

**Encouraging Self-Employment Amongst the Youth in
South Africa. Will this Help Tackle the
Unemployment Problem?**

by

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Abstract

Encouraging young people to get involved in self-employment is a solution that is continuously echoed by policy makers as a way of addressing the perennial problem of youth unemployment. This paper investigates how entrepreneurship can be promoted amongst the youth in South Africa and whether this will alleviate the high unemployment rates. Three questions are put forward: Firstly, what are the main constraints faced by youth when they set up a business? Secondly, what are the main determinants of being self-employed and thirdly, which groups within the youth population need to be targeted by policy makers? The findings are that the major impediment for youths entering self employment is the lack of financial capital, while having a role model is highly significant in determining whether one becomes self-employed. African and Coloured youth are particularly disadvantaged when it comes to participation in self-employment and should therefore be a primary target for policy makers. The paper also makes a comparison of youth participation in self-employment between 2000 and 2004 and reveals that there is only a slight increase in the numbers of youth getting involved in self-employment. A holistic approach to entrepreneurship development complimented by financial assistance, mentoring and the provision of basic entrepreneurship skills training will assist the youth in moving from unemployment to self-employment.

1. Introduction.

There has been growing concern in most countries around the world regarding the problem of youth unemployment. The rate of youth unemployment remains rather high and is on the increase in most countries. According to an estimate by the International Labour Organization (ILO) in their Facts on Youth Unemployment Report (2004), there are 66 million young people that are unemployed, and this situation is not promising to improve as they estimate that at least 500 million young people will be expected to join the world's workforce in the next decade. The problem of youth unemployment remains a major concern for both analysts and policy makers in both developing and developed countries. South Africa is no special case as the rates of youth unemployment have been on the increase for the last decade. A typical characteristic of most labour markets around the world is that the youth unemployment rate is much higher than that of adults. O'Higgins (2001) shows in a study of youth unemployment that in most countries for which data was available, the youth unemployment rate was higher than the adult unemployment rate. The September 2004 Labour Force Survey (LFS) reveals that the youth unemployment rate is 53% which is just over double the adult unemployment rate of 25.5% (both using the expanded definition). For the rest of this paper, the expanded definition of unemployment will be used as this gives a more accurate indicator of the extent of the unemployment problem in South Africa. This definition is also given preference because it takes the "discouraged" workers into consideration which make up a large component of the unemployed youth.¹ According to the September 2004 LFS, the age group 15-24 (teenagers and young adults) has 14.7% discouraged workers and 18.3% for the age group 25-34 (prime adults). These figures are very high when compared to the adult age groups 45-54 and 55-65 which have 9.2% and 3.7% discouraged workers respectively.

South Africa defines youth as those that are aged between 15 and 34 inclusive. The standard United Nations (UN) definition for youth states that the youth are those that are aged between 15 and 24 inclusive.² Countries however tend to define youth differently for political, cultural and institutional reasons. For South Africa, the lower

¹ "Discouraged" workers are those who have not taken active steps to look for employment in the given time period.

² United Nations, 1992.

age limit is compatible with the United Nations definition as this is the age at which children in South Africa are formally allowed to enter the labour market, but the upper age limit is set at 34 because many of the young Africans obtain their post-graduate qualifications relatively late in life, so using an upper age limit of 24 is unlikely to correctly capture the activities of youth in South Africa (Mlatsheni & Rospabe, 2002).

Several policy recommendations have been put forward to address the problem of youth unemployment, and the main aim of this paper is to see whether encouraging youths to become self-employed is a viable option to help counter the problem of youth unemployment. This is done by firstly identifying the characteristics of those that are self-employed and then using this information to infer some policy recommendations to encourage the youth to become entrepreneurs.

The layout of the paper is as follows: Section 2 gives an overview of the literature covering causes of youth unemployment, consequences and implications of youth unemployment as well as solutions to try and reduce youth unemployment with an emphasis on encouraging self-employment. Section 2 is concluded with a discussion of youth initiatives in South Africa, looking at how successful they have been as well as lessons that can be learnt from international experiences. Section 3 paints an overall picture of the youth self-employment situation in South Africa by providing descriptive statistics obtained from the September 2004 LFS. To get a clearer picture of what has happened to self-employment for youth over the years, the section goes further to make a comparison of descriptive statistics from both the September 2000 and 2004 LFS. Section 4 makes use of another data set called the Mesebetsi Labour Force Survey. To get a comprehensive understanding of the youth self-employment situation, the LFS needed to be supplemented by the Mesebetsi LFS (1999-2000) because of its limitations, namely the lack of in-depth questions regarding self-employed workers.³ The section is broken down into two parts: The first part analyses a sample of self-employed youth giving descriptive statistics concerning their individual characteristics and the businesses that they run. The second part looks at the determinants of self-employment for youth through the estimation of a probit

³ A description of the LFS and the Mesebetsi LFS data sets is given at the beginning of section 3 and 4 respectively.

equation of self-employment. The results obtained are used to infer policy implications. Section 5 concludes.

2. Literature Review.

2.1 Causes of Youth Unemployment

Several macroeconomic and microeconomic reasons are believed to be the cause of youth unemployment. The main macroeconomic conditions are aggregate demand, youth wages (particularly minimum wage) and the size of the youth labour force, while microeconomic conditions include the level of education and skills, relevant work experience, a mismatch between the educational system and the labour market and other individual as well as background characteristics. Amongst the reasons listed above, the most important determinant of youth unemployment as well as adult unemployment is the general characteristics of the economic system (O'Higgins, 1997). Thus if there is a fall in aggregate demand, there will be a subsequent fall in the demand for both adult and youth labour as the number of layoffs increase and the number of new hires is reduced (Rees, 1986). The youth unemployment rate therefore reflects what is happening in the business cycle (Rees, 1986). What is very interesting is that changes in aggregate demand effect youth disproportionately, or put differently youth unemployment is more sensitive than adult unemployment to fluctuations in aggregate demand. The main reasons for this are that on the demand side, the opportunity cost for firms firing young workers is lower than for firing older workers and younger workers are less likely to be protected by a trade union or any other employment protection legislation. On the supply side, young workers are more likely to voluntarily quit their jobs than adult workers as they will have fewer commitments. Similarly younger workers will tend to "shop around" for jobs earlier in their careers so as to find a suitable occupation thus making them less likely to keep a job for long periods at a time (O'Higgins, 1997).

The minimum wage is another important determinant of the level of youth unemployment because the youth find themselves in the lowest paying jobs because of their lack of experience. An increase in the minimum wage will reduce youth employment in favour of adult employment because of its impact on the relative costs

of young workers resulting in an increase in the cost of labour (O'Higgins, 1997). This argument will only hold if we assume that adult workers are either perfect or close substitutes for young workers. But this does not seem like a valid argument as the level of skill of the adult worker and the youth worker will vary significantly. Past studies have however given mixed results regarding the impact of minimum wages on youth employment. O'Higgins (1997) suggests that this may be as a result of differences in modeling structures and problems with the collection of data on wages. Amongst the authors who have found the effect of minimum wages on employment to be significant are Neumark and Wascher (1999) given that youth wages are not flexible downward. On the other hand there is literature suggesting that the effect of minimum wage on reducing employment has been greatly exaggerated and that the evidence does not in anyway indicate that youths are being priced out of jobs by wages that are too high (Blanchflower, 1999).

The size of the youth labour force is also seen as a major contributing factor to the rate of youth unemployment. Although this is an important factor in most countries that are experiencing increasing youth populations, particularly transition economies this argument is invalid for most developed nations and some developing nations that are experiencing a decline in the youth cohort (Blanchflower, 1999).

Amongst the microeconomic causes of youth unemployment, the most important one would appear to be the lack of skills and experience amongst the youth. This is a very important factor in South Africa since there is less demand than in the past for low skilled and unskilled workers. It is the youth that suffer particularly because of their lack of experience (Mlatsheni & Rospabe, 2002). Youth that have certain background characteristics tend to have lower employment rates than other youths. For examples black youths and youths from poorer families in South Africa are those that tend to have the lowest employment rate. Those that come from poorer families are more likely to make an early exit out of secondary school and enter the labour market prematurely, thus reducing their chances of finding work because of their poor education (Mlatsheni & Rospabe, 2002). Other reasons that affect the employment rate of youths include the level of education as well as a mismatch between the educational system and the labour market. If employers are not confident that the youths have acquired the desirable qualifications they are unlikely to hire them.

2.2 Consequences and Implications of Youth Unemployment

From an economic perspective, the important issues at stake are the loss of output to the economy and the loss of income to the families of the unemployed (Rees, 1986). The consequences are however less serious for youths than they are for adults since they are less likely to be the breadwinners of their households (Rees, 1986). Being unemployed early in one's life may have a sizeable negative effect on subsequent wage rates and employment. It is likely that being unemployed as a youth will have a possible detrimental effect on the future productive capacity of the individual (Blanchflower, 1999). This is because of the inability to have gained work experience, something that employers reward highly (Freeman & Wise, 1982). Other researchers have on the other hand found that the argument of unemployment early in one's life contributing substantially to unemployment later in life is greatly exaggerated. Freeman and Wise (1982) found that unemployment immediately after the completion of school has virtually no effect on finding work thereafter, but they found a significant negative effect on later wage rates.

The consequences of youth unemployment go beyond standard economic issues. There is concern regarding the association between youth joblessness and various forms of social disorganization. It is feared that unemployed young people may develop anti-social attitudes or behaviours such as delinquent/criminal activities (there is not enough evidence to support this) and other types of rebellious activities, on the contrary they may become apathetic and helpless (Coleman & Hendry, 1990). Increasing crime rate, drug use, vandalism, violence in schools and youth suicides are amongst several issues that cause public concern. In South Africa there have been no in-depth studies that have been carried out that give a direct relationship between crime and unemployment. One would expect for there to be a high correlation since South Africa has such a high crime rate, but some researchers including Schonteich (South Africa Survey 2001/2002) suggest that there is no relationship between unemployment or poverty and crime levels. Other individual costs of unemployment to the youth are financial anxiety, insecurity about the future and a loss or failure to acquire an accepted social position resulting in a lower self-esteem. In a study carried out in South Africa between 1987 and 1988 to observe the quality of life in unemployment, Moller (1992) found that the African unemployed who lived in the urban areas suffered financial and psychological deprivation. What was interesting

from this study was that although they were generally deprived, there were no signs showing that their self-esteem was harmed permanently. Many of the negative consequences of unemployment are believed to increase as the duration of unemployment increases (O'Higgins, 2001).

It is important to consider the implications of the problem of youth unemployment with particular reference to South Africa. Youth unemployment in South Africa is mainly a consequence of lack of aggregate demand, and if the problem is to be dealt with in an effective manner, policy makers should be attentive to both the demand and supply side of the youth labour market. The youth unemployment problem should be considered as part of a larger problem of transforming the economy in general so that eventually, it is possible to generate sustainable economic growth and development so that the overall rates of unemployment are reduced (Mhone, 2000). In addition, emphasis should be put on helping young people who cannot find work because the consequences of unemployment are of concern and may persist making it difficult for them to obtain future work. Efforts should be concentrated on those from disadvantaged groups such as the African youth as well as young women as they typically face a higher incidence and duration of unemployment. The consequences of the youth being unemployed can be devastating both to the individuals and the economy, so what remains is to answer what can be done to reduce the number of jobless youths?

2.3 Policy Recommendations to Help Reduce Youth Unemployment

The general unemployment problem in South Africa is a structural one therefore the solution should be long-term rather than short-term. Globally several measures are used to try and combat the youth unemployment problem. In particular, the ILO plays an important role in developing and implementing strategies that are aimed at reducing youth unemployment. It is worth mentioning other policies or support structures that can be put into place to help alleviate the youth unemployment problem before discussing the main policy recommendation of this paper. Internationally, the mainstay of public policy to reduce youth unemployment has been the use of education and skills training programmes to equip individuals with the necessary knowledge to enter the labour market. An example of this in South Africa is the National Skills Development Strategy (NSDS) launched in February 2001

which aims to transform education and training in South Africa through improving both quality and quantity of training. NSDS is aimed at addressing the structural problems of the labour market that existed in the past, particularly discrimination in access to education and training opportunities along racial and gender lines. More importantly, the NSDS assists new entrants into employment and stimulates and supports skills development in small businesses, all of which would be helpful to youth trying to enter the labour market.

The NSDS takes forward the broad objectives of the Skills Development Act (1998) and the Skill Development Levies Act (1999). These two Acts aim to introduce new institutions, programs as well as funding mechanisms that will increase the investment in skills development enabling employment growth through economic growth. In terms of youth unemployment, the key objective of the Skills Development Act is to create learnerships and learning programs that lead to occupational qualifications. These learnerships are made available to young people who would have just left school/college as well as other unemployed people. Although school leavers and other unemployed people benefit from the NSDS, the strategy states that the beneficiaries should be 85% black, 54% female and 4% people with disabilities. The NSDS tries to put more emphasis on targeting those from the disadvantaged groups which is very important for a programme to be effective⁴. O'Higgins (1997) argues that targeting those from disadvantaged groups who may be affected by long spells of unemployment helps to maintain their attachment to the labour market.

Internationally, the evidence suggests that training and employment programmes have a small positive impact on the employment prospects of the youth (O'Higgins, 1997). The effectiveness of such programmes will depend on the general state of the economy (or the state of the labour market) and there being adequate jobs at the end of the programmes. There is no use in raising the aspirations or expectations of the youth by providing them with skills training they will not be able to use thereafter (ILO, 2001).

⁴ Department of labour: National Skills Development Strategy, Implementation Report 1 April 2003 – 31 March 2004.

Since the problem of youth unemployment in South Africa is a structural problem, as suggested earlier the solution should be long term, so a vibrant economy that increases the level of aggregate demand would almost certainly reduce the level of youths that cannot find work. It needs to be emphasized that general macroeconomic conditions need to be taken into consideration if any schemes or programmes trying to help the out of work youth are going to be effective (O'Higgins, 1997). There is a general consensus that sound economic policies, sustainable social safety nets and political stability are fundamentally important as a foundation for the promotion of the economic needs of youth (ILO, 2001).

South Africa currently lacks a formal comprehensive labour market information system on occupations as well as training opportunities for those that are still at school. Greater emphasis needs to be placed on vocational guidance, that is, if the high school curriculums were partly vocationally oriented, then those not going to tertiary institutions would at least be able to enter the labour market with skills that are marketable making it easier for them to find work. But for this to work, it requires that vocational education keeps in close touch with the demands of the labour market so that prospective employers will have confidence in the qualifications that are held by the youth. Although South Africa has in the past lacked formal career guidance for those in high school, in 2006 a policy will be implemented that gives career guidance the status of a school subject for those in grades 10 to 12. In the past the only career guidance that was made available was for grades 1 to 9, referred to as *Life Orientation*, this was a provision of the Department of Labour called The Revised National Curriculum Statement Policy (2002). This move is welcomed as it will give those from disadvantaged backgrounds some sort of access to career guidance free of charge. It is vital for those entering the labour market to be well informed about the opportunities available and the necessary skills needed to obtain work. Another way to make sure that the educational system is in line with the requirements of the labour market is to offer young people internships and work placements at different organizations, so that they have an idea of what path they wish to take and the necessary skills they will require in their field of interest.

Amongst other recommendations to deal with the jobless youths, the most promising policy option would be to increase the retention rates of high schools, preventing the

pre-mature entry of youths into the labour market with insufficient skills and poor education. Rees (1986) suggests that reducing the number of high school dropouts will significantly improve the chances of finding work for those youths who are jobless and yet hold the necessary qualifications.

Although there are several solutions that policy makers can apply to deal with the problem of youth unemployment, this paper discusses in length the option of encouraging the youth to set up their own businesses as a way of dealing with the problem. It is already apparent that the conventional labour market is not supplying enough jobs to absorb all those that are entering the labour market, so the youth need to be encouraged to create opportunities for themselves. Entrepreneurship is a strategy for “job creation, employment and economic participation” (Human Sciences Research Council (HSRC), 2005). Encouraging self-employment is a policy that is highly recommended by the ILO for developing countries that are dealing with rates of unemployment that are high (double digit unemployment rates). The ILO has an extensive entrepreneurship awareness package called “*Know About Business*” for young trainees at vocational and technical training institutions. This package has been used widely across Africa, Asia and Latin America by youth that aspire to be entrepreneurs and want to learn about the challenges of starting and running a small business. It is the purpose of this paper to see if South Africa is to follow such a policy, would there be a significant drop in the number of youths that are jobless? Self-Employment in this situation is not referring to low level self-employment activities (otherwise known as ‘survival self-employment’) that the African youths in particular are engaged in, it refers to self-employment that requires higher skill levels and is more remunerative. Although building an entrepreneurial nation is not a quick process, a culture of entrepreneurship should be inculcated in the youth as well as building awareness amongst communities, particularly parents that self-employment is an honourable and respectable career option. Rather than being unemployed, self-employment can be viewed as a base from which to search for wage employment or wait for wage employment (Kingdon and Knight, 2001a).

Much has been written in contemporary literature about the importance of the small business sector in the process of economic growth. In Africa, because of the importance of the informal sector, it is argued that encouraging youth

entrepreneurship will help reduce the unemployment rate. Since there are millions of young people that are expected to enter the labour market, the burden of filling the gap of new jobs for the entrants has fallen on the informal sector. The informal sector is however constrained by internal structural weaknesses and regulations that tend to portray their operations as illegal (Owualah, 1999). Nonetheless, the informal sector creates an opportunity for the youth to set up businesses that with the correct guidance and help would prove to be very successful. The biggest challenge for the youth is obtaining the necessary finance to start up their businesses. Typically, youths lack financial capital and therefore finding adequate seed capital is the biggest obstacle. To encourage the youth to get involved in entrepreneurship, appropriate policies and programmes can help with the provision of entrepreneurship training and some basic financial support funded by both governmental and non-governmental organizations as well as private companies.

In terms of finance, there is always the bias against young borrowers because of the fear that they may be careless with the money and may perhaps be unable to pay back the money thus threatening the creation of new businesses by youth. Similarly lenders are reluctant to finance youth enterprises due to their lack of business experience and absence of adequate collateral. The risk can be reduced by only giving out loans when certain conditions for the loan have been met. An example of this is in Nigeria where youths that are trying to set up their businesses are encouraged to participate in the Directorate's Entrepreneurship Development Programme (EDP). The youths receive guaranteed loan assistance from the EDP and this loan scheme is financed on some conditions by a consortium of selected banks referred to as participating banks (PBs) (Owualah, 1999). Some of these conditions include the individual presenting the banks with a comprehensive as well as feasible proposal of the business, an indication of the amount they require and names and addresses of two guarantors. Once the individual has received the loan, it can be collateralized with the original copies of their academic certificates and testimonials. Whilst the ventures are still starting out, the loans can be provided at low rates of interest (otherwise known as a 'soft loan'). It certainly seems that assisting the youth and giving them feasible conditions for their loan repayments will help them out initially as the seed capital is always the major stumbling block for them.

The beneficiaries of the loan also need to be equipped with the necessary entrepreneurial skills. These entrepreneurial skills can as mentioned earlier can be incorporated into the school curriculum perhaps in the final years of high school so as to give those who are interested in starting their own businesses a chance to equip themselves with the necessary skills. Another way of teaching enterprise education which must not be confused with business education is to actually expose the teachers in schools to business so that they also understand the dynamics of small business, as well as the value of self-employment as a career option so they can also portray this to the students (ILO, 2001). All in all, entrepreneurship should be entrenched in the South African education system and South Africa should consider implementing programmes that have been tried out and have been successful in promoting youth self-employment in other countries across the world.

2.4 Youth Initiatives in South Africa and Lessons to be Learnt from International Experience

Several countries have made extensive efforts to promote self-employment to young people and this begins with enterprise education. Educating young people about entrepreneurship is crucial since a lot of them do not grow up with entrepreneurial role models in their family to educate them about the benefits of self-employment (ILO?). A successful programme that educates youth about entrepreneurship is the Rural Entrepreneurship through Action Learning (REAL) programme in USA, and the aim of this programme is to link education with rural economic development (O'Higgins, 1997). REAL assists individuals, schools and communities living in rural America with hands-on entrepreneurship education. What this programme does is to help youth plan, set up and establish their own businesses. REAL has been successful in setting up a large number of viable and profitable businesses in many rural parts of America and it is now being tested in Eritrea. Encouraging young people to set up their own ventures is not only beneficial to them but other youths as well. By starting their own businesses, the youth are also creating jobs for their peers and in the long run contributing to economic growth. Lessons can be learnt from Spain's Confederacion AJE (CAJE), Jovenes Empresarios. CAJE comprises 35 national organizations of young entrepreneurs from around Spain, has approximately 16 000 members and has been in operation since 1991. Since the founding of this organization, young entrepreneurs have managed to create over 120 000 jobs. It is

most likely that youths will employ people that are their age, so promoting self-employment amongst the youth will most likely have multiplying benefits for the nation as a whole.

The Canadian Youth Business Foundation sets an example of the role the private sector can play in helping support youth enterprises. This foundation runs a Specialized Youth Business Loan Programme which helps young men and women particularly the unemployed or under-employed during the initial start-up phase of their business. These young people receive loans after presenting a valid business plan and agree to work with mentors so as to minimize the risk of business failure. The Bharatiya Yuva Shakti Trust (BYST) in India stresses the importance of mentorship, where the mentor not only teaches, but in addition gives guidance and develops discipline in the young people. The mentors from this organization maintain contact with the entrepreneurs, monitoring and developing their progress and helping with any problems that need solving in the enterprise. The trust partners in this organization are not only from India but from around the world.

South Africa has an organization that specializes in educating youths about entrepreneurship. This organization is called the Youth Enterprise Society (YES) and it is part of a larger organization EWET (Education With Enterprise Trust). YES aims to “empower young people, through enterprise, to become masters of their own destinies. Or, put in another way, to help more and more young people to become business creators rather than simply job seekers.” YES is an extracurricular activity that is school based and typically for those in grades 9 to 11. In general, 45 members will be chosen from each school to become YES members (15 in each grade). Each society is allocated 3 to 6 specially trained YES Advisors and they meet twice a week gaining a variety of skills that are business related including skills in formal meeting participation as well as leadership skills. Hands-on skills are acquired through several YES business competencies that include: understanding the market economy; goal setting; business promotion; market research; business financial planning and human resources planning amongst others. The long term goal of YES is to create jobs as well as building community resources through encouraging self-employment. YES rewards innovation and excellence amongst the youth by hosting annual competitive events and awards. This is an important step in raising the awareness of self-

employment as well as promoting it. In addition it is beneficial to the young entrepreneurs since competitions can give them an opportunity to raise their profiles thus giving them an incentive to win (O'Higgins, 2001). Although there is no information regarding the rewards that the young entrepreneurs receive for the YES competitions, ideal prizes could be free advice and consultations on business management issues or business capital (ILO, 2001).

In South Africa, the main vehicle that is driving the development of young entrepreneurs is the Umsobomvu Youth Fund (UYF). The Umsobomvu Youth Fund was established in 2001 and it is a government created development finance agency that creates a platform for job creation for youths as well as skills development, building upon the work that is carried out by NGOs. UYF has a bias towards previously disadvantaged youths and serves individuals that are mainly out of school and fall into the age group 18 to 35. In order to promote and stimulate youth entrepreneurship, the UYF provides micro loans for young entrepreneurs, it has created a venture capital fund that is underwritten by a mainstream bank with UYF providing guarantees and it has also developed a voucher programme for the youths to access business development services. The general structure of the Youth Entrepreneurship programme is as follows: two broad areas of activity are incorporated, namely the Business Services Development Programme and Enterprise Finance. The Business Services Development Programme supports new youth businesses and existing youth enterprises through the recently introduced Business Development Services Voucher Programme (BVDSVP). The BDSVP helps both new and existing young entrepreneurs to acquire innovative business support services by accessing a voucher from the Allocating Agent which can then be used to access the Business Development Service (mainly mentoring, business planning, marketing plans, branding, accounting, bookkeeping, legal services and business administration) from an accredited service provider. Each client is eligible for a maximum of 4 vouchers, with a voucher having an average value of approximately R9 900 and this is targeted at a minimum of 57% of women between the ages of 18 and 35. To date this programme has assisted over 6 000 clients and is now operational in all 9 provinces. Having seen a business improvement of 40% in terms of business start-ups, sales, profits, assets, employment and so on since its establishment, this

programme is proving to be a success in helping out young entrepreneurs (UYF Project Report, 2005).

Enterprise Finance provides youth SMMEs with finance through several options, including SME finance, micro finance and youth cooperatives finance. The SME finance option provides youths wishing to start a business capital from the franchise fund, the progress fund or the general Umsobomvu fund. Each fund targets 33% females and 67% males (UYF Project Report, 2005) and aims to create and/or preserve an average of 15 jobs per SME financed with 25 - 33% of the shares in the franchise being held by African youth. Micro finance programmes on the other hand provide micro enterprises with funds to help their businesses grow and to improve their productive capacity. This programme targets mainly women who are preferably matriculates. Progress is apparent for there are several jobs that are being created in the process. The youth cooperative finance provides loan and technical assistance to young entrepreneurs who have a meaning participation in youth cooperatives. Almost 50% of the beneficiaries are women who have preferably completed their matric and the objective is to promote cooperative lending as a business model to be used by young entrepreneurs. It is therefore hoped that by pioneering youth cooperative models, other financial institutions will adopt this is a form of business and young people will in turn be attracted to this form of business (UYF Project Report, 2005).

Although organizations like the UYF are the mains vehicles that are promoting self-employment amongst youths as a career option, they also face challenges which if addressed will improve their efficiency thus creating more jobs and decreasing the number of unemployed youths in South Africa. The main problem is that such organizations rely on service providers, many of which are insufficiently qualified in the field of youth entrepreneurship support and development, resulting in "inadequate grounding for the young people that they serve" (HSRC, 2005). Another problem is that the youths are trained for self-employment in the various programmes but often little support is provided after the training. A related problem is the lack of best practice standards which then leads to a high failure rate by the young entrepreneurs. The UYF has however developed effective standards principles which all programmes adhere to, reducing the chances of failure by the young entrepreneurs.

3 Over-View of Youth Self-Employment.

3.1 *Data*

For this part of the paper, The Labour Force Surveys (LFS) for September 2000 and 2004 are used. This survey is a “twice-yearly” rotating panel household survey focusing on the dynamics of the labour market (Statistics South Africa (Stats SA), 2004: LFS 2004_2 Release: i). The LFS is a nationally representative household survey obtaining detailed labour market information of approximately 68000 working age⁵ adults living in over 30000 households across South Africa. This cross-sectional data set not only provides detailed information regarding the labour market, but also gives information about the participant’s employment status, earnings and other individual characteristics. The draw back of using cross-sectional rather than panel data is that cross-section data only allows an analysis that provides a “snapshot” of an individual’s employment status at one point in time rather than over a given period of time. This is highly unfortunate because having panel data would be advantageous in that detailed questions regarding self-employment can be answered. For example why an individual moved from being employed by someone else to becoming self-employed, or rather what made an individual leave self-employment? Questions regarding the success of the business can also be answered by looking at the duration of self-employment, in addition, information about previous employment status can be obtained allowing researchers to see whether a person is more likely to be self-employed having being unemployed before or working for someone else. Cross-sectional data is however useful in that the sample sizes are very large and therefore nationally representative making the analysis reliable.

For the descriptive statistics the variable of interest was the proportion of the youth population in the self-employment status versus those that are unemployed and those that are working for someone else. The labour market variable that was of importance was the number of people that are economically active which excludes full-time homemakers, the retired, the disabled and full-time students (Stats SA, 2004: LFS 2004_2 Release: iv).

⁵ 15 to 65 years of age.

The economically active population (EAP) is further divided into the employed (working for someone else), self-employed and the “not searching” unemployed (expanded definition).⁶ Statistics South Africa defines the “not searching” unemployed as the people within the economically active population who: (a) did not work during the seven days prior to the interview, (b) want to work and are available to begin work within two weeks, in addition these people would not have taken active steps to look for any form of employment four weeks prior to the interview (Stats SA, 2004: LFS 2004_2 Release: xix).⁷

3.2 *Labour Force Participation of Youths*

According to the September 2004 LFS, there are an estimated 19.7 million economically active individuals, and the youth (15-34 years) represent approximately 56% of the economically active population (EAP). Over half of the youth population is unemployed and only a small percentage of them are self-employed. Table 1 shows a comparison of youth and adult labour market participation rates as revealed by the September 2004 LFS:

Table 1: Labour Force Participation by Age.

	Employed	Self-Employed	Unemployed	Total
Youth (15-34)	4,553,283 40.93%	683,282 6.14%	5,887,764 52.93%	11,124,329 100.00%
Adults (35-65)	5,062,807 58.85%	1,344,180 15.63%	2,195,577 25.52%	8,602,564 100.00%
Total	9,616,090 48.75%	2,027,462 10.28%	8,083,341 40.98%	19,726,893 100.00%

Source: September 2004 LFS

Table 1 reveals that only 6% of the economically active youth population is self-employed, but this figure more than doubles when looking at the adults that are self-employed. A valid explanation for this would be the lack of adequate labour force experience that the youth possess, making them insufficiently skilled to run their own

⁶ Employment can either be full-time, part-time or casual even if it is for one hour only.

⁷ Up until Mar 2004 LFS, Stats SA used a reference period of one week increasing it to two weeks in Sept 2004 LFS.

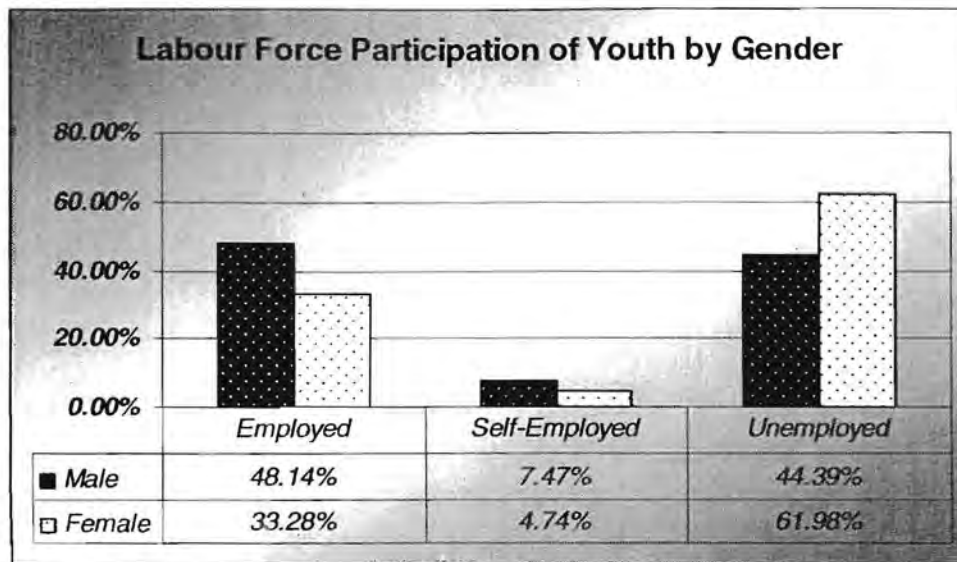
business. Valuable skills and training are obtained during ones years in the labour market, so most adults having gained experience take their acquired skills to open and run their own businesses. In addition to having acquired experience and skills in the labour market, adults tend to have accumulated more capital to start their own ventures, making them more likely to be self-employed than youth. This is the main constraint to youths running their own businesses, thus financial aid would be useful in encouraging youths to take up self-employment. Overall, only a small percentage of the South African EAP is involved in self-employment.⁸ This leaves the question of whether the environment in general encourages an entrepreneurial society or not?

When considering labour force participation rates amongst the youth by gender, some interesting observations are made. Figure 1 shows that young females are comparably worse off than men when it comes to employment opportunities. Females suffer a much higher unemployment rate than males (62% compared to 44.4%) and some literature has suggested that this differential may be exaggerated because females that work in subsistence farming are not captured correctly in the national surveys (Klasen & Woolard, 1999). What is interesting however is that females are not as disadvantaged when it comes to self-employment compared to the males, there is clearly scope to develop both female and male self-employment.

Figure 2 below shows that across the races White youth are more involved in self-employment while Coloured youth are the least involved with only 2.6% of them running their own businesses. The question at hand is what are the characteristics of White youth that make them engage in self-employment more than the other races? Are they more educated? Do they possess more skills? Do they have an inherent entrepreneurial drive? The racial disparities that are present in the involvement of youth in self-employment are rather intriguing given that self-employment is often seen as a way out by policy makers. Are policy makers therefore not targeting the groups that are in most need of getting involved in self-employment? Those that are in most need of self-employment amongst the youth are not taking it up, in this case the African and Coloured Youth as they suffer from the highest rates of unemployment (60% and 39% respectively).

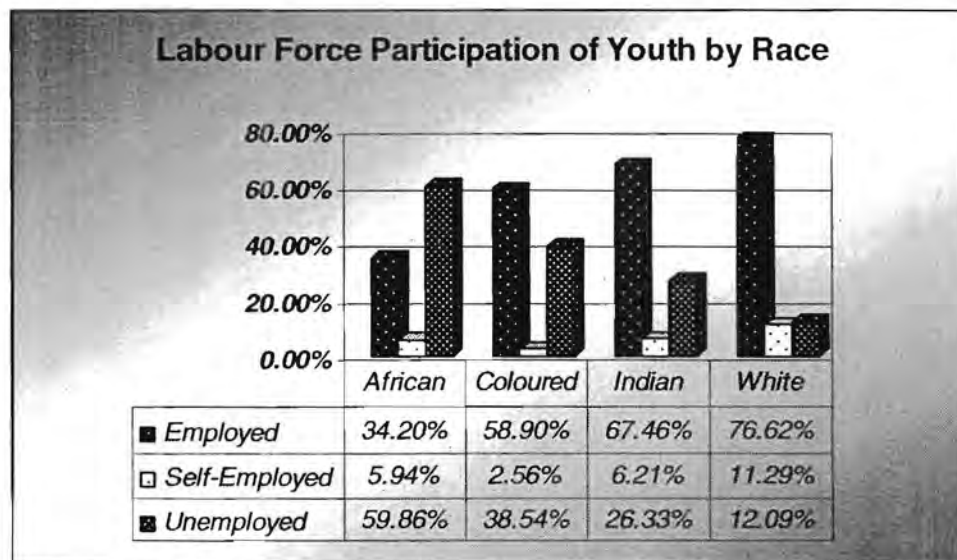
⁸ Approximately 10%.

Figure 1: Labour Force Participation of Youth by Gender



Source: September 2004 LFS

Figure 2: Labour Force Participation of Youth by Race



Source: September 2004 LFS

If the youth age group is further categorized as teenagers (15-19), young adults (20-24), and prime-adults (25-34), noticeable differences are observed for their labour force participation.

Table 2: Labour Force Participation of Youth by Age.

	Employed	Self-Employed	Unemployed	Total
Teenagers (15-19)	164,255 19.72%	29,544 3.54%	639,295 76.64%	833,094 100.00%
Young Adults (20-24)	963,039 29.84%	131,627 4.08%	2,132,667 66.08%	3,227,333 100.00%
Prime Adults (25-34)	3,425,989 48.50%	522,111 7.39%	3,115,802 44.11%	7,063,902 100.00%
Total	4,553,283 40.93%	683,282 6.14%	5,887,764 52.93%	11,124,329 100.00%

Source: September 2004 LFS

As expected, prime adults are more involved in self-employment than any other age group. As explained previously this is perhaps because of the experience they would have gained in the labour force as well as an accumulation of capital. It is very unlikely that teenagers that are not in full-time education would have gained enough work experience as well as capital to start any business ventures. If the large numbers of unemployed youth are encouraged to take up self-employment and given the necessary support, surely this would improve the situation?

Figure 3 below shows the educational attainment of youths aged between 17 and 34.⁹ Amongst the self-employed youth, the majority (53.22%) of them have not completed their matric, while 14.65% of them have a post-matric qualification.¹⁰ What is interesting is that out of the three employment status types, the self-employed have the largest percentage of youths that have no schooling, while the unemployed youth have the smallest percentage of youths that have received no education at all. One would expect the unemployed youth to be the ones with the largest percentage of youth with no schooling. It is apparent in figure 3 that whether an individual is self-

⁹ The youth that are aged below 17 are left out of the analysis so that the results are more representative of those that are meant to have completed high school. Including youth that are below 17 would give inaccurate results as they would all probably fall into the incomplete matric category.

¹⁰ "No Schooling" – 0 years of formal education. "Incomplete Matric" – completed grades 1 to 11. "Matric" – completed grade 12. "Post –Matric" – includes NTCs, Diplomas/Certificates and Degrees.

employed or works for someone else is not affected by their educational attainment for there no significant difference between the two.

Figure 3: The Employment Status of Youths Aged between 17 and 34 by Educational Level



Source: September 2004 LFS

If formal education does not have a significant impact on whether someone becomes self-employed or not then perhaps skills training might have an impact. This is clearly not the case as table 3 reveals.

Table 3: Acquisition of Skills Training by Youth.¹¹

	Employed	Self-Employed	Unemployed	Total
Received Skills Training	661,461	114,701	369,462	1,145,624
	14.63%	16.97%	6.32%	10.38%
No Skills Training	3,858,809	561,198	5,475,021	9,895,028
	85.37%	83.03%	93.68%	89.62%
Total	4,520,270	675,899	5,844,483	11,040,652
	100.00%	100.00%	100.00%	100.00%

Source: September 2004 LFS

¹¹ The total figures in table 3 do not match those in table 2 due to missing observations for whether one acquired skills training or not.

Table 3 implies that acquiring skills training is not the main route to self-employment since at least 80% of the self-employed youth have not received any skills training. On the other hand, those who have some form of employment tend to have acquired more skills training than those that are unemployed, thus providing the unemployed with skills training would perhaps increase job opportunities for them. So although having skills training is beneficial to starting up a business, it is evidently not the main factor preventing youths from being self-employed.

3.3 *Changes in Labour Force Participation for Youths between 2000 and 2004.*

There have in recent years been several initiatives by both the Government and Non-Governmental Organisations (NGOs) to try and encourage the participation of youth in self-employment as this is seen as a way of solving the unemployment problems. Table 4 shows the changes in labour force participation for youth between 2000 and 2004.¹²

Table 4: Labour Force Participation of Youths between 2000 and 2004.

	Employed	Self-Employed	Unemployed	Total
Sept 2004	4,553,283 40.93%	683,282 6.14%	5,887,764 52.93%	11,124,329 100.00%
Sept 2000	4,489,855 45.90%	601,126 6.15%	4,689,525 47.95%	9,780,506 100.00%

Source: September 2000 LFS & September 2004 LFS.

In general, there is an increase in the number of youth entering the labour market. The rate of self-employment for youth has not changed over the four year period, but in terms of absolute numbers, there has been a slight increase in youths that are running their own businesses.¹³ The employment situation has deteriorated for the youth, because as more of them are entering the labour market, not enough of them

¹² The data used for 2000 is from the September 2000 LFS. The availability for work in 2000 was only 1 week compared to 2 weeks in September 2004 and there were slight changes in the wording of the questionnaire.

¹³ An increase of approximately 13%.

are finding employment, and rather than taking up self-employment and using it as either a base from which to search for formal employment or wait for formal employment (Kingdon and Knight, 2001b), many of them remain unemployed.

Table 5 looks at the changes in participation in self-employment for youths across the different races to determine whether the groups that are most in need of taking up self-employment are doing so. Indeed the African youth are taking up self-employment and although the rate of self-employment has decreased the number of African youth running their own businesses has increased. On the other hand the involvement of Coloured youth in self-employment is not looking promising for not only has the rate of self-employment decreased, but the numbers have also decreased. Similarly Indian youth have experienced declining participation in self-employment but not to the same extent as Coloured youth. White youth are increasingly getting involved in starting their own ventures, with an increase in both the rate and numbers of those running their own business. African and Coloured youth continue to have the lowest rates of self-employment and policy makers need to make sure that these two groups that are most in need of getting involved in self-employment are continuously targeted to improve their labour market prospects.

Table 5: Changes in Participation in Self-Employment for Youth between 2000 and 2004.¹⁴

	Sept 2000	Sept 2004
African	465,734 6.13%	525,133 5.94%
Coloured	32,571 3.09%	27,206 2.56%
Indian/Asian	18,727 7.02%	17,803 6.21%
White	83,852 10.01%	102,999 11.29%
Total	600,884 6.16%	673,141 6.07%

¹⁴ The total figures in table 5 do not match those in table 24 due to missing observations on race.

Source: September 2000 LFS & September 2004 LFS.

The next section allows us to investigate the issues surrounding self-employment by analyzing information provided by young entrepreneurs, and using this information to see what can be done to encourage youth (particularly the unemployed) to run their own businesses as a viable career option.

4. Young Entrepreneurs in South Africa.

4.1 Data

This section uses data from another survey called the Mesebetsi Labour Force Survey that was taken between the end of 1999 and early 2000. The reason for using this additional survey is because it fills in some “gaps” in our knowledge of the labour market. The survey achieves this by addressing issues that are not normally covered in other household surveys carried out by Stats SA and others (Mesebetsi LFS Report 1999-2000). In particular it had a section that addressed the self-employed (employers) which is not done in the Labour Force Surveys thus helping to gain additional knowledge regarding the challenges faced by young entrepreneurs in South Africa. This is helpful because it allows policy makers to see the issues surrounding self-employment and actions that can be taken to assist up-coming young entrepreneurs.

The survey was conducted across approximately 10000 households with about 50000 individuals. A randomly selected individual (RSI) that is of working age (15-65) is then chosen from each household for more in-depth questions regarding the labour market, wages, working conditions and specific questions for both employers and employees. A merge of the household file and the RSI file (keeping the randomly selected individuals only) allows this paper to extrapolate information concerning young entrepreneurs. This reduces the sample size drastically but still allows us to investigate important issues concerning youth self-employment.¹⁵ The individuals that remain in the merged file are aged between 18 and 65, so for the purpose of analysis, this section excludes teenagers and includes only the young adults and prime adults in the definition of youth.¹⁶

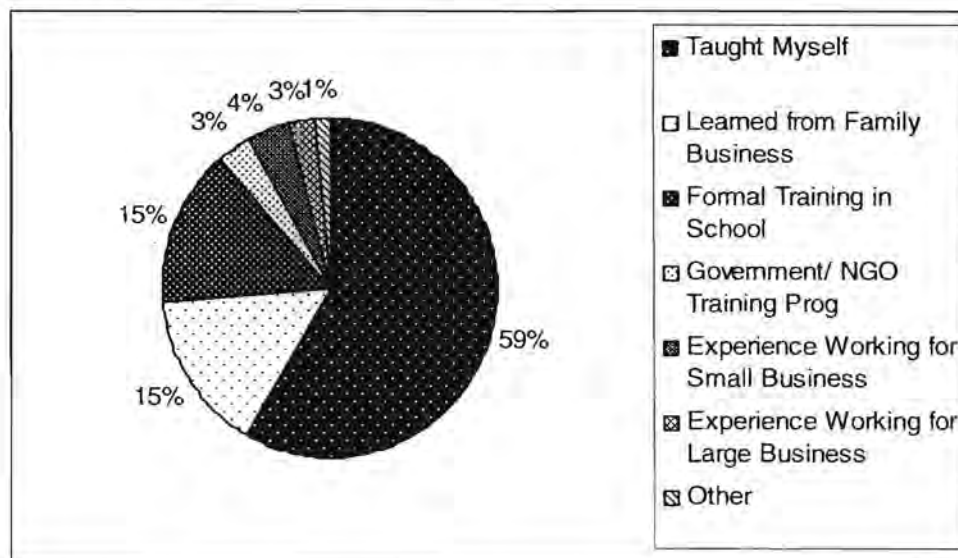
¹⁵ A merge of the household file and the RSI file reduces the sample to 10780 individuals.

¹⁶ Youth are therefore defined as 20-34 in this section.

4.2 Issues Concerning Young Business Owners

The question is which sector of the economy are young entrepreneurs operating in? According to the Mesebetsi LFS (1999-2000), over 75% of the businesses run by young entrepreneurs are in the informal sector. The informal sector according to the ILO consists of small scale, usually unregistered units engaged in the production and distribution of goods and services with the primary objective of generating employment and income. The informal sector is typically characterized by easy entry, low wages, unregulated and competitive markets, reliance on indigenous resources and skills acquired outside the formal school system. The LFS extends on this by characterizing businesses that operate in the informal sector as seldom being run from business premises but instead operating from homes, street pavements or other informal arrangements. From the descriptive analysis carried out on this data, most of the above certainly holds. For example when asked where the young business owners acquired the necessary skills to run their businesses, their responses are given in figure 4 below.

Figure 4: Sources of Entrepreneurial Skills¹⁷



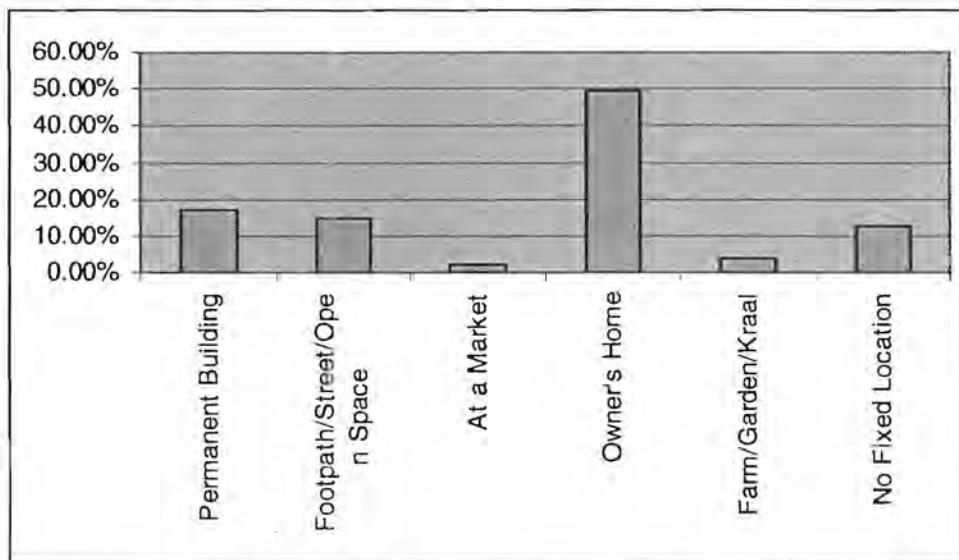
Source: Mesebetsi Labour Force Survey, 1999-2000.

¹⁷ These are the responses of the youth that have received some form of skills training.

It is apparent that the majority of the youth that have acquired some form of skills training to run their business have obtained this training outside of the formal school system. The diagram above reveals some interesting information concerning the involvement of the government as well as Non-Governmental Organizations (NGOs) in the provision of skills to youth. If encouraging youth to become self-employed is seen as a way out for policy makers then surely the percentage that have received training from the government and NGOs should be a lot higher than 3%? Over half of the youth have taught themselves the skills they need to run their own businesses, are these skills adequate to run successful businesses? Ideally the diagram should be showing a much higher contribution from both formal school training and the government and NGOs.

Most of the youth do not run their businesses from formal establishments. Figure 5 reveals that most of the businesses are run from informal establishments. Half of the businesses are operated from the owner's home and only 17% of them are operated from a permanent building.

Figure 5: Operational Locations for Youth Businesses



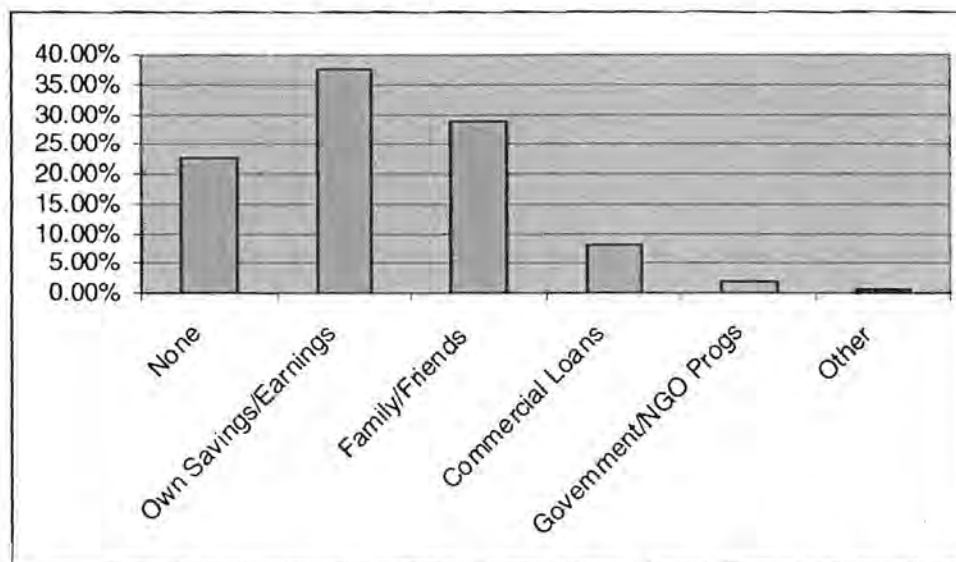
Source: Mesebetsi Labour Force Survey, 1999-2000.

In recent years the informal sector in South Africa has become a major contributor to employment for many of those that cannot find employment in the formal sector. According to the Stats SA the informal sector in South Africa grew by 35% from

1998 to 1999. South Africa has a vibrant informal sector that can be nurtured to attract many of the unemployed youth where they can start their own businesses with adequate support and assistance.

The main constraint that hampers youth from entering self-employment is the lack of capital. The Mesebetsi LFS allows us to see what the main sources of start-up capital are for the youth that run their own ventures. Again it is apparent that the government and NGOs have contributed little (2.1%) to helping the youth start up their businesses. The main sources of start-up capital for the young entrepreneurs are their own savings and earnings as well as family and friends. Similar evidence is found by Blanchflower and Oswald (1998b) using data from the UK National Survey of the Self-Employed. This survey reveals “most small businesses are begun with own or family money”. If entrepreneurship is really seen as a way to reduce unemployment amongst the youth, then governmental and non-governmental organizations need to be assisting the youth a lot more to urge them to become employers who in the long run can employ other youth.

Figure 6: Sources of Start-Up Capital



Source: Mesebetsi Labour Force Survey, 1999-2000 (Own Calculations)

According to the Mesebetsi LFS at least 80% of the young entrepreneurs started their business either on their own or with partners, while approximately 11% of the youth inherited their businesses and the rest purchased or rent their businesses. This is

promising as it shows there are youth that are capable of starting their own ventures and given adequate resources and support can run viable enterprises. Most of the businesses that are run by youth had only been in operation for less than three years showing that youths are increasingly taking up self-employment as a career option.¹⁸ The survey also allows us to see obstacles that are faced by young entrepreneurs. The questionnaire asks those that are not satisfied with the earnings of their business and want to expand, what barriers they would face in trying to expand? Table 6 below shows what the barriers to expansion would be:

Table 6: Barriers to Expansion for Young Entrepreneurs

	Percent	Cumulative %
Money/Capital	41.76	41.76
Markets	16.66	58.42
Lack of Education/Experience/Skills	11.42	69.84
Labour	4.57	74.41
Machinery/Technology	7.10	81.51
Land/Raw Materials	5.39	86.89
Transport	8.65	95.55
Legal Barriers	1.83	97.38
Governmental Barriers	2.62	100.00

Source: Mesebetsi Labour Force Survey, 1999-2000 (Own Calculations)

It is not surprising that the biggest obstacle to expansion is access to money/capital. As discussed earlier, the youth are likely to be considered as high-risk borrowers and will therefore have difficulty obtaining finances from lenders. The government can do a lot more to assist existing young entrepreneurs as well as those that want to start their own enterprises. One way they can achieve this is by perhaps offering the youth credit on “concessionary terms” or subsidizing businesses that are started by youth.¹⁹

4.2 The Determinants of Youth Participation in Self-Employment

Many variables are thought to influence the choice of one being self-employed. Although this occupational choice is thought to be an individual choice, there are still other factors that need to be taken into account, for example entrepreneurial opportunities, resources and other personality traits, and so for this purpose, the paper

¹⁸ Approximately 60% of the businesses had been in operation for less than three years at the time the survey was carried out (Mesebetsi LFS, 1999-2000 (own calculations)).

¹⁹ Report prepared by United Nations Economic Commission for Africa for the Youth Employment Summit in Alexandria, Egypt, September 7-11, 2002.

does not limit the determinants to individual level determinants but also includes household level determinants as they prove to be significant in affecting ones decision to be self-employed. It is important to get an in-depth understanding of the determinants of self-employment for youths so as to get an insight of the willingness and ability to become an entrepreneur, this will aid government and NGO programs to identify the correct target groups of would be entrepreneurs (Van Praag & Van Ophem, 1995).

- **The Variables**²⁰

The dependent variable

The dependent variable is a binary variable that is equal to 1 if the individual is self-employed and 0 if the individual is unemployed (expanded definition).

The independent variables

Demographic: Gender and Race

These variables are used to detect the disadvantaged groups when it comes to participating in self-employment. It would be expected that being a male as well as being white increases the chances of one being self-employed.

Demographic: Age

To analyze the effect of age on self-employment, a dummy variable “young people” is included to detect if there is perhaps an age effect (20-25) inside the age category 20-34. This dummy variable is a proxy for start up capital (Kidd, 1993) as well as important indicator of learning capacity (Calvo & Wellisz, 1980).

Human Capital: Education and Skills Training

Evidence concerning the relationship between the level of education and self-employment has been rather mixed. One would expect an increase in educational level to increase ones participation in self-employment because of an increase in access to business opportunities. Several studies have shown a positive relationship between the two (Bates, 1995) while some have found a negative relationship (De Wit & Van Winden, 1989). Acquisition of skills training is an increase in one’s human capital and so it is expected that those with some form of skills training will be better

²⁰ See Appendix A for the construction of the variables.

at perceiving entrepreneurial opportunities and are therefore more likely to engage in entrepreneurial activities.

Social Capital: Other Self-Employed People in the Family

Having a role model within the family who owns/runs a business is indeed an important predictor of being self-employed for youth (Cooper, 1985). This can be seen as a proxy for a “network” providing the youth with entrepreneurial resources and information that would have otherwise been difficult to obtain. Having another self-employed person in the household is likely to increase the probability of being self-employed.

Financial Capital: Household Cash Income

A dummy variable highest household cash income quintile (=1 if the individual comes from a household that is in the highest cash income quintile) is introduced to determine whether those that come from wealthier households are more likely to be self-employed, in other words this variable is used as a proxy for financial support.

Family Background: Marital Status and Young Children

Marital status can serve as a proxy for risk and/or availability of financial capital. It is more likely that being married increases the probability of being self-employed with several studies showing a significant and positive relationship between marriage and self-employment (Blanchflower & Oswald, 1998).

If the respondent has a young child (aged 6 years or younger) it is thought that the individual will have greater child-care responsibilities and will have less flexible hours, and as a result, self-employment may seem to be the more attractive option (Mlatsheni & Rospabe, 2002).

Family Background: Household Size

This variable is included to try and see what type of households self-employed youth come from, whether coming from smaller or larger households increases or decreases the probability of being self-employed. This variable is characterized by: small, medium and large households.²¹ Looking at a sample of young people under the age

²¹ A small household contains 1 – 4 people, medium household 5 – 9 people and a large household contains 10 – 19 people.

of 30, Blanchflower and Oswald (1998) find that there is evidence of the probability of being self-employed rises with household size.

Location: Rural/Urban

A dummy variable urban (=1 if individual resides in the urban area) is included to test whether living in the urban area increases the probability of an individual being self-employed.

Missing variables

There are several other variables that influence one's decision of being self-employed and are not available in the Mesebetsi LFS 1999-2000. Variables that would have been interesting to include are: the risk attitude of an individual, the environment for entrepreneurship (access to financial assistance, access to information and the general economic environment) and cumulative labour market experience.

- **The Model**

For empirical analysis a model is set up to show the decision of being self-employed versus being unemployed. A binary indicator variable (SE) is observed, taking a value of one if an individual is self-employed and a value of 0 if unemployed. A vector of individual characteristics (X_i) provides the determinants of the binary outcome variable. Linking the observable indicator of Self-Employment status (SE_i) for an individual and the vector of individual characteristics (X_i) gives us the conditional probability of being self-employed:

$$\text{Prob}(SE_i = 1 \mid X_i) = \Phi(X_i\beta) \quad (1)$$

The equation for the probability of being unemployed in this model is thus

$$\text{Prob}(SE_i = 0 \mid X_i) = 1 - \Phi(X_i\beta) \quad (2)$$

where Φ denotes a standard normal cumulative distribution function and X = (gender, young people, African, Coloured, Indian, White, no education, primary education, incomplete secondary education, complete secondary education, higher education, tertiary education, skills training, other self-employed, young child, highest cash income quintile, household size and urban).

• **The Results**

Table 7 below presents the results of the probit analysis (Equation 1) of the determinants of self-employment for youth aged between 20 and 34 years of age. Of interest in the probit regression results are the marginal effects. In other words, the partial derivative of the probability of being self-employed with respect to an individual variable x_i (Maddala, 1983) is reported.²²

Table 7: Determinants of Self-Employment for Youth, Mesebetsi LFS 1999-2000 data

	dF/dx	robust std.error	z	P> z
Gender	0.0461031***	0.0146194	3.13	0.002
Young People	-0.033073**	0.0136572	-2.34	0.019
African ^a	-0.1117448***	0.052887	-2.83	0.005
Coloured	-0.0702648***	0.0104333	-3.88	0.000
Indian	-0.0485761**	0.0139952	-2.18	0.030
No Education ^b	0.105023**	0.0647215	2.20	0.028
Primary Education	0.0373698*	0.0224882	1.95	0.051
Complete Secondary	0.0044031	0.0163483	0.27	0.784
Higher Education	0.043636	0.0381351	1.36	0.174
Tertiary Education	0.3188363***	0.1053874	4.53	0.000
Skills Training	0.207164	0.0214872	1.04	0.298
Other Self-Employed	0.6248429***	0.0659406	10.82	0.000
Highest Income Quintile	0.0477903**	0.0280624	2.00	0.045
Married	0.0282474 *	0.0177214	1.72	0.086
Young Child	0.203063	0.0145259	1.42	0.157
Medium HH Size ^c	-0.0490424***	0.013323	-3.40	0.001
Large HH Size	-0.0704744***	0.0121384	-3.15	0.002
Urban	-0.0028287	0.0138509	-0.20	0.838
N		2078		
Wald Chi2/Degrees of Freedom		266.05/18		
Prob > Chi2		0.0000		
Pseudo R ²		0.3095		
Log likelihood		-483.16242		

Note: ^a Base/Reference Category: White; ^b Base Category: Incomplete Secondary; ^c Base Category: Small Household Size; *, **, and *** represent statistical significance at the 10%, 5% and 1% levels respectively.

Source: Mesebetsi LFS (1999-2000)

²² The marginal effect of the probability of being self-employed is represented as:

$$\frac{\delta \text{Prob}(SE_i = 1)}{\delta x_i} = \phi(X_i \beta) \beta$$

The table above reveals that being male increases the probability of being self-employed. Young males have a 4.6% more chance of being self-employed in comparison to young females. This result is not surprising because earlier figure 1 showed there wasn't a large difference in the participation in self-employment between the genders. This shows that young men are not in any way at a greater advantage than young women when it comes to running a business.

The age dummy variable that is included is statistically significant. In fact, being a young person (20-25) decreases the probability of one being self-employed by 3.3%.

Table 7 shows that African, Coloured and Indian youth are less likely to be self-employed in comparison to the White youth. The racial self-employment gap is largest between the White and African youth. Being African reduces a youth's chance of being self-employed by 11.2% compared to if the youth was White. However, being an Indian youth reduces the chances of being self-employed by 4.9% compared to White youth. The White youth clearly have a comparative advantage when it comes to participation in self-employment when compared to the other population groups.

The results on the impact of education on self-employment are rather mixed. In comparison to having incomplete secondary education, having no education at all according to the results increases the probability of being self-employed by 10.5% and having primary education increases the chances of being self-employed by 3.7%. These results are both statistically significant at the 5% and 10% level respectively. Having a complete secondary education or higher education has a positive but insignificant effect on the probability of becoming self-employed. In comparison to having an incomplete secondary education, having a university degree (tertiary education) increases the chances of being self-employed by about 32%. What these results suggest is that there may be a higher probability of being self-employed when one has a relatively low education level, perhaps indicating a lack of other employment opportunities pushing the individual into "survivalist self-employment". On the other hand having a university degree will increase the chances of being self-employed significantly, with the business ventures being more lucrative than those

run by youth with low education levels. Receiving skills training has a positive but insignificant effect on being self-employed.

Having another self-employed person in the same household has a very large impact on youth participation in self-employment. A role model for the youth increases their chances of running their own business by 62% and this is highly statistically significant.

The variable highest cash income quintile is introduced as a proxy for financial support and proves to have a positive effect on the probability of being self-employed. Having some type of financial assistance is significant in helping youths to run their own businesses.

Looking at the individual's family background, being married increases the chances of being self-employed by nearly 3% versus those youth that are not married. Similarly, having a young child increases the probability of being self-employed, but this is not statistically significant.

Coming from larger households in comparison to small households has a negative and significant effect on the probability of being self-employed. A reason for this may perhaps be lack of financial support. Those coming from larger households may not have as much income at their disposal and thus coming from a smaller house gives an individual comparative advantage in accessing financial capital so they can become self-employed. Living in an urban area according to the results decreases the chances of being self-employed, however this is highly statistically insignificant.

In Appendix B, the same probit estimate is carried out except this model excludes youth that have inherited their businesses. The purpose of this is to see whether there are clear distinctions between the characteristics of youth that have set up their own ventures and those that have simply inherited their businesses. Interestingly, the results are fairly similar, except having a primary education has a positive but now statistically insignificant effect when the youth that have inherited their businesses have been omitted. For those who have set up their own businesses, having a primary education is not significant. In addition, being married still has a positive effect on being an entrepreneur but this effect is now statistically insignificant. In summary,

there are no major differences in the characteristics of youth that have inherited their businesses and those that have started their own business ventures. Other literature has shown that inheriting some money significantly increases the chances of becoming self-employed (Blanchflower and Oswald 1998b), this is consistent with the existence of credit constraints for the youth.

5. Conclusion.

Promoting self-employment amongst youth has often been recommended by policy makers as a way of addressing the youth unemployment problem. This paper investigates how self-employment can be encouraged amongst the youth in South Africa, and more importantly will this solve unemployment problems? Three questions are put forward: Firstly, what are the main constraints that are faced by youth that want to enter self-employment? Secondly, what are the main determinants of one becoming an entrepreneur? Thirdly, are there any disadvantaged groups within the youth population that need to be specifically targeted by policy makers?

Potential youth entrepreneurs are mainly held back by lack of sufficient capital to start up their own businesses. Those who manage to obtain adequate capital receive the money from family members, friends or their own savings. Young people are clearly at a disadvantage because they are seen as high-risk borrowers by financial lenders, and often because of the lack of collateral fail to obtain loans to start their own ventures. There is therefore a bias towards young borrowers. To assist the youth in accessing capital, the answer may not be the government handing out cash to them, but the provision of 'soft-loans' which are low-interest loans. Private sector companies may also play a role in sponsorship programmes as they often have the financial resources.

Having analyzed the determinants of being self-employed amongst the youth, the most important determinant is the presence of other self-employed people. In other words it is very important for the youth to have a role model that can share their expertise when considering self-employment as a career option. A role model is necessary so that the young entrepreneur can learn the operations of running a

business, as well as increasing their business networks and contacts. Although the effects of education on self-employment for youth were fairly mixed, it should be pointed out that fostering entrepreneurship education into the school curriculum is very important in the development of entrepreneurs. Young people should realize that becoming self-employed is a viable career option and an inclusion of entrepreneurship skills training in the school curriculum is essential.

Targeting the right groups within the youth population will help increase the effectiveness of any programs the government implements to encourage self-employment. This paper reveals that the African and Coloured youth are least involved in self-employment compared to the other population groups. They are in fact the groups that need to be encouraged the most to become self-employed because they have the highest rates of unemployment, and perhaps encouraging them to start their own ventures will improve their labour market prospects. Although young females have a lower participation in self-employment compared to males, they are not particularly disadvantaged showing that there is scope to improve both female and male participation rates in self-employment.

Through a comparison of self-employment participation rates of youth in 2000 and 2004 using the LFS, the paper finds that the rates of youth self-employment have not changed, but the numbers of youth that are self-employed have increased slightly. Although this is promising in that youth are getting more involved in self-employment, the figures need to be lot higher especially when the unemployment rates are increasing rapidly. More youth need to be encouraged to take up self-employment so that unemployment rates are reduced.

Self-employment should be presented to the youth as a way to achieve greater financial reward and work satisfaction rather than a means of escaping unemployment, and more importantly self-employment results in the development of youth, creates employment and empowers them. The government, NGOs and companies in the private sector can all play their part in encouraging the youth to become self-employed, but what is important is that the government must put in place policies that are conducive to the elicitation of interest of both NGOs and the private sector. Indeed if the findings of this paper can be exploited by the designers of

economic policy, encouraging self-employment amongst the youth will help address the double digit unemployment rates faced by the youth of South Africa.

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APPENDIX A:

Description of the Variables

Name of Variable	Description of Variable
<u>Dependent Variable:</u>	
Self-Employed	= 1 if self-employed; = 0 if unemployed
<u>Independent Variables:</u>	
Gender	= 1 if male
Young people	= 1 if aged between 20 and 25
Population Group	= dummy variable: African, Coloured, Indian & White
No Education	= 1 if no schooling
Primary Education	= 1 if between grade 1 and grade 7
Incomplete Secondary	= 1 if between grade 8 and grade 11
Complete Secondary	= 1 if grade 12
Higher Education	= 1 if National Technical Certificate/Diploma/Certificate
Tertiary Education	= 1 if Bachelors degree or equivalent
Skills Training	= 1 if skills training acquired
Other Self-Employed	= 1 if person other than the individual in the household is self-employed
Young Child	= 1 if individual has own child that is aged 6 years or Younger
Highest Cash Income Quintile	= 1 if individual resides in household that is in the highest Cash income quintile
Small Household	= 1 if individual resides in household with 4 people or less
Medium Household	= 1 if individual resides in household with 5 to 9 people
Large Household	= 1 if individual resides in household with 10 to 19 people
Urban	= 1 if respondent lives in urban area

APPENDIX B:

Determinants of Self-Employment for Youth²³, Mesebetsi LFS 1999-2000 data

	dF/dx	robust std.error	z	P> z
Gender	0.035229**	0.0137913	2.55	0.011
Young People	-0.0309089**	0.0130405	-2.29	0.022
African ^a	-0.0849367**	0.0486737	-2.29	0.022
Coloured	-0.0612337***	0.0103267	-3.39	0.001
Indian	-0.03806621*	0.0157974	-1.65	0.099
No Education ^b	0.102983**	0.0642909	2.22	0.026
Primary Education	0.0289098	0.0215338	1.56	0.120
Complete Secondary	0.0054258	0.0155105	0.36	0.720
Higher Education	0.0368631	0.0358147	1.22	0.223
Tertiary Education	0.3087284***	0.1060974	4.48	0.000
Skills Training	0.0244212	0.0210644	1.28	0.200
Other Self-Employed	0.59048***	0.0707692	10.25	0.000
Highest Income Quintile	0.0421327*	0.0270453	1.84	0.066
Married	0.0222767	0.0168674	1.41	0.157
Young Child	0.0134198	0.0136147	1.00	0.319
Medium HH Size ^c	-0.0457992***	0.0128372	-3.30	0.001
Large HH Size	-0.0642131***	0.011673	-2.94	0.003
Urban	-0.0013731	0.0133196	-0.10	0.918
N		2044		
Wald Chi2/Degrees of Freedom		244.58/18		
Prob > Chi2		0.0000		
Pseudo R ²		0.2932		
Log likelihood		-452.99593		

Note: ^a Base/Reference Category: White; ^b Base Category: Incomplete Secondary; ^c Base Category: Small Household Size; *, **, and *** represent statistical significance at the 10%, 5% and 1% levels respectively.

Source: Mesebetsi LFS (1999-2000)

²³ Youth refers to the youth that set up their own businesses and did not inherit them.