



DEVELOPMENT POLICY
RESEARCH UNIT

A DPRU Policy Brief*: **PB 16/45**
Commissioned for the



WORLD BANK GROUP
Jobs

**THE SOUTH AFRICAN TOWNSHIP ECONOMY AND
INFORMAL MICRO-ENTERPRISES:
What are the prospects for youth
employment and entrepreneurship?**

Andrew Charman
Sustainable Livelihoods Foundation (SLF)

June 2016

ISBN 978-1-920633-35-6

***Disclaimer:** The Policy Brief series is intended to catalyse policy debate. Views expressed in these papers are those of their respective authors and not necessarily those of the Development Policy Research Unit, the World Bank, or any associated organisation/s.



© DPRU, University of Cape Town 2016

This work is licenced under the Creative Commons Attribution-Non-Commercial-Share Alike 2.5 South Africa License. To view a copy of this licence, visit <http://creativecommons.org/licenses/by-nc-sa/2.5/za/> or send a letter to: Creative Commons, 171 Second Street, Suite 300, San Francisco, California 94105, USA.

Summary

The informal economy provides opportunities for employment and entrepreneurship. Work in township micro-enterprises offers the unemployed youth a point of entry into the labour market. Those engaged in 'make work jobs' will no doubt abandon informal work for better opportunities and formal employment when available. Whether youth persist in informal work, or exist, the township economy provides opportunities to acquire skills, gain on-the-job experience, and build social networks. There are good business opportunities for those youth able to apply their knowledge and skills, and to mobilise capital. In some sectors, South African young face both competition (and lessons) from immigrant youth entrepreneurs. There are three areas in which township youth entrepreneurs exhibit high potential for business success.

- Youth able to translate their 'hobbies' into enterprise activities.
- Youth that are brought into family businesses.
- Youth with jobs who establish informal micro-enterprises as a safety-net or investment strategy.

Government programmes should provide youth, at an early age, with exposure to tools (to enable home production and enhance productivity) and technologies (especially information and communication technologies). In teaching scholars about businesses, the curriculum should provide them with an introduction of the kind of micro-enterprises in which young persons have an interest and aptitude, and that could relate to hobbies, such as design, music making, and DJing. Young South Africans are more likely to enter the non-retail service sectors. Finally, programmes should target i) family businesses to retain youth within the business, ii) employed youth who seek to invest in township micro-enterprises to create opportunities for themselves and work for others.

Introduction

Youth unemployment in South African has reached alarming levels. Against an economic backdrop in which the total rate of unemployment has progressively risen, now 26.7%, the level of youth unemployment is 54.5% (narrow definition) (StatsSA,2016:29). The challenge of bringing youth into the economy is particularly worrisome in the urban township context. In Gauteng, where opportunities for employment are greatest, youth unemployment still exceeds 30%. Youth access to the formal job market is constrained by the comparatively poor education standards of township primary educational institutions. As a result, the rate of school non-completion is high in absolute terms, whilst those matriculating have reduced opportunities for post-school training. Two other factors negatively affect labour market access. First, the spatial dislocation of the townships from commercial centres makes job seeking costly. Second, pervasive unemployment in combination with family legacies of low skilled (and low paid) work means that the youth have relatively weak social networks in formal labour markets, especially in sectors such as trade, finance, and services where jobs have been created.

In order to work, most youth will need to find employment in the informal sector. Yet data on labour force participation indicates that youth are not widely active in self-employed activities or informally employed in micro-enterprises. So what then are the prospects for youth employment in informal micro-enterprises? This brief discusses the statistically obscure (under-reported in QLFS) work that youth perform in the township economy. Drawing on survey data and research experience, we analyse the main pathways through which youth enter the informal economy. Finally we reflect on actions that can amplify youth entrepreneurship and employment.

Methodology

The brief draws principally on the qualitative data obtained by the SLF through surveying micro-enterprises and informal business dynamics in 9 townships, distributed in Cape Town, Johannesburg, Durban, and Welkom. The research was based on a small area (2km²) business census (Charman et al, 2015). From 2010 to 2015, the writer led a research process which ultimately mapped 10,842 micro-enterprises and conducted firm surveys with over 3000 entrepreneurs. The scope of research covered a population of 320,000 persons (Informal Micro-Enterprise Survey). Working in the field enabled the SLF researchers to conduct a range of face-to-face interviews with young entrepreneurs and employees, systematically recording ethnographic observations and making notes on sector specific business activities. Our recent (2015) enterprises surveys in Delft South (Cape Town) and Thabong (Welkom), triangulate the accumulated evidence and provide a qualitative insight on youth micro-entrepreneurs.

Youth Pathways into Entrepreneurship

In the age category 15-19 years there are few young entrepreneurs. This is understandable, given the importance of completing school education. Our data indicates that young persons then gradually enter the informal economy as entrepreneurs after experiencing long periods of unemployment and itinerant casual labour. It takes time for youth to accumulate the skills, social networks and self-confidence to commence business alone. In both Delft South and Thabong townships, 15% of all identified micro-enterprises are run by persons under 30 years of age. This cohort includes immigrant entrepreneurs who, in general, are significantly younger than their South African counterparts. In both sites, 29% of the young entrepreneurs are non-South Africans.

Whereas the township informal economy is concentrated on the retail trade in food, consumable groceries and drink, youth entrepreneurs have more interest (and aptitude) for the service sectors. The hair care sector is one such example. In Delft, 40% of hair salons and barber shops are owned by youth entrepreneurs, a trend noticed in all sites. Again the entrepreneurial headwind of immigrants is evident. In Tembisa and Ivory Park (townships in Gauteng), merely 32% of the hair care enterprises are South African run. Township hair salon enterprises display considerable innovation in responding to the growing demand for personalised services. Yet it should be noted that the hair care entrepreneurs themselves have limited education. Merely 27% of the 133 informants surveyed in Tembisa and Ivory Park had obtained a school leaving certificate and only one individual had specialist training. Educational limitation might impact on the capacity of these entrepreneurs to formalise their business and exploit new markets.

The lifestyle and leisure sectors contain some of the most promising youth start-ups. Some of the examples we encountered are the young entrepreneurs that run internet-cafes, or produce music at home and DJ at taverns / shebeens, or design flyers and posters, or operate gyms, design and make clothes, or run takeaways that sell westernized 'fast-food' to late night revellers. In these enterprises, young South Africans are ahead of the pack.

How then do the youth get into business? Our research identified four main pathways through which the youth enter the informal economy.

1. For the poor especially, a core strategy is 'make work jobs', utilising whatever assets are accessible and affordable. This often means providing casual labour services. These services can lead to business opportunities, through for example 'keeping watch' of an established trader's stand and thus learning the rules of the market or particular skills. For the destitute, collecting scrap, hauling materials, running an errand, waiting and watching are examples of

‘make work’ activities that result in jobs, however short lasting or unfavourable in their remuneration.

- II. Skills and social networks provide two of the main gateways to business opportunities in service sectors. These social assets are acquired through various means. Informal employment is one route, providing the worker an opportunity to learn technical skills, gain on-the-job experience and build networks. Many hair salon entrepreneurs began their careers working for another business and set-up in trade once they had accumulated sufficient skills, business experience, and established a customer base. An important and much overlooked route to acquiring skills and building social networks are ‘hobbies’ or what is described in business literature as ‘serious leisure’. Music production and DJing constitute part of the flourishing township leisure economy. Almost all of these entrepreneurs acquired their skill and built their social network as a result of a ‘hobby’: making and playing music out of personal interest and to entertain their friends.
- III. Youth are absorbed into family businesses, even in very small micro-enterprises. In most instances, youth commence their involvement on a ‘helping-out’ basis, often not formally remunerated, but rewarded in-kind with items of clothes for instance. But many businesses are also passed onto younger family members, especially where the business has acquired assets (physical, legal, financial etc.) and established a market foothold. The youth are then able to introduce innovations and modernise business processes. Our research indicates that informal township micro-enterprises have greater longevity than commonly assumed. In the Delft South case we found that 38% of enterprises had been in business for 5 years or longer; in Thabong township the comparative figure was 42%.
- IV. Youth with formal employment are in a position to accumulate funds to invest in establishing an informal township business. In some cases, the township business into which these youth invest is seen as a mechanism with which to exit (often low paid) employment. Whilst the investor holds down a day job, the business is operated by persons to whom they have a close social bond (spouse or life partner; sometimes a sibling). The enterprise thus serves a dual function of reducing the financial demands from unemployed relatives, whilst providing a vehicle to accumulate savings or a safety net.

Conclusion and Recommendations

Our data indicates that South African township youth are not responding to the full potential of business opportunities in their own communities. Proportionally, immigrants have responded more effectively to employment and business, a finding that relates to the relative gap between South Africans and immigrants in social-networks, technical skills, knowledge of markets, and business acumen. Yet the informal economy provides the unemployed youth with a starting point from which to enter the labour market.

We have highlighted four pathways through which South African youth have embraced entrepreneurialism and self-employment. The most frequently traversed path entails ‘make work jobs’. This category of work often entails casual labour and forms of petty trading that can be best understood as livelihood survival. Our research shows that survivalist micro-enterprises do grow and some even become viable businesses. Though irrespective of their financial achievements, the experience of working in the informal economy allows the self-employed a chance to acquire skills, strengthen social network and market knowledge, and make a little money. Other studies confirm this finding (Mengistae, 2014; Gulyani and Talukdar, 2010). Policies should applaud youth who embrace ‘make work job’ endeavours, but these individuals should not be the main focus of programmes to

stimulate entrepreneurship. Most of these individuals want a regular job and will abandon entrepreneurship at the first opportunity.

The most promising options for government lie not in creating entrepreneurs, but in improving the framework conditions in which township entrepreneurs will take root. This means that government should start interventions at the school level. Students should be encouraged and supported to pursue an interest in 'hobbies' (beyond playing sport and singing), because 'serious leisure' does translate into business, as witnessed in DJs for example. Business studies should give students exposure to inspiring enterprises that individuals like THEM could operate and markets that THEY could develop. Without having travelled, most township students would have little appreciation of the retail possibilities beyond their own encounters with street traders and shopping mall retailers. The school curriculum should devote more attention to the subject of technology. Township youth have limited knowledge and experience of tools (such as artisanal tools, DIY electrical tools, and home production machinery) and inadequate comprehension of the way tools and technologies can enhance productivity. Without an appreciation of tools and technology, young persons will continue to perceive vocational training in narrow terms (as means to employment), not as a path to entrepreneurship.

We know that established micro-enterprises have considerable longevity, incorporate family labour, and transfer entrepreneurship down to the next generation. Yet the notion of a family micro-enterprise is absent from government entrepreneurship policy. State programmes are predominantly targeted at individuals without family dynamics: instead, the unemployed youth, women survivalists, and cooperative societies are favoured categories. Yet focusing on family businesses will impact on youth. In this respect, government could explore avenues for assisting family businesses to accumulate assets and social capital through, for example, subsidising investments in business infrastructure and assets (ICT technologies and others), granting licences to trade, providing training and earmarking bursaries for youth in family businesses to gain specific skills.

Our experience tells that the most promising youth entrepreneurs of the township economy of tomorrow are likely to have jobs. Some have already invested in small businesses. These entrepreneurs will devote more time to the business as soon as they have accumulated sufficient capital, strengthened their social networks, and acquired business skills and market experience. When they do reach this position, their ambitions can be amplified through providing these emergent enterprises access to finance on soft terms for specific business activities. Providing business loans to individuals without the attested social capital and demonstrable business experience is unlikely to achieve the growth prospects that need to be achieved to inspire other youth.

References and Links

Statistics South Africa. Quarterly Labour Force Survey, Quarter 1:2016 (Table 2.2.; P29).

Charman, A.J.E., Petersen, L.M., Piper, L.E., Liedeman, R., Legg, T., 2015. Small Area Census Approach to Measure the Township Informal Economy in South Africa. *Journal of Mixed Methods Research*. DOI:10.1177/1558689815572024.

Mengistae, T. 2014. Diepsloot's Investment Climate. In Mahajan, S. (ed.) *Economics of South African Townships*. Special focus on Diepsloot. The World Bank. Washington, D.C.

Gulyani, S. and D. Talukdar. 2010. Inside informality: the links between poverty, micro-enterprises and living conditions in Nairobi's slums. *World Development*. 38 (12):1710-1726.

Informal Micro-Enterprise Survey; <http://www.emergentcity.co.za>.