starting the informal micro-enterprises were linked to the economic status of the youth prior to starting the business. Since a large number of these youth were unemployed, informal businesses was a strategy to secure employment and earn income. A minority who were employed prior to starting new ventures desired to expand their earning potential while others desired self-employment. Service providers were only aware of unemployment as a driver to engage in informal micro-businesses. Establishing informal micro-businesses, however, was not an easy task for these immigrants. They were faced with challenges which the following sections discuss.

4.4 The challenges faced by immigrant youth

The researcher found that there are many challenges which immigrant youth face, some in the start-up phase and others in the growth of the enterprise. Service providers also shared their views regarding the challenges faced by these immigrants. These challenges are explained below.

4.4.1 Challenges at the start-up

In this section the researcher presents and analyses the challenges which the immigrant youth who participated in this study experienced challenges while starting up their informal micro-businesses. The challenges that they mentioned were lack of capital, difficulties in securing an area from which to operate, few customers and cultural and language problems.

4.4.1.1 Cultural barriers

The youth mentioned the challenge of language. Language acts as a stumbling block for immigrants to gain entry to a community. The participants believed that for them to run a successful business, support from the community is needed. They mentioned the challenges which they experienced while attempting to enter the community and get their business established. They emphasised the negative implications for the business if the community is not supportive. The community forms the customer base, and is likened to a security guard which means that community members look after the safety of the business. Language was a problem and affected these participants when trying to get resources from the community, like space to operate from and getting electricity to use from the nearby houses. Additionally, this challenge negatively impacted their efforts to build rapport and form networks. The language problem also posed obstacles to better marketing of their goods.

You know for you to start a business in an area, you need the support from the community since they will be the ones to be your customers, your security guards and your friends. (Fidza)

It was not easy to just gain access to this community, without speaking their language and the attitude which they have towards foreigners like us, it was a hassle to start a business in this area. (Lino)

You need to have good people skills otherwise the community may just not like you because you are a foreigner. (Gerald)

The service providers did not mention the challenge of cultural and language problems that the immigrants faced. This shows that some challenges experienced by business owners may be overlooked by service providers since they may not be aware of such challenges. Commenting on a similar finding about immigrant business owners, Bosma et al (2000) argue that it is generally known that immigrants are a potentially vulnerable group, and that they take time to assimilate with the local community. In addition the above views of business owners indicate that some locals may have negative attitudes towards the immigrants. In support of this, De Varennes (n.d) argues that when immigrants living in host states where they may not master the official language(s) are detached from traditional support and family networks and exposed to a society with ways of life or cultures which they may find at times alien, may face problems that can leave them disoriented and disturbed. These circumstances act as a barrier to entry for immigrant to start their informal micro-businesses. A number of studies suggest that many South Africans are uneasy about immigrants (Leggett, 2003). The language barrier is not a new factor in this kind of study. Colton (2007) for example, argues that, among other challenges, language

barrier is a major problem faced by immigrants. In reality, however, it is not only in South Africa that immigrants face this challenge. Immigrants in America face similar challenges. In New York immigrants are similarly disadvantaged in gaining access to resources from the community due to the language barrier (Bowles & Colton, 2007). Linked to this challenge was the difficulty of securing an area from which to operate, something that is discussed in the next section.

4.4.1.2 Securing an area from which to operate

Finding a good business location was not easy for these business owners. This challenge was faced by most of the participants. Since the participants could not easily gain entry to the community, this influenced the challenge of securing an area from which to operate. The business owners initially failed to secure an area from which to operate, which negatively impacted the start-up process.

Imagine that I spent two months looking for just a space to rent so that I can do business. It was hard for me to just get this place.... It's a miracle that I am here. (Dana)

It is a well-known fact that foreigners face challenges to get the area to operate from. It was very hard for me to get the place to do business. (Chamvari)

The service providers did not mention this challenge. This justifies the reason for a qualitative study which tries to explore the experiences of these business owners. Some challenges are only evident through experience. The youth participants spent months trying to secure an area from which to operate. Chamvari believes that the fact that they are immigrants makes it hard for them to access land. He sees the exclusion of immigrants in terms of an inability to access some community resources. It must be noted, however, that the challenge of land is not only experienced by immigrants but also by locals. Cupido's 2002 study focused on the difficulties faced by locals trying to access land and concluded that this was a struggle of all new ventures. The challenge could, however, have been intensified if one analyses the legislative framework of the City of Cape Town, particularly its Informal Trading Policy and Management Framework (2004) which stipulates provision for an area of operation to South African citizens due to the fact that they allocate areas to operate to people with identity documents. This may validate the claim that immigrants are structurally excluded from getting an area to operate in, and are left to find their own. Instead of the policy acting to the advantage of these business owners, it is a barrier to immigrant informal businesses. Another challenge which these business owners faced was financial capital.

4.4.1.3 Lack of start-up capital

All immigrant youth who participated in the study mentioned the challenge of accessing start-up capital. It is generally known that every firm needs financial input. It may be impossible to start a business if one does not have capital, hence all the participants acknowledged the fact that this challenge affected them in many ways. Capital is a challenge since some of them, when contemplating starting a business, were not working while those who were working were poorly paid.

Funds to start my business were a challenge for me; I did not have funds since I was not working. Even though you may have an idea but without money you won't be able to start the business. (Chamvari)

Capital was a problem for me to start up; it was so because though I was working, my job was not paying me enough so that I could save to start a business, regardless I found ways of working under tight budget..... (Gerald)

All the service providers also noted that capital is one of the major challenges that affects new ventures.

Lack of mentorship, limited sector knowledge, challenges in accessing start-up finance, onerous and bureaucratic business registration and legislation processes. (Org F)

We do not have loans for informal businesses. All we have is for registered businesses. (Org B)

Previous studies, as for example reported by Tim (2011), have shown that capital enhances the successful establishment of the business. In this regard, however, the immigrant youth, like any other youth, had a challenge in getting start-up capital. In fact, Colton (2007) notes that immigrants are more adversely affected, in that they also have limited sources of support to cater for their needs, an issue which will be discussed in Section 4.6.2. This is in addition to the challenge that youth in general are affected by unemployment. Rogerson (1999) argues that most SADC entrepreneurs acquired their start-up capital from their previous jobs in South Africa. When examining unemployment through the lens of social exclusion, it can be seen that youth are structurally excluded from starting new ventures due to unemployment since they make up the highest percentage of the unemployed (see Section 1.3). Olawale and Garwe (2010) also note that in South Africa the lack of financial support is the second most reported contributor to low new firm creation and failure, after education and training. Though sources of support are available there are challenges in accessing these sources. This is explained in Section 4.6.

4.4.2 Challenges in managing growth

The owners find themselves dealing with challenges at all stages of the business cycle. Once the business was established, it did not mean that it was immune from challenges. It meant facing new ones relating to the growth of the business. The informal micro-businesses of the participants in this study grew in terms of annual turnover and customer base, as well as with regard to the quantity of the goods produced. This growth, however, posed new challenges, including risk and security and customers who did not want to pay.

4.4.2.1 Risk and security

Participants have noted that while Khayelitsha is a place where businesses can succeed because of its high population density, there is a challenge of crime, particularly theft, that often negatively affects the growth of the business. This problem demotivated the owners which in turn affected the performance of the business.

I was disappointed since my business was robbed two times when I just started operating, however I just moved on but was discouraged about that but it negatively affected my business. Now I am afraid of producing goods in larger quantities otherwise I run loss. (Petty)

Khayelitsha is a risky area to operate a business in. My tools were stolen and I had to stop working for a month trying to buy new tools. (Shanda)

The service providers also identified the challenge of violence and theft associated with the geographical area in which the research participants operated their businesses. The key informants note that Khayelitsha is not a good place to operate from since it is far from the city with no good roads and poor public facilities.

..... there is violence, crime and all social problems which can hinder businesses. There is no electricity in these informal places, informal settlements or shacks, no good roads, transport problems to the city. (Org N)

Crime and violence not only affect the business in terms of the goods that are stolen. The impact goes beyond that. Shanda mentioned that his goods had been stolen and indicated that his motivation to do business had thus been negatively affected. Petty commented that time was lost while her business was closed because of her security fears. This confirms the stance of The Presidency (2008) and Gape (1999) that theft and robbery are major challenges that impact negatively on business ventures. Additionally, Isaacs and Fredric's 2007 study supports this notion. They investigated the impact of crime on the performance of SMEs in South Africa and

found that it negatively affects that sector. The World Bank's Investment Climate Report: South Africa (2005) rated crime as one of the four major constraints on enterprise operation and growth in South Africa. The inherent crime in the country has thwarted micro-enterprises. This is supported by Gape (1999) who further argues that emerging businesses in informal settlements are likely to be victims of crime. Khayelitsha is location with informal dwellings, violence, theft, robbery and other deviant behaviour is common (see Section 1.2). This may be the reason why the business owners are faced with theft and crime in this area.

4.4.2.2 Customers who do not want to pay

The youth also mentioned that some customers do not pay them when they buy goods on credit. This affects the business in that the cash needed for the day-to-day running of the business may not be available. This challenge also poses problems when the business owner wants to pay rent and buy materials.

Some customers do not pay us if they borrow from us, they take advantage on the fact that we are foreigners, this affects cash flow, it also affects us especially when we want to pay rent and buy raw materials. Besides that, it demotivates us and we wonder at times why we still continue as if we are doing community service. (Tatenda)

As foreigners we face the challenge of customers who do not want to pay us after taking goods on credit from us. (Fidza)

The service providers did not mention this problem. The youth participants understood it as relating to the fact that they were immigrants and those customers take advantage of them. In support of this De Varennes (n.d.), argues that sometimes local populations may not appreciate or understand the impact and value of immigrants on economies and societies. This negatively affects the business ties that happen between the locals and the immigrants. Following the participants' understanding, one can be seduced into thinking that it is only the immigrant owned informal micro-businesses that face this challenge. In reality, however, most businesses are affected by this challenge in South Africa (Kotze & Smit, 2008). In their study these authors indicated that several businesses' cash flow is affected because if customers do not pay. This present study however, has revealed from the comments of the participants that, customer debt has a severe effect on the attitude of the business owners towards their businesses. It reduces their level of motivation which impacts the business negatively to such an extent that they even consider quitting. That is why a strategy to deal with such behavioural traits and attitudes is discussed in Section 4.5.3.

4.4.2.3 Lack of business skills

The youth participants did not mention the challenge of a lack of skills but the service providers mentioned this as a major drawback for the performance of informal micro-enterprises. The service providers noted that those youth who become involved in informal micro-businesses do so generally for reasons of necessity rather than opportunity. Their lack of skills, such as those of business communication and business management, affects them when they want to deal with sources of support.

The major reasons why youth start businesses is necessity rather than opportunity driven especially in South Africa. They normally come from disadvantaged backgrounds, they do not have grade 12, no tertiary education. They are generally low profile people hence they do not have the technical and business skills which are necessary for them to run micro businesses. (Org N)

The other challenge is lack of education which leads to lack of information. Some of the people who aspire to run businesses can't even speak business language. This makes them to be at a disadvantage. (Org D)

The youth need to be taught both technical and business skills especially how to write business plans and how to manage businesses. (Org N)

Service providers indicate that a lack of business skills places these youth at a disadvantage when managing growth in their businesses. Berry et al. (2002) argue that skills are very important for the success of businesses. The view is supported by Dana and Morris (2007) who note that the barriers to performance of entrepreneurs include lack of skills and lack of support. Moreover, Brüderl, Preisendörfer and Ziegler (1992), writing from a human capital perspective argue, that there is a general belief that business owners with human capital endowments will be more likely to own surviving firms. Skills are thus vital for the success of business. Service providers value business knowledge to ensure the success of an informal micro-enterprise but the youth participants did not believe that they were at a disadvantage in this regard. Their profiles indicated that they had a tertiary education, and this could well be why they had so much trust in their skills.

4.4.3 Summary of challenges

The immigrant youth in this study faced many challenges. These obstacles such as lack of capital as identified by youth and service providers who participated in this study are similar to those of any other informal business owners in South Africa and elsewhere. Additional challenges imposed by language and cultural barriers were specifically linked to immigrant status, as this

leads to a lack of awareness about the local community. Their inability to speak the local language was a stumbling block to develop networks which can better enhance their businesses. The service providers had a limited understanding of these challenges, and it is for this reason that they commented on skills which immigrants did not feel they lacked. The service providers mentioned violence and crime from a general perspective and did not identify other challenges like language and customers who did not want to pay. Since these businesses were faced with challenges at all stages, for them to be successful necessitated systems and structures being put in place and strategies being devised to overcome them. The following section discusses the strategies that were employed by the participants in the face of these challenges.

4.5 The strategies employed to overcome the challenges

The study has shown that there are a lot of challenges that the immigrant youth face during the start-up and growth of their informal micro-enterprises. Due to these challenges, it became imperative that they employ a number of ways to manoeuvre around the challenges in order to be successful. The strategies employed ranged from building social capital, employing marketing strategies, manufacturing quality and unique goods, exploiting the benefits of the location to their advantage, and utilising their education and skills, to using their behavioural traits and attitudes.

4.5.1 Building social capital

Since one of the major challenges which the immigrants faced was to gain entry into the community due to cultural challenges, building social capital was a necessity in order for them to connect with the community. The participants emphasised that building rapport with the community enabled them to secure an area from which to operate. Social networks went beyond just securing an area from which to operate. It also led them to be legitimised by the local community which gave them security as well. Moreover, this strategy enhanced their drive to attract their initial customers and thus they were able to overcome the challenge of a poor customer base which they experienced in the initial stages of their business. Social capital was also the driving force behind getting start-up capital, either through support from family members or through teaming up with friends to combine resources for the new venture.

4.5.1.1 Developing networks to secure an area from which to operate

In the face of the challenge of securing an area from which to operate, the immigrant youth in this study built networks in the community that would help them to secure an area from which to operate their business. Skills such as an ability to negotiate and connect with insiders in the community to build rapport are needed by immigrant youth entrepreneurs.

Regarding land it requires negotiation skills and you need to show humility to the people of the land. I approached one lady in this community and she helped me with a container to operate. (Gerald)

There is a need to connect with the community and build relationships with insiders for one to secure an area from which to operate. It is for this reason that Coleman (1988) notes that social networks in markets are a major strategy that determines the success of the business. These immigrants thus developed networks with the people in the area.

4.5.1.2 Social capital to get start-up capital

A number of participants who acquired start-up capital from family members indicated the importance of social ties for starting up informal micro-businesses. Though twelve youth participants were previously employed, as indicated earlier, their jobs were not well paying and they lacked the finance necessary for them to start a new venture. Some of the participants joined with their friends and combined resources. This can only be done if networks are cultivated and trust is promoted.

I got the money to start up from my brother since I was not working. (Petty)

Since we did not have money we looked for other partners that we can partner with so that we can start. I got three other friends of mine that were interested though two of them left. (Dana)

The immigrant youth have shown that building support networks is an important way through which to get start-up capital. Some participants got the money from family members while others teamed with friends to combine the resources. In support of this, Coleman (1988) states that networking is vital and is a key determinant of entrepreneurial success. He argued that social capital may facilitate entrepreneurship, start-up formation and network formation (Chung & Gibbons, 1997). The study thus indicates that the early establishment of trust-based relationships is a key factor in setting up conditions for accessing resources needed to start up an enterprise.

The fact that these relationships were built was, in itself, a positive step towards getting financial resources from family and friends to start the business.

4.5.1.3 Social capital for safety

On the negative side, however the participants noted that though businesses flourish in the area due to many people living there, there is the risk of violence which can lead to the disruption of the business and the concomitant negative impact on the business. The participants emphasised the need to form good relationships with the community and neighbourhood. Building rapport with the community from which they operate can legitimise their business and may protect it from the threat of robbery.

You need to be known in the area and once you are known by a lot of people that makes your business less risky of being attacked. (Shanda)

Though you report it does not stop the robbers from coming, but if you are known by a lot of people they keep an eye on your container. (Sam)

The youth participants stated that reporting the incidents to police alone is not enough to guarantee safety. There is a need to bond with the community so that they act as security guards to the business. Hence building relationships of trust is vital.

4.5.2 Marketing and public relations strategies

One of the challenges discussed above (see Section 4.4) is that of getting customers despite the language and cultural barriers. Social networking also was a marketing strategy. Marketing methods, both formal and informal, were used. These participants mostly used word of mouth to their peers and circles of friends. The business owners devoted their efforts to building rapport with the local community. Business cards were given to friends so that they advertised the venture. Friends in the community were thus used as advertising agencies. Most of the participants used this strategy, for example, Privi said:

I had to improve on my marketing strategies to talk to my friends in the community so that I advertise my business. I kept doing that and sometimes handing business cards to my fellow countrymen to advertise my business and it helped me. (Privi)

I spend time talking to people, knowing what I want at the end. I remember my friend Noma from this community, bringing three customers to me and I was ok for that month. (Sam)

Businesses whether formal or informal are faced with competition; effective marketing to customers is thus vital (Richardson, 1996). It is hence not because they were in the informal sector that the problem of finding customers was evident. The participants have shown that for them to expand their customer base, networking is vital. They indicated that marketing through word-of-mouth and handing out business cards can attract customers. Participants like Sam who used word-of-mouth often referred to relationship marketing which is a valued tool in bringing customers to businesses. In support of this, Buttle (1998) points out the power of the personal referral on customer behaviour. In addition, Richardson (1996) supports the view that customer focus is the most important determinant of business success. Consequently, marketing, that segment of management practice that deals with company-customer relationships, is a powerful force in today's society (Richardson, 1996). This is being utilised by immigrant youth and is leading to an increased awareness of products and services and customer referrals.

4.5.3 Exploiting location of business to their advantage

On the one hand there was the challenge previously mentioned of theft and robbery which is associated with Khayelitsha as a business location (see Section 4.4.2.1). On the other hand, however, participants mentioned the benefits of this area as a business location. They noted that Khayelitsha is a good business location in that it has many people living in it. They exploited this opportunity to get customers. The socio-economic profile of this area makes informal manufacturing businesses viable. Participants believed that poor people, especially those in this community, are encouraged to buy from them rather than buying expensive goods from the formal sector. Another benefit for operating a business in this area is that the cost of operation is lower, due low rental costs.

Many people in this area do not have money to buy expensive furniture in shops, because a lot of them are poor and do not earn a lot of money; this gives us a lot of market potential by selling the same furniture which they can buy in shops but at a cheaper price. (Tari)

Rentals for our containers or the places that we operate from in this area are cheap. Imagine if we have to rent in town or somewhere else. (Taziva)

The service providers, after having mentioned the negativity associated with this area like theft and violence, also mentioned the benefits of Khayelitsha as a business location.

It is an opportunity in the sense that there are a lot of people dwelling there and one can make a living. (Org N)

Business location is thus one of the most important determinants of business success. Khayelitsha as a good business location as participants noted, is a shift from negative thinking about this community as a bad business location as mentioned by BT and DPLG (2007), since, on the contrary, it offers benefits for business owners. As mentioned by participants and service providers, it is evident that young business-owners in this study utilise the benefits associated with this area and create opportunities for themselves. This seems to be a strategy employed by immigrants worldwide, as USC (2012) notes that in the United States of America, immigrants operate businesses in low-rent neighbourhoods that have little economic activity and deteriorating physical conditions. The study of Radiah, Mohd and Ab (2009) about the determinants of small business success empirically discovered that business location is vital in determining market accessibility.

4.5.4 Influencing their business with their attitude

This study has shown that the success of the business can be linked to the attitude of the business owner. The effort, hard work and commitment which business owners invest in their business contribute to its success. The attributes that emerged from this study included energy levels, hard work, self-motivation and task performance. This positive attitude added value to the business. Youth participants indicated that without commitment, effort and a sense of urgency, a business may not succeed. Challenges are inevitable for micro-businesses, but the way one responds to them makes a difference.

What you put into the business is what you get out. The time and effort, all counts for the success of your business. (Tari)

I have always believed in hard work for one to succeed, I am a hard worker and I have this zeal in me to be a cut above the rest in everything which I do, this gives me strength to move on even when the situation wants me to quit. (Dana)

You may have a good business idea, but if you do not stand the test of time you will not be a winner. I have a slogan of my own which says if you want to succeed, never give up. (Petty)

Service providers were in agreement with the comments from the participants. They mentioned that immigrant youth work hard and their behavioural traits and attitude towards work gives them an advantage when it comes to informal micro-businesses.

I believe that the immigrants have skills already and have good work ethic with both business and technical skills. (Org N)

The above remarks validate the view that youth behavioural traits contributed positively to their business. Hard work, perseverance and self-motivation as inputs are essential. The success of the business is inseparable from its owner's influence on the business. Despite challenges, they did not give up. Brockhaus (1982) in Witbooi et al (2011) supports this view when he reviewed a number of psychological attributes for the success of new business start-ups. He concludes that the attitude of the owner is vital for the success of business. Although skills have been overemphasised in previous research in the field like that of Rogerson (2000), Cupido (2002) and Berry et al (2002), this study indicated that more than skill is attitude which contributes to the success of the business. Comments from the participants regarding behavioural traits indicate the importance of perseverance in the face of challenges, as is discussed below. In other countries success of immigrant business is also credited to the contributions made by the immigrants themselves. Furthermore, USC (2012), when commenting on immigrant business, states that the success of immigrants in business in the USA is seen as resulting from ambition, hard work and having a vision. Another strategy used to deal with challenges was participants' utilising their education.

4.5.5 Utilising their education

Although service providers mentioned that immigrants lack business skills, the immigrant youth saw themselves as capable in terms of skills. They believe that their basic education and skills were assets that helped them manage their businesses well. They acquired these skills in the trade through formal education and work experience.

I managed to do some extra courses so that the knowledge I gain will help me in the management of the business. (Gerald)

My basic education which I got helped me to have skills in business management. (Petty)

These business owners see their education capacitating them to run their informal micro-enterprises. Immigrants in other countries are also known for bringing in technical skills expertise (USC, 2012). In this study, however, it is evident that these youth immigrants had business management skills, not only technical skills. This may have contributed to their success from a human capital perspective (see Section 2.4.2.).

4.5.6 Manufacturing quality goods

Participants believed that because the goods and services they sell are of a good quality customers buy them. In addition, participants see themselves not just as survivors in the informal micro-business environment, but as suppliers of quality goods to the market. They employ the entrepreneurial skill of noticing what other companies cannot offer. Many customers can be retained and the customer base can be increased if the quality and of goods produced is good.

I sell belts of high quality, some you cannot find them in shops, imagine an elephant leather belt, where can you find it except here. (Fidza)

I make nice pottery and a lot of tourists look forward to buy from me. I take my time making the pottery so that at the end I draw many customers and make a brand for my products. (Simba)

The service providers did not make any comments about the quality of goods produced by these immigrants. Research in previous studies also supports the fact that products at the optimal level of quality desired by their customers need to be produced for organisations to succeed (Garvin, 1998). Here the author point to the fact that the quality of goods produced adds to success of the businesses since there is competition among them. This research points to the fact that, more than just quality, there is a need for uniqueness of goods produced by youth participants.

4.5.7 Summary of the strategies employed to overcome the challenges

The findings indicate that there are a number of strategies employed by the participants in this study to overcome the challenges they face. From the strategies mentioned above one could see that immigrants seem to operate alone with no support from the service providers. Strategies used were outside the orthodox sources of support which the following section discusses in detail.

4.6 Sources of support for informal micro businesses

As pointed out in Section 4.5.6, immigrants who owned informal micro-businesses “go it alone” when it comes to support mechanisms. They have limited access to business development services and were not assisted by any training organisations or financial institutions.

4.6.1 Training support for immigrant informal micro-businesses

Out of the twenty youth participants that were interviewed, only one had, since he started the business, managed to get training. Though youth have not indicated the challenge of skills see Section 4.4.2.3. In terms of training they however indicated that they were not aware of any organisations that offered free training. In addition there are no training programmes available to them from the government. For example, Tatenda said:

I have not come across any training organisation, one of my friends talked about it but I did not follow it up. (Tatenda)

Service providers also indicated that training and skills development is integral to the success of a business. Though the immigrants mention the challenge of not being aware of training services, service providers indicated that the challenge is that immigrants do not qualify for any government offered training.

Though bursaries are available for training through NSFAS and SETA and other organisations, for immigrants it becomes a problem since they cannot benefit from such programmes. (Org N)

Most of the youth participants were not aware of any training opportunities. This indicates a lack of information regarding the existence of training organisations. De Varennes (n.d.) notes that immigrants face serious obstacles in terms of access to information and services. Immigrants are not the only group affected by lack of information. Many SMMEs, regardless of the nature of their ownership, face the challenge of not being aware of services available to them. [Berry et al.](#) (2002) comment that there is a lack of outreach done by training organisations, hence the new venture owners are unaware of their programmes.

On the basis of the comment by Org N that immigrants do not get training because they do not qualify for available government programmes, it can be seen that immigrant youth remain disadvantaged and do not benefit from training services. The immigrants are excluded from most, if not all, government services relating to training. The government services interviewed have shown that they assist only South African citizens.

4.6.2 Financial support for immigrant informal micro businesses

The participants mentioned that they could not get funding from any organisation. A number of youth participants approached government funding agencies and the commercial banks. These organisations, however, have funding programmes only for South African citizens and formal businesses.

I went to source funds from NYDA and they told me that they can only assist South African youth. (Gerald)

I went to Small Enterprise Finance Agency but they advised me to at least partner with other South African citizens so that I can stand a better chance to get the loan. (Chamvari)

I went to borrow funds from a bank but they could not assist since they need registered businesses and surety. (Privi)

Service providers mentioned that they do not have financing programmes for immigrant youth. Org N, a government agency, and Org D, a government department, do not have a mandate to lend funds to immigrant-owned businesses. Org B, a bank, stated that they do not offer business loans to informal businesses. Only NGOs, like Org F, have 10% of available loan money allocated for immigrants.

For immigrants we don't have any programme for them because we deal with South African citizens. (Org D)

Less than 10% - again, are you sure immigrant is the correct word here? We, like most business support organisations, have a mandate to support locals first. (Org F)

So far we have business loans for formally registered businesses. We have some documentation that we require like the business account which an informal business may not have. (Org B)

It is evident that these entities do not have funding programmes for immigrants businesses. They mentioned that they are mandated to assist South African citizens. Immigrants seem to be excluded from benefitting from these government service providers. Tim (2011) notes that South Africa's small business policies have done little to create effective support agencies to help support business owners to start up and grow their business. This challenge, however, is not only unique to South Africa, but to immigrants in other countries also. They also struggle to access government-administered funds, since these governments do not have programmes for immigrants. Bowles and Colton (2007) states, in respect of government funds for immigrants businesses in New York, that it is virtually impossible to get start-up capital for anybody at the

local level, but it is certainly almost out of the question for immigrants. Immigrants even struggle to get bank loans.

The immigrant participants who inquired about a bank loan mentioned that they could not access it because of not meeting other requirements needed for one to qualify for a loan. The bank mentioned that they only assist formally registered businesses with businesses loans. Org B mentioned that they do not lend to informal businesses, but only registered businesses. This shows that accessing a loan is designed for formal businesses, which leaves most of the informal businesses structurally excluded from accessing business loans from this institution. The claim by Nieman & Nieuwenhuizen (2009) that banks play an important role in supporting emerging businesses is challenged here. In principle, banks support emerging businesses, but an analysis can determine that not all emerging enterprises are supported. The complex procedures and regulations make them unable to be relevant to the needs of informal micro-businesses. This is so because commercial banks are not prepared to take risks (Rogerson & Reid, 1997). In addition, Cupido (2002) states many barriers prevent micro-business owners from accessing bank loans. This makes loans available in principle but inaccessible to the informal sector in reality.

The youth participants who inquired about getting a personal loan faced challenges. Participants failed to get these loans because some did not have the surety or a payslip which is required for them to qualify. This reinforces the fact that it is difficult, if not impossible, for immigrant youth to access loans. The challenge of accessing bank loans seems to affect almost all businesses, regardless of who owns them. FinMark Trust mentioned in Berry et al. (2002) notes that applications for bank credit by new SMMEs in South Africa are rejected due to a failure to meet the rigorous requirements. This challenge is not unique to immigrants in South Africa, since in other countries they seem to be facing similar challenges. In New York, micro-enterprise experts and banking officials say that immigrants are less likely than other entrepreneurs to have the collateral necessary to secure a loan and banks have long shied away from these loans because new ventures have a high rate of failure (Bowles & Colton, 2007).

The participants were not aware of any NGOs that offer support and thus did not approach them regarding funding support. Org F, an NGO, mentioned that they only have 10% of their funding services for immigrants. Like any other organisation mentioned above, they also are mandated to support South African citizens which reinforces exclusion at play.

4.6.3 Civil society organisations, government and immigrant-owned informal micro-businesses

The immigrant youth in the study felt that they needed assistance from civil society organisations. Support from civil society is believed by youth to be a force for lobbying the government to ensure that their interests are heard and attended to. The participants believe that at the moment, their interests are not tabled because there is no NGO which is working with them therefore they need non-governmental actors to represent their interests.

I think we need the NGOs to help us to mediate between us and the government to lobby so that the government listens to us, for now we do not have any NGO working with us. (Gerald)

We need an organisation to help us in this community so that we can get space to operate from the municipality and also to protect us from robbery. (Simba)

The service providers noted that the government is failing to address the challenges associated with SMMEs. There is a need for the government to move towards accommodating emerging entrepreneurs.

Government has a responsibility to make the small business environment an easy and simple one to enter for aspiring business leaders of tomorrow. At the moment they are failing in this regard. SA remains one of the most difficult places in the world to open a business, and our dismal entrepreneurial statistics are reflective of this. (Org F)

The study has shown that the government has much to do in order to accommodate these micro-enterprises, and there is a need for civil society to lobby on behalf of immigrant informal business owners, in order for government to act. Several research studies have shown that poorly designed institutions prevent the informal business owners from lobbying government (De Soto, 2000). This author identified that weak institutions are the primary barriers to business growth. He asserts that there is a need to establish connections with informal sector associations at the grassroots level for policies to be made meaningful to them. The youth participants believe that the government may then be coerced to fulfil its roles and functions by such an organisation. They see their informal businesses as being vulnerable, and that their challenges are not taken into account by the state. Although Elindini Municipality (n.d) notes that municipalities have a role to play as facilitators of the formation of informal trader associations to make cooperation easier. There is no evidence of such representation happening, as noted by service providers.

4.6.4 Summary of immigrant youth support

The study has shown that there are no organisations that have been assisting the participants with training, funding or lobbying. They seem to be ‘going it alone’. From the policies and various government agencies in South Africa mentioned in Chapter 2, one may be persuaded to think that much is being done to promote funding and training for informal enterprises. This study established that little is being done, and even less for immigrants.

4.7 Summary statement

This chapter has presented and analysed the findings. There are two main reasons why the youth start informal micro businesses: the economic circumstances which they may be facing and the benefits associated with the informal sector which may pull them to start these new ventures. In running these businesses immigrant youth face a plethora of challenges, many of which are common to entrepreneurs doing business in South Africa and elsewhere. The following chapter focuses on the conclusions and recommendations, which will be informed by the findings and their analysis.

CHAPTER 5: CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the conclusions and recommendations drawn from the key findings of the study. This study explored the circumstances and experiences of youth immigrants when establishing and running a successful informal micro-business. In-depth interviews were conducted with twenty immigrant youth from southern African countries operating informal micro-businesses in Khayelitsha and four service providers, namely the NYDA, the DTI, an NGO and a commercial bank. The recommendations offered target immigrant youth, the government, NGOs and commercial banks.

5.2 Conclusions

The main conclusions are drawn from the research findings and are presented in relation to the objectives of the study.

5.2.1 Objective 1: To ascertain immigrant youths' and service providers' understanding of the formal and informal sectors of the economy in South Africa

The findings indicated the formal sector comprises registered businesses while the informal sector consists of unregistered businesses. Youth participants indicated a desire to join the formal sector since it has benefits in respect of accessing loans and formal markets, but the complex rules and cumbersome requirements act as barriers of entry. The service providers stated that the tax burden is the major barrier for youth to joining the informal sector.

While the formal and informal sectors can be viewed differently through the lenses of the structural, dualist and legalist schools, the research participants are familiar with the legalist definition which made the objective to be reached to a lesser extent. In the context of barriers associated with operating formally, the participants in the study believe that the informal sector is taken as an option to escape the obstacles associated with the formal sector.

5.2.2 Objective 2: To explore the views of immigrant youth and service providers as to why immigrant youth start informal micro businesses

The objective was met to a larger extent. The findings indicated that in an era of unemployment, the service providers and youth participants see informal micro-businesses as a response to unemployment. Twelve of the 20 youth participants had employment but left it to join the informal sector because of a desire to be self-employed and to generate a higher income. Service providers were not aware of any other factors, pointing to limited knowledge in this regard.

It can be concluded that establishing an informal micro business was a response to the economic circumstances of the participating immigrant youth. This resonates with previous studies pointing to the informal sector being at the heart of immigrants' escape from unemployment (Moreland, 2006). For those who were employed before starting the new venture, it was a route to bettering their income and having a flexible work environment.

5.2.3 Objective 3: To explore the major challenges that youth face in running their micro informal businesses

The objective was met to a larger extent. The findings indicated that at the time the business was established, the youth participants experienced cultural barriers, start-up capital challenges, few customers, and difficulty in securing an area from which to operate. Service providers were only aware of the challenge of accessing start-up capital. At the growth phase service providers mentioned the skills challenge which was in turn not felt by the youth. Youth participants mentioned the challenges of customers who did not want to pay, risk, and security. Most of the challenges were similar to the ones experienced by all informal businesses, regardless of the nature of ownership but, some challenges, like the language barrier were related to the fact that they were immigrants.

It can be concluded that immigrant youth face many challenges at establishment and during growth just like any other business owner in any context. However, there are some challenges that are unique to this particular group. Service providers were not aware of some of these challenges which may be because of a lack of research, a lack of outreach and a lack of prioritisation of immigrant owned informal micro business for service delivery.

5.2.4 Objective 4: To ascertain the strategies that youth employ in order to overcome these challenges

The objective was met to a larger extent. Findings indicated that youth participants were faced with the above-mentioned multiple challenges at all phases of the business and they employed several strategies to deal with them. These included building social capital to securing an area from which to operate, safety, and in some cases finding start-up capital. Other strategies included marketing and public relations, exploiting the business location to their advantage, positively influencing their business through their attitude to work and through manufacturing quality and unique goods.

It can be concluded that the force behind success was the influence of immigrants on their business through hard work, effort and their persistence in dealing with challenging situations that they faced. Without this, opportunities may not have been utilised, and challenges could have led to business failure.

5.2.5 Objective 5: To identify the sources of support the youth draw on for their business

The objective was met to a larger extent. Findings indicated that immigrant youth did not get any support from any service provider. They relied on their own resources and those of family and friends. The few that approached government organisations were not assisted because there were no programmes for supporting immigrant youth. Most of the service providers in the study prioritise South African citizens. Immigrants thus felt that they were excluded from benefiting from programmes, first because they were operating informally and secondly because they were immigrants. For these reasons, they believed that they needed a civil society organisation to assist them to lobby and represent their interests before the government.

None of the government initiated programmes included in the study support immigrant owned informal businesses. When specifically considering the process of accessing loans, exclusion is at play as it is a complex and difficult process for immigrants. The terms and conditions under which loans can be accessed are not appropriate for this sector and this special class of youth.

5.3 Recommendations

Given the conclusions drawn, the following recommendations are made.

5.3.1 Training organisations

Training organisations which were identified in the literature review of this study are the Department of Education, SETAs, NYDA and SEDA. These organisations are tasked to implement policies and programmes around education and training. The researcher recommends an open-door policy to include immigrants in the training offered. Training is important for the success of business as mentioned in Section 2.4.2.

5.3.2 Funding organisations

- **Commercial banks**

Considering the context of risk in which banks operate and bearing in mind that they are business organisations, devising lending programmes accommodative and relevant through set criteria for qualifying informal micro-businesses may be necessary rather than disqualifying them on the basis of being informal alone.

- **NGOs**

Though some organisations have limited programmes for immigrant youth, the young business owners in this study were not aware of any. It is thus recommended that NGOs increase their outreach work to create awareness of their services among marginalised and excluded groups.

- **Government funding institutions**

The design of financial loan programmes that are accommodative to immigrants is recommended to NYDA and SEFA. Although priority should be given to South African citizens like in any other country, a number of the lending programmes should be made available to immigrants so that their businesses which are adding value to employment creation can be promoted.

5.3.3 Young business-owners

With regard to the business owner's desire that a civil society organisation should help them to lobby so that their interests are heard by the government, it is recommended that these youth should form their own representative body to lobby on their behalf rather than wait for an external organisations to assist.

Some immigrants who approached banks did not access personal loans due to the challenge of getting surety, the study recommends that they should build networks with people that qualify to stand as surety and approach them. If they get such it is their responsibility to act ethically and pay back to the bank systematically for them to be trusted.

5.3.4 All service providers in this study

The study recommends that service providers should on an on-going basis, access research findings and conduct their own research to inform the design of their policies and programmes such that informal businesses run by immigrant youth are supported and helped to deal with the many challenges that they face.

5.3.5 Policy landscape

There is a need for a review of the process of formalising a business. Unnecessary barriers should be eliminated to facilitate the registration process for all applicants, including immigrant youth.

5.3.6 Recommendation for further research

Based on the findings, it is clear that there are areas that deserve further investigation. Some immigrants felt that they faced challenges in starting up their business that were related to the fact that they were immigrants. For this reason it is recommended that a comparative study is undertaken of the process followed by South African citizens and immigrants to establish a successful informal micro-business.

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ANNEXURE A:

Interview Schedule for Immigrant youth participants

University of Cape Town

UNIVERSITY OF CAPE TOWN



DEPARTMENT OF SOCIAL DEVELOPMENT

SWK5001W MINOR DISSERTATION

Interview Schedule for the youth business owners

INTRODUCTION

- Student to introduce himself
- Discuss ethical considerations: voluntary participation; audio recording of the interview; anonymity; confidentiality
- Share the purpose of the research (including that he will not be able to assist the participant to make their hopes a reality)
- Clarify that there are no 'right' or 'wrong' responses
- Mention you have a number of questions you'll be posing (hence the sheets of paper on your lap)
- Mention the approximate time that you will spend on the interview
- Request permission to jot down notes during the interview
- **COMPLETE BIOGRAPHICAL DETAILS at this point (see attached)**

SECTION 1

YOUNG PEOPLE'S CIRCUMSTANCES IN RESPECT OF INFORMAL MICRO ENTERPRISES

1. What does it mean to you being an immigrant young person running a business?
2. What are the advantages about Khayelitsha as a business location?
3. What are the disadvantages of this location for a small business?
4. How did you learn the skill or trade (e.g. carpentry, upholstery, and sewing)?
5. Regarding business management skills (e.g. finance, marketing, negotiation, bookkeeping, communication skills)
 - 5.1 What specific business management skills do you have?
 - 5.2 How did you learn these skills?
 - 5.3 Which of them has been important in the running of your business?
6. Would you regard your business as a successful enterprise?
 - 6.1 If yes, why do you say so? If no, what makes you say so?
 - 6.2 Of all the skills that you have, which one(s) do you believe has been most critical to the success of your business?

SECTION 2

CHALLENGES FACED AND THE STRATEGIES EMPLOYED BY YOUNG PEOPLE TO OVERCOME THESE CHALLENGES

Explain to the participant that you will ask them questions regarding two phases: The establishment of their business and the current operations of their business.

Explain that you will ask about the challenges which they faced as immigrant youth starting up and currently managing the growth of their business.

Start-up phase

1. What motivated you to start an informal micro business?
2. What were you hoping to achieve when you started this business? (Probe... the push and pull factors to starting business)

3. Are there any role models in your community or family who inspired you to start your business? If yes, elaborate?
4. If you were given a chance to summarise the start-up process of your business, what would you say?
5. When you started up the business, what were the challenges that you faced at this stage (financial/ Knowledge, land, permit etc.)?
6. When you analyse these challenges what do you think were the causes of such? (Probe around being an immigrant, finance etc)
7. What were the steps which you took to overcome each of the challenges? (refer to the challenges mentioned under question 3.)
8. What successes did you experience during the start-up phase?
9. As an immigrant youth, what do you think are the key aspects to establishing a business? (probe around personal, family and other contextual factors)

Growth/ Expansion

1. Has your business grown since the time you established it? Probe: around annual turnover, number of employees, amount of goods produced, number of customers.
2. If your business has grown since the start-up phase, what are some of the challenges that you have experienced in the management of its growth?
 - 2.1. How did you respond to these challenges? (Probe around strategies involved, skills development, etc. depending on the nature of problem)
 - 2.2. What measures did you put in place so that you can manage the growth of your business?
 - 2.2. In managing growth what are some of the successes that you can identify?
 - 2.3. What do you think were the reasons for the success?
3. What knowledge and skills do you have that are currently helping you to run the business?
4. In the stage that you are with your business what strategies are you employing in order to keep it going? (Probe as to what is the outcome of these actions)

SECTION 3

PARTICIPANT'S ASPIRATIONS IN RESPECT OF MICRO BUSINESSES

1. What are your hopes regarding the business? (Probe longer term 'dream' or ideal; employing other people, registering the business etc.)

2. What do you think needs to happen in order for you to achieve your hopes with regard to business?
3. Who is responsible, in your opinion, for this? (probe around who the participant thinks is responsible for what; probe what participant thinks is his/her role in making things happen)
4. What do you think (if anything), is stopping you from getting to where you want to be with your business? (Probe around the things that may stand in his/her way of achieving his/her hopes)
5. What systems or measures are you putting in place so far so that you realise your hopes? (Probe on training, management strategies, funding networks)

SECTION 4

IMMIGRANTS AND INFORMAL BUSINESS RELATIONSHIP

1. What in your view is the informal sector?
2. What are your experiences of running a business in the informal sector?
3. Do you think the informal sector is a necessary component of the South African Economy? (explore the response)
4. What (if any) are the advantages for immigrants in operating micro businesses in the informal sector?
5. What is your understanding about the formal sector?
6. Do you aspire to join the formal economy? (If Yes why? If no Why?)
7. What would the implications for your business be if you become formal?

SECTION 5

SOURCES OF SUPPORT FOR INFORMAL BUSINESSES

1. What government services, non-governmental organisations, or private profit-making organisations do you know of which help immigrant young people with:
 - **Funding** (probe: who offers what funds)

- 1.1. Did you approach this organisation (refer to the one(s) mentioned above.) If yes, what were your experiences with the organisation, If no, what were the reasons why you did not approach the organisation(s)?
- **Business training** (probe: who offers skills training)
- 1.2 What type of training is offered?
- 1.3 Who offers the training?
- 1.4 Did you approach this organisation (refer to the one(s) mentioned above.) If yes, ask about their experiences with each organisation. If no, ask the reasons why they did not approach the organisation(s)?
- 2 Since starting your own business have you ever received any help other than funding and/or training? (Probe around kind of help, who offered the help?)
- 3 What kind of support do you think is critical for immigrant youth owning informal micro enterprises? (Ask motivation for the response)
- 4 In what way(s) do you think government/ NGOs / Private Profit making sector should assist immigrant young people who are engaged in micro informal businesses?

CLOSING

- **Thank you** for spending this time with me and for sharing all this information about your business with me
- Is there **anything else** you would like to tell me about yourself before we wrap up?
- What (if anything) do **I need to know** about you or your business that has not been mentioned during this interview?
- **How has this interview been for you?**
- Share with the young person the **positives** of how the interview has been **for you**
- Reassure the participant re **confidentiality**
- Remind the participant re the **purpose** of the interview

ANNEXURE B:

The factsheet for Immigrant youth participants

University of Cape Town

BIOGRAPHICAL DETAILS

Name/Pseudonym						
Age						
Gender						
Marital status						
Nationality						
Were you employed establishing your business?	Yes			No		
Level of education	Less than Matric (pecify)	Matric	Certificate in the trade	Professional Course		
Nature of Business	Creative Business	Carpentry	Leather Processing	Upholstery	Sewing	Other (specify)
Year of establishment						
How many people are employed						
Turnover Bracket annually R10K- 20K	R10 000>	R11 000- R20 000	R21 000- R50 000	R51 000- R100 000	R100 000<	

ANNEXURE C:

Interview Schedule for service providers

University of Cape Town

UNIVERSITY OF CAPE TOWN



DEPARTMENT OF SOCIAL DEVELOPMENT

SWK5001W MINOR DISSERTATION

Interview Schedule for Service Providers

INTRODUCTION

- Student to introduce himself
- Discuss ethical considerations: voluntary participation and audio recording of the interview.
- Share the purpose of the research (including that the researcher will not be able to assist the participant to make their hopes a reality)
- Clarify that there are no 'right' or 'wrong' responses
- Mention that there are a number of questions that will be posed (hence the interview schedule on the lap)
- Mention the approximate duration of the interview
- Request permission to jot down notes during the interview

SECTION 1

YOUNG PEOPLE`S CIRCUMSTANCES IN RESPECT OF INFORMAL MICRO ENTERPRISES

1. What do you think are some of the challenges that young people face during the startup phase of their business?
2. What do you think are the challenges which they face in the growth stage of their businesses?
3. What do you think needs to happen in order for them to overcome these challenges regarding their business?
 - i) Probe what needs to happen during start up
 - ii) Probe what needs to happen on growth phase
4. Who is responsible, in your opinion, for this?
 - Probe around who the participant thinks is responsible for what; probe what participant thinks is his/her role in making things happen
 - Probe to get information about the roles of Sector Education and Training Authorities (SETAs), young business owners themselves, the Department of Trade and Industry (DTI), the National Youth Development Agency (NYDA), other sources of help.

SECTION 2

IMMIGRANTS AND INFORMAL BUSINESS RELATIONSHIPS

1. What in your view is “the informal sector”?
2. Do you think the informal sector is a necessary component of the South African economy? (explore the response)
3. What (if any) are the advantages for operating micro businesses in the informal sector?
4. What is your understanding of “the formal sector”?
5. How does an informal business become formal/ Join the formal sector?
6. What would the implications for a business be, if it became formal?

SECTION 3

SOURCES OF SUPPORT FOR INFORMAL BUSINESSES RUN BY IMMIGRANT YOUNG PEOPLE

1. Aside from your own employing body, what government services, non-governmental organisations, or private profit making organisations do you know of which help immigrant young people with:
 - **Funding** (probe: who offers what amount and type of funding)
 - **Training** (probe: who offers what kind of training)
2. What services does your organisation offer to immigrant young people who operate informal micro businesses? (probe: funding and training and other support)
 - In respect of all that they offer, probe the qualification criteria.
3. On average what percentage of your organisation's services are offered to informal/formal micro businesses operated by immigrant young people?
4. In general, what kind of support do you think is critical for immigrant youth owned informal micro-enterprises? (Probe motivation for the response; also whether the support mentioned is currently offered)

CLOSING

- **Thank you** for spending this time with me and for sharing all this information about your business with me
- Is there **anything else** you would like to tell me about yourself before we wrap up?
- What (if anything) do **I need to know** about you or your organisation that has not been mentioned during this interview?
- **How has this interview been for you?**
- Share with the key informant the **positives** of how the interview has been **for you**