



# Chapter

## 2

## The Labour Market

Young people are generally on the fringes of the labour market.



**REVIEW: THE FINANCIAL CRISIS AND ITS ENDURING LEGACY  
FOR YOUTH UNEMPLOYMENT**

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*Neil Rankin, Gareth Roberts, Volker Schöer and Debra Shepherd*

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# The Labour Market at a Glance

The Marikana massacre in August, and the farm worker strikes in the Western Cape Winelands in November and December, put the position of workers at the centre of the public debate, probably more so than any national strike has done in recent memory. The social instability provided a glimpse of what may increasingly become a daily reality if the country does not succeed in arresting conditions where a poor education reinforces the oversupply of low-skilled and unskilled workers, which, in turn, exerts downward pressure on wages for those lucky enough to find employment. Unemployment edged higher to 25.5 per cent during the third quarter of 2012. More worrying is the fact that 71 per cent of the working age unemployed are 35 years and younger. This should serve as a stark warning that politicking over the means to provide young people with easier entrance to the labour market is done at the expense of the country's future.

## South Africa's vital labour statistics

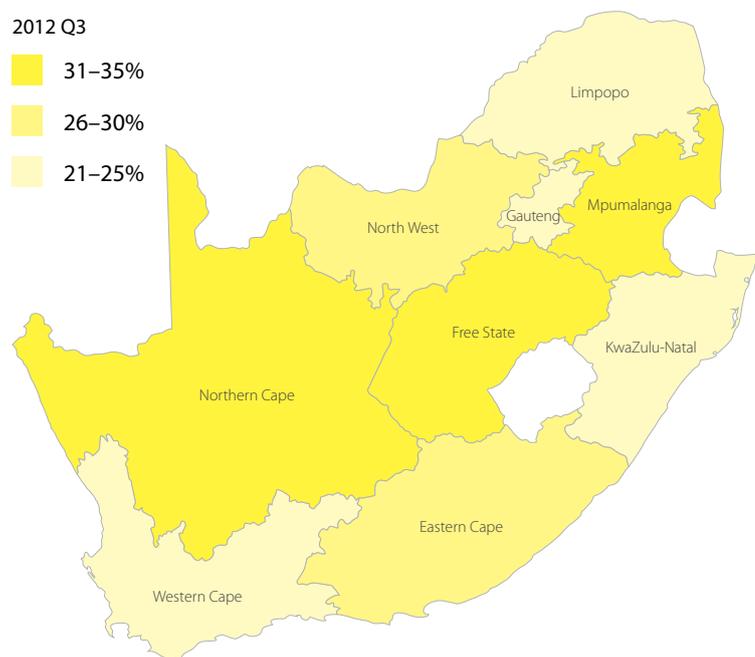
Unemployment (2012, Q3)	25.5%
Unemployed young South Africans (15–34) as percentage total unemployed	71.0%
Number of employed ('000)	13 645
Number of unemployed ('000)	4 667
Not economically active working-age population ('000)	14 705
Employment absorption rate	41.3%
Labour force participation rate	55.5%

Source: StatsSA, 2012: Quarterly Labour Force Survey, 3rd Quarter

## South Africa unemployment by province (% 2012)

2012 Q3

- 31–35%
- 26–30%
- 21–25%

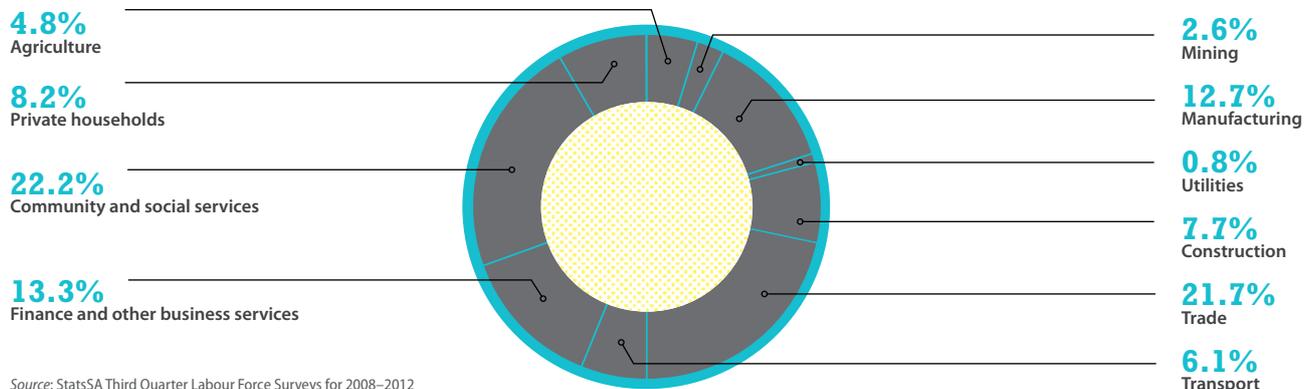


Source: StatsSA Third Quarter Labour Force Surveys for 2008–2012

# 71%

Percentage of South Africans aged 15–34 who are unemployed

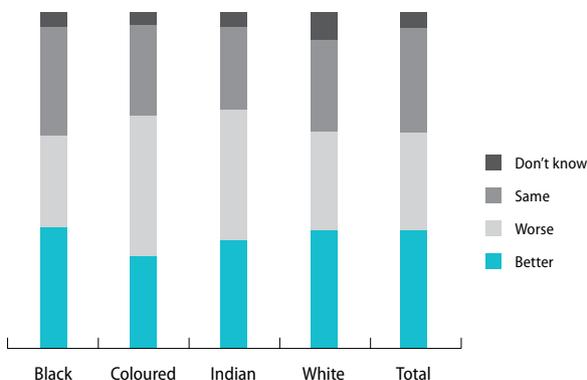
## Sector profile of employed South Africans ('000)



Source: StatsSA Third Quarter Labour Force Surveys for 2008–2012

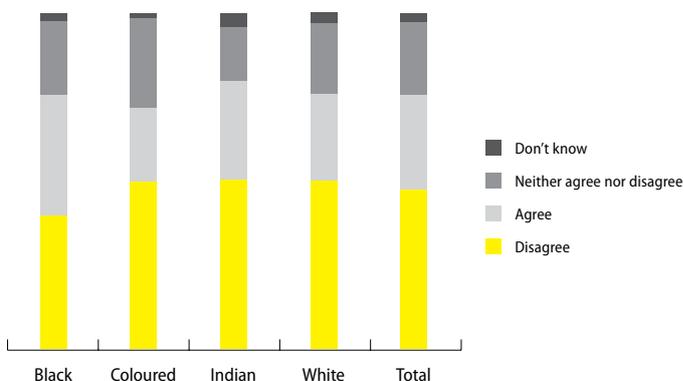
Whether you currently have a job or not, how do the chances of finding one compare to 12 months ago?

– IJR, SA Reconciliation Barometer, Round 9, April 2012



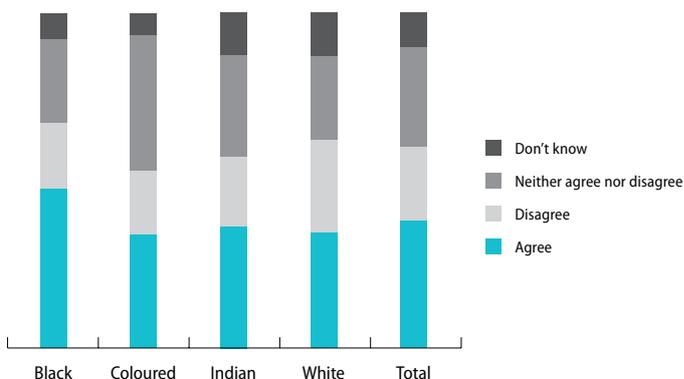
Is government doing well in getting young South Africans into jobs?

– IJR SA Reconciliation Barometer, Round 9, April 2012



Have employment equity policies been successful in creating a workforce that represents the South African population?

– IJR SA Reconciliation Barometer, Round 9, April 2012



# REVIEW | The financial crisis and its enduring legacy for youth unemployment

Neil Rankin, Gareth Roberts, Volker Schöer and Debra Shepherd

## Introduction

Young people are generally on the fringes of the labour market. They lack work experience and networks that can help them get jobs. If employed, their employment status is often tenuous – they are on temporary contracts, are frequently the first to be retrenched in times of economic hardship, and are in the types of firms or sectors most sensitive to fluctuations in the economy. For these and other reasons, they are disproportionately affected when the economy slows down.

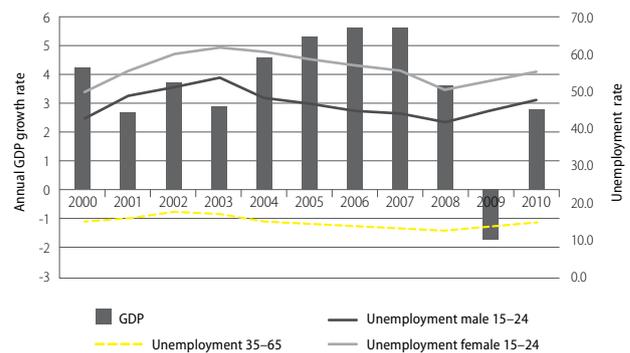
Between 2002 and 2007, South Africa's GDP growth steadily increased and unemployment rates dropped. As Figure 2.1.1 shows, unemployment fell dramatically during this period, particularly for those aged between 15 and 24 years – from 61.5 to 50.5 per cent for young females and from 53.5 to 41.4 per cent for young males. However, this trend was interrupted by the global financial crisis that began in the second half of 2008. Since then, unemployment rates have risen, especially for young people. By 2010, the unemployment rate for young females had increased by four percentage points, and for young males by over six percentage points, compared to less than two percentage points for those aged between 35 and 65 years.

The response of the labour market to the global financial crisis illustrates the volatility of employment for young people. In order to better design policies to deal with this volatility and to reduce the high unemployment rates young people face, it is useful to know more about the dynamics of employment among this age group. This article considers a number of questions: What types of jobs for young people have been particularly affected? How has demand for young people changed during this period? What processes have driven the increases in unemployment observed among young people? Are the current policy measures sufficient to deal with the challenges of youth unemployment, particularly when economic growth is sluggish.

## Where are young people employed and how has this changed?

Much has been written in recent years about South Africa's youth unemployment crisis (see, for example, Banerjee et al.

Figure 2.1.1: GDP growth versus unemployment in South Africa by age and gender, 2000–2010



Source: GDP growth from World Bank country indicators; unemployment rates from own calculations using Statistics South Africa (Stats SA) Labour Force Survey (LFS) (2000–2007) and Quarterly Labour Force Survey (QLFS) (2008–2010)

2008). Its broad parameters are known: Africans, women, the unskilled and those in rural areas are the most likely to be unemployed. Unemployment among young people is also particularly high and, more worryingly, labour force participation is particularly low. The National Treasury (2011) estimates that only one in eight working-age adults under 25 years of age has a job (compared with 40 per cent on average in most other emerging economies). These high unemployment rates are disturbing, but we only view part of the picture if we ignore insights that are to be gained from patterns and dynamics relating to those young people who are in employment.

As Table 2.1.1 shows, in South Africa, approximately 80 per cent of employed young people work in formal sector jobs in the private sector. Throughout the crisis period, their proportion of the employed in the private sector also remained relatively constant at approximately 90 per cent of all formal sector jobs (see Table 2.1.2). The vast majority were employees or wage earners. Few in this category pursued their livelihood through self-employment; in 2008, prior to the crisis, only 1.4 per cent of employed young people were self-employed, compared with 10.0 per cent in the 35–65-year age group. Table 2.1.2 shows that this decreased further for both categories with the onset of the crisis, falling to 1.1 per cent and 8.8 per cent respectively in 2010.

There are several reasons why young South Africans struggle to make it in the entrepreneurial world. Firstly, they lack the savings and start-up capital. Self-employment generally requires some start-up costs, such as buying stock or equipment. In the early stages of a business, income may also be variable, requiring savings to meet living and other costs. Most young people have not had the opportunity to acquire the savings to start up a business, and friends, relatives and financial institutions are unwilling to extend credit on the basis of a limited employment track record. Secondly, they lack the experience and skills that are gained through work experience. Thirdly, they may prefer the guarantee of a regular, often higher, income over the uncertainty related to a new business venture that may, at least initially, require sacrifice in terms of income.

Although self-employment in the formal sector is limited for the reasons just mentioned, employment in the informal sector is not uncommon among the young and, as Table 2.1.1 shows, approximately one-fifth of employed young people work here. Yet, informal sector employment, particularly for the youth, is also more vulnerable to shocks than formal sector work. As a result, the proportion of young people employed in the informal sector fell by almost two percentage points with the onset of the crisis (see Table 2.1.1). However, due to the return to growth in 2010 and 2011, this figure expanded again by three percentage points.

When we look at employment patterns in the formal sector, there appears to have been a decisive shift in the size of companies that employ young South Africans. In 2008, 46 per cent of young people worked in companies that employed

**Table 2.1.1: Formal and informal sector employment, 20–24 year olds (35–65 year olds in parentheses), weighted, 2008–2011 (Q1)**

	Proportion of jobs			
	2008	2009	2010	2011
Formal sector	78.9 (80.2)	80.7 (81.2)	80.6 (82.0)	77.4 (82.0)
Informal sector	21.1 (19.8)	19.3 (18.8)	19.4 (18.0)	22.6 (18.0)
Growth in jobs (percentage)				
	2008–2009	2009–2010	2010–2011	2008–2011 (ave.)
Formal sector	1.2	-5.0	2.7	-0.4
Informal sector	-7.7	-6.3	7.5	-2.4
<b>Total</b>	<b>-0.6</b>	<b>-5.3</b>	<b>3.6</b>	<b>-0.8</b>

Source: Own calculations from Stats SA QLFS (2008–2011)

**Table 2.1.2: Formal sector employment, 20–24 year olds (35–65 year olds in parentheses), weighted, 2008–2011 (Q2)**

	Proportion of formal sector jobs			
	2008	2009	2010	2011
Private sector	90.8 (66.3)	91.3 (65.8)	90.4 (66.7)	90.5 (65.5)
Public sector	7.7 (23.7)	7.6 (24.6)	8.6 (24.5)	8.3 (25.0)
Self-employed	1.4 (10.0)	1.1 (9.6)	1.1 (8.8)	1.2 (9.6)
Growth in jobs (percentage)				
	2008–2009	2009–2010	2010–2011	2008–2011 (ave.)
Private sector	-0.4	-5.0	2.0	-1.2
Public sector	6.2	-1.0	2.8	2.6
Self-employed	5.2	-15.6	11.6	-0.3
<b>Total</b>	<b>1.2</b>	<b>-5.0</b>	<b>2.7</b>	<b>-0.4</b>

Source: Own calculations from Stats SA QLFS (2008–2011)

between 10 and 49 people (see Table 2.1.3). Older people were also most likely to be employed in firms of this size. Over the past four years, however, the proportion of young workers in this category has fallen dramatically to 38 per cent. Now firms with a workforce that exceeds 50 are more likely to employ people in the 20–24-year age group, with 40 per cent of young workers in businesses of this size. Only this category of business increased its employment intake between 2008 and 2011, suggesting that smaller businesses were far less resilient in weathering the impact of the economic contraction during the period.

Another key insight that has been reinforced by the financial crisis is the growing skills bias in our labour market. Evidence of this is presented in Table 2.1.4, which shows an increasing skills intensity across industries that has also been exacerbated by the financial crisis. This has been particularly apparent in industries that traditionally have absorbed most unskilled entrants to the labour market. Between 2000 and 2010, the ratio of semi- and low-skilled jobs to skilled jobs fell from 9.6 to 7.1 in mining and quarrying, 5.2 to 2.0 in manufacturing, 17.4 to 4.7 in construction and 7.3 to 3.7 in the wholesale and retail sector. The only recorded exception is in the community/personal services category. The impact of the growing prioritisation of skills affects young people most adversely, because semi- and low-skilled jobs are natural entry points into work in a country with a public education system that renders a varied, but overwhelmingly poor, education to its learners.

Table 2.1.5 also highlights the fact that the distribution of jobs has changed over the past four years in favour of those

**Table 2.1.3: Formal sector employment by firm size, 20–24 year olds (35–65 year olds in parentheses), weighted, 2008–2011 (Q2)**

	Proportion of formal sector jobs			
	2008	2009	2010	2011
Less than 5 employees	6.8 (12.4)	6.4 (10.9)	6.7 (11.0)	7.9 (11.8)
5–9 employees	16.4 (12.3)	15.6 (11.9)	15.1 (11.8)	14.5 (11.2)
10–19 employees	21.0 (17.8)	19.4 (17.3)	20.0 (16.8)	17.7 (16.9)
20–49 employees	24.5 (20.9)	21.8 (20.6)	20.3 (19.6)	20.0 (18.9)
50+ employees	31.3 (36.6)	36.8 (39.3)	37.9 (40.8)	39.9 (41.2)
	Growth in jobs (percentage)			
	2008–2009	2009–2010	2010–2011	2008–2011 (ave.)
Less than 5 employees	-8.4	-15.0	11.4	-4.6
5–9 employees	1.8	-5.8	-5.9	-3.4
10–19 employees	-4.1	-6.1	-1.6	-4.0
20–49 employees	-2.1	-12.9	-0.5	-5.4
50+ employees	10.1	-0.5	6.4	5.2
<b>Total</b>	<b>1.2</b>	<b>-5.0</b>	<b>2.7</b>	<b>-0.4</b>

Source: Own calculations from Stats SA QLFS (2008–2011)

**Table 2.1.4: Skills intensity of employment (ratio of semi-/low-skilled to skilled jobs) by industry, 2000–2010**

Year	Mining/ Quarrying	Manufacturing	Utilities	Construction	Wholesale/Retail	Transport/ Storage/ Communication	Financial/ Insurance/ Business Services	Community/ Social/ Personal Services
2000	9.6	5.2	2.7	17.4	7.3	3.9	1.6	0.9
2001	14.6	5.1	3.6	16.4	8.0	2.9	1.4	0.9
2002	14.2	4.3	3.3	13.9	6.9	2.4	1.3	0.9
2003	15.0	4.4	3.4	11.8	6.7	3.0	1.3	1.0
2004	14.0	4.5	1.9	11.3	5.8	3.0	1.5	1.0
2005	13.8	5.3	3.6	11.2	6.6	3.5	1.4	1.0
2006	14.8	5.1	2.2	12.6	5.7	3.9	1.4	1.0
2007	12.7	4.6	2.5	9.5	5.2	2.8	1.4	0.9
2008	7.7	4.1	2.3	5.7	3.7	2.5	1.4	0.9
2009	7.7	3.9	2.8	5.0	3.8	2.4	1.4	0.9
2010	7.1	3.3	2.0	4.7	3.7	2.3	1.5	1.0

Source: Own calculations from Stats SA LFS (2000–2007), QLFS (2008–2010)

with more education. Those in employment with a completed secondary or tertiary education have increased relative to those with an incomplete secondary or lower level of education. At the same time, the proportion of those in the 15–34-year age group with a matric or higher level of education has increased. This suggests that a completed secondary school education is now extremely important and a minimum qualification for young people to have a chance of finding a job. The primacy of skills in the current economic environment is further underscored by the fact that workers with a tertiary qualification were the only ones who benefitted from a significant expansion in job opportunities between 2008 and 2011, growing by 4.9 per cent over this period. Job opportunities on the other side of the spectrum for those with no education shrank by over 15 per cent.

In addition to the increase in unemployment rates during the crisis, labour market participation rates (those working or searching for a job) dropped among young people (see Tables 2.1.6 and 2.1.7). The largest decline in labour market participation has been among 15–19 year olds. In this age group, the proportions of economically inactive young people in education, as homemakers and as discouraged work seekers have remained constant over the past four years, although each has increased significantly in real numbers. In other words, the growth in economic inactivity within this age group has been absorbed proportionally across categories.

In contrast, labour market participation in the two older categories of youth (20–24 and 25–34 years of age) has fallen and the distribution of the categories within which these economically inactive young people have been absorbed have changed. The category of those officially out of the labour force, and who have given up searching for a job (discouraged work seekers), increased substantially over the period 2008–2011. This indicates that in addition to the strict unemployment rate increasing among the youth, there has been a substantial increase in the group of young people who would like to work but see no prospect of being able to do so and, thus, have given up looking for a job.

## Labour market transitions among young people

From the above it is apparent that not only unemployment, but also discouragement increased among young people during the financial crisis. It is particularly the latter that is of concern, given that those who find themselves in a survivalist mode, without hope, might resort to illegal means to sustain themselves – a concern expressed about this demographic in the final version of the recently submitted National Development Plan.

But what is driving this pattern? Is it because young people are losing jobs, exiting unemployment and the labour force to become non-economically active, not able to attain employment in the first place, or a combination of the above? To answer this question, we draw on some recent work by Rankin

**Table 2.1.5: Formal sector employment by level of education, 2008–2011**

	Proportion of formal sector jobs			
	2008	2009	2010	2011
No school	1.9	1.6	1.3	1.1
Less than primary	6.0	5.3	4.6	4.6
Primary complete	3.5	3.4	2.9	2.9
Secondary incomplete	29.7	28.8	28.6	27.9
Secondary complete	34.4	34.6	35.7	35.6
Tertiary	23.4	25.2	25.7	26.8
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
	Growth in jobs (percentage)			
	2008–2009	2009–2010	2010–2011	2008–2011 (ave.)
No school	-8.5	-23.1	-14.0	-15.4
Less than primary	-6.7	-23.1	-0.9	-10.7
Primary complete	2.4	-24.7	2.2	-7.6
Secondary incomplete	-1.3	-5.9	2.1	-1.8
Secondary complete	-1.0	1.2	0.3	0.1
Tertiary	11.7	-4.9	8.6	4.9

Source: Own calculations from Stats SA QLFS (2008–2011)

**Table 2.1.6: Labour market participation rate by age group, 2008–2011**

Age group	2008	2009	2010	2011	Percentage change 2008–2011
15–19	0.096	0.082	0.068	0.059	-14.98
20–24	0.540	0.514	0.474	0.455	-5.55
25–34	0.765	0.750	0.723	0.719	-2.05
35+	0.668	0.663	0.641	0.643	-1.26

Source: Own calculations from Stats SA QLFS (2008–2011)

et al. (2012), which uses a panel dataset constructed from Stats SA's QLFS to examine transitions between different labour market states.

Individuals in the QLFS have been grouped into six labour market states: *non-economically active (NEA)*, *discouraged unemployed*, *searching unemployed*, *self-employed*, *public sector employed* and *private sector employed*. Transitions between these states over two rounds of the survey (Quarter 1

and Quarter 2) are presented in Table 2.1.8. The on-diagonal elements in these tables (the shaded cells) show the proportion of people staying in the same state. For example, the first cell shows that 81 per cent of young people who were in formal private employment in Quarter 1 of 2008 remained in formal private employment in Quarter 2. The off-diagonal elements show transitions between states. The state in Quarter 1 is given in the first column and the state in Quarter 2 in the

**Table 2.1.7: Reasons for inactivity in labour market by age, 2009–2011**

	2009			2010			2011		
	15–19	20–24	25–34	15–19	20–24	25–34	15–19	20–24	25–34
Scholar/student	89.83	50.20	9.07	89.55	49.85	10.17	90.31	51.67	9.29
Homemaker	2.68	18.43	37.92	2.70	17.41	35.70	2.42	14.86	36.29
Discouraged	2.40	15.43	23.85	3.05	18.43	29.76	3.31	21.12	33.22
Other	5.09	15.94	29.16	4.70	14.31	24.37	3.96	12.35	21.20
<b>Total</b>	<b>100.00</b>								

Source: Own calculations from Stats SA QLFS (2008–2011)

**Table 2.1.8: Transition matrices for individuals aged 20–24 years, 2008 Q1–Q2 and 2011 Q1–Q2**

	P matrix: $P_{ij}$ – 'transition probabilities'						
	Formal private	Formal public	Informal	NEA	Discouraged	Searching	$P_i$
Formal private	0.812, 0.834	0.007, 0.006	0.069, 0.073	0.031, 0.028	0.003, 0.014	0.077, 0.044	0.145, 0.114
Formal public	0.094, 0.083	0.753, 0.800	0.024, 0.017	0.047, 0.000	0.024, 0.033	0.059, 0.067	0.018, 0.014
Informal	0.144, 0.091	0.004, 0.013	0.619, 0.703	0.078, 0.044	0.038, 0.047	0.118, 0.102	0.097, 0.089
NEA	0.009, 0.011	0.002, 0.001	0.021, 0.014	0.807, 0.787	0.060, 0.081	0.102, 0.106	0.430, 0.446
Discouraged	0.019, 0.010	0.003, 0.004	0.052, 0.055	0.231, 0.197	0.505, 0.555	0.191, 0.179	0.070, 0.121
Searching	0.052, 0.046	0.005, 0.005	0.051, 0.030	0.200, 0.177	0.078, 0.082	0.614, 0.670	0.241, 0.216
$P_j$	0.151, 0.121	0.017, 0.015	0.095, 0.090	0.424, 0.418	0.084, 0.127	0.229, 0.229	

**Table 2.1.9: Transition matrices for individuals aged 25–34 years, 2008 Q1–Q2 and 2011 Q1–Q2**

	P matrix: $P_{ij}$ – 'transition probabilities'						
	Formal private	Formal public	Informal	NEA	Discouraged	Searching	$P_i$
Formal private	0.868, 0.875	0.022, 0.014	0.054, 0.051	0.015, 0.015	0.004, 0.006	0.037, 0.039	0.295, 0.253
Formal public	0.107, 0.069	0.833, 0.872	0.023, 0.020	0.005, 0.007	0.007, 0.010	0.025, 0.022	0.060, 0.060
Informal	0.118, 0.102	0.012, 0.006	0.717, 0.737	0.045, 0.048	0.026, 0.025	0.082, 0.082	0.166, 0.161
NEA	0.023, 0.016	0.003, 0.003	0.036, 0.031	0.717, 0.723	0.078, 0.096	0.142, 0.131	0.209, 0.197
Discouraged	0.030, 0.030	0.000, 0.004	0.063, 0.063	0.240, 0.158	0.495, 0.530	0.172, 0.215	0.059, 0.108
Searching	0.051, 0.041	0.006, 0.005	0.078, 0.067	0.145, 0.113	0.081, 0.084	0.640, 0.690	0.213, 0.222
$P_j$	0.299, 0.257	0.060, 0.059	0.164, 0.160	0.207, 0.196	0.069, 0.101	0.202, 0.227	

second row. Thus, for example, 5.2 per cent of young people moved from searching unemployment in Quarter 1 of 2008 to formal private employment in Quarter 2 (4.6 per cent did likewise in 2011). The proportion of people in each state in Quarter 1 is given in the last column and the proportion in each state in Quarter 2 is given in the last row.

Comparisons have been made between the pre- and post-crisis states of each category in 2008 and 2011 respectively. The resultant data show that for both younger and older people, movement often referred to as 'churn' between states decreased between 2008 and 2011. This decrease in mobility between states is expected – finding employment has become more difficult and, for this reason, employed individuals are also disinclined to leave their current jobs. Not unexpectedly, therefore, younger people were less likely to leave the *formal private sector employed* category for the *searching unemployed* category.

For young people, the paths into formal, particularly private, employment have become especially troublesome to navigate. Movement from the three states of *informal sector*, *searching* and *discouraged unemployment* has fallen, even when compared to the transitions of older people.

These transition matrices indicate that the observed increases in unemployment and discouragement are driven more by falls in the rate of transition into employment and less by the shedding of existing jobs. In other words, the inability to access employment, more than lay-offs by employers, is determining the current unemployment levels of young people. As such, these findings strengthen the case for prioritising interventions that ease access into employment.

What about transitions over a longer period? (Rankin et al. 2012) consider these too. Despite the small numbers of people in the dataset for three concurrent observations rendering comparison across years impossible, sequences of nine months can be constructed. These indicate that, over the whole period, most sequences have no transitions. Among the 20–24-year age group, the most common sequence is continual employment (16 per cent of sequences), followed by continual searching unemployment (11 per cent) and then schooling (9.0 per cent).

Continual employment jumps substantially for people older than 25 years. Almost 40 per cent of sequences in the 25–34-year and 35-plus age groups are three periods of employment. Searching is the second most common sequence for those

**Table 2.1.10: Three-quarter (nine-month) sequences in labour market states by age group**

State wave 1	State wave 2	State wave 3	15–19	20–24	25–34	35+
D	D	D	0.45%	2.51%	2.47%	1.31%
E	E	E	1.14%	16.22% (1)	38.08% (1)	39.56% (1)
E	E	U	0.11%	0.84%	1.30%	0.64%
E	U	U	0.09%	0.88%	1.13%	0.50%
H	H	H	0.68%	3.25%	4.47% (3)	5.29%
N	H	H	0.23%	0.77%	0.79%	1.15%
N	N	H	0.36%	0.87%	0.92%	1.67%
N	N	N	1.50%	2.76%	3.54%	15.81% (2)
N	N	T <sub>1</sub>	10.48% (2)	2.02%	0.06%	0.03%
N	T1	T <sub>1</sub>	6.76% (3)	1.37%	0.04%	0.00%
N	U	U	0.25%	1.32%	0.83%	0.44%
S	S	S	0.05%	0.86%	3.80%	7.09% (3)
T <sub>1</sub>	T <sub>1</sub>	T <sub>1</sub>	56.15% (1)	9.41% (3)	0.23%	0.01%
T <sub>3</sub>	T <sub>3</sub>	T <sub>3</sub>	2.03%	4.78%	0.55%	0.02%
U	E	E	0.14%	1.41%	1.70%	0.77%
U	U	E	0.10%	1.17%	1.30%	0.49%
U	U	U	1.38%	10.83% (2)	10.47% (2)	3.64%
			81.93%	61.26%	71.67%	78.40%

Note: D = discouraged unemployment; E = employment; S = self-employment; U = searching unemployed; T<sub>1</sub> = non-active, in school with incomplete secondary education; T<sub>3</sub> = non-active, in school with complete matric education; H = non-active, homemaker; N = non-active, not studying; (1), (2) and (3) indicate the first, second and third ranked sequences

Source: Stats SA QLFS (2008–2011)

**Table 2.1.11: School-to-work transitions**

			Frequency	Percentage	Cumulative percentage	Sequence type
T1	N	T1	147	8.7	8.7	return
T1	U	U	143	8.5	17.2	rupture
T3	U	U	104	6.2	23.3	rupture
T1	N	N	103	6.1	29.4	rupture
T1	D	D	96	5.7	35.1	rupture
T1	U	T1	93	5.5	40.6	return
T1	D	T1	89	5.3	45.9	return
T1	H	H	81	4.8	50.7	rupture
T1	H	T1	73	4.3	55.0	return
T3	U	T3	67	4.0	59.0	return
T1	E	E	43	2.6	61.5	rupture
T3	E	E	36	2.1	63.7	rupture
T1	U	D	33	2.0	65.6	change
T1	E	T1	28	1.7	67.3	interruption
T1	U	N	26	1.5	68.8	change
T1	D	N	25	1.5	70.3	change
T1	D	U	21	1.2	71.5	change
T3	D	U	21	1.2	72.8	change
T1	N	U	20	1.2	74.0	change
T1	N	D	19	1.1	75.1	change
T3	D	D	18	1.1	76.1	rupture
T3	N	N	18	1.1	77.2	rupture
T1	H	D	16	1.0	78.2	change
T1	N	H	16	1.0	79.1	change

Note: D = discouraged unemployment; E = employment; U = searching unemployed; T<sub>1</sub> = non-active, in school with incomplete secondary education; T<sub>2</sub> = non-active, in school with incomplete secondary and NTCI/NTCII/diploma; T<sub>3</sub> = non-active, in educational institution with complete matric education; T<sub>4</sub> = non-active, in educational institution with post-matric diploma; T<sub>5</sub> = non-active, in educational institution with complete university degree; H = non-active, homemaker; N = non-active, not studying

Source: Stats SA QLFS (2008–2011)

just older than 25 years (11 per cent), followed by continual homemaking (4.0 per cent). Among those above 35 years, the second most common category is non-economically active (and not a homemaker) and the third most common is self-employment.

These sequences indicate that the period of early engagement with the labour market (at 20–24 years of age) is an important atage in an individual's labour market trajectory, since it is between this time and the age of 25–34 years that the opportunities for continuous employment increase. For the 25–34-year age group, searching is still a common activity, but many of these people presumably leave the labour market or become self-employed as they give up on the possibility of wage employment when they reach the age of 35 years.

The period immediately after leaving education is a key transitional point for young people to get into employment.

The QLFS panel also allows for analysis of this school-to-work transition. Rankin et al. (2012) focus on young people in the 15–24-year age range, who are observed to be in school during the first period of the sequence, followed immediately by a non-schooling state.

Table 2.1.11 summarises the 24 most frequent sequence types amongst 15–24 year olds. These account for just less than 80 per cent of all sequences. The most frequent sequences start with non-activity or unemployment (searching and discouraged) directly after leaving school, which either leads back to education or continues in non-activity or unemployment. The most common sequence type is 'rupture', which ends in a state of searching/discouraged unemployment (343 cases), followed by 'return' to education from inactivity (220 cases) and 'return' to education from unemployment (182 cases). Only 8.0 per cent of all sequences result in a state

of employment,<sup>2</sup> with approximately 3.0 per cent of these through 'detour'. These sequences illustrate that a transition into employment from education, even over a nine-month period, is a relatively uncommon occurrence for young people, suggesting that there could be a role for programmes which assist in this transition.

## What lessons for policy?

The sharp rise in unemployment and discouragement among young people that resulted from the global financial crisis underscores the precarious position of the youth in the labour market. Many young people work in the types of jobs that are acutely sensitive to shocks – in the informal sector, in smaller firms and in low-skilled employment. Because they have little work experience and short histories with the companies that employ them, they are also the first to be made redundant.

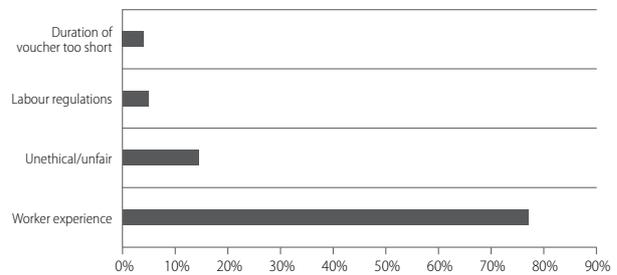
In addition to this vulnerability during times of economic uncertainty, young people face multiple challenges in accessing jobs anyway. They lack work experience, do not have good signals of their own productivity and are relatively less able to tap into networks of employed people who could provide them with information on vacancies (this is the most common method that firms use to advertise the type of jobs that would suit the majority of the unemployed).

There are several policy proposals in discussion that specifically target young people. We consider two specific ones here. The first is the youth wage subsidy, which has been proposed by the National Treasury and is supported by various constituencies, including organised business and the Democratic Alliance, but is opposed by the Congress of South African Trade Unions (COSATU). The second is the job-seekers' grant, which was mooted at the ANC's national policy conference in Mangaung earlier this year. Given young people's vulnerability to economic instability, it is important that we continue thinking about new ways to respond to youth unemployment, especially during periods of economic uncertainty.

### The youth wage subsidy

In early 2010, President Jacob Zuma proposed a youth wage subsidy in his State of the Nation Address. This was followed by a mention in the Budget Speech of Finance Minister Pravin Gordhan, and the release in February 2011 of a discussion document on the policy by the National Treasury. A key motivation for this intervention is that firms are unwilling to risk hiring young people with limited work experience and, hence, little to offer in terms of signalling potential ability and productivity at current wage levels. A variety of institutional and historical factors prevent wages from falling to levels at which firms might hire more young people. These include institutional factors in the labour market, such as collective bargaining and bargaining councils, as well as historical factors, such as the apartheid legacy of vast geographical

Figure 2.1.2: Reasons for not replacing older workers with younger, wage-subsidised workers



Source: Rankin & Schoer (2011)

distances between where people live and work, and the high transport costs that deter people from accepting lower wages. A subsidy paid directly to firms would reduce their expenditure on young workers, without changing the wage earned by such workers. The National Treasury proposal would apply to: young people earning less than the tax threshold; jobs lasting up to two years; and new entrants into jobs aged 18–29 years, and young people aged 18–24 years in existing jobs. Businesses would claim the subsidy through the tax system.

Getting young people into jobs earlier can also have a dynamic effect on unemployment, given that one of the strongest correlates with current employment is previous work experience. It can also set young people on a different work trajectory. Importantly, the policy aims to create new jobs, since the cost of hiring young people would fall.

This policy has not been implemented yet, due to strong opposition from COSATU. Their main concerns are that older workers will be replaced by younger, subsidised workers and that the subsidy will create a class of cheap temporary workers. Of these two concerns, substitution of existing workers by younger, inexperienced workers seems less likely. In a survey of firms, which investigated this issue, over three quarters of the respondents stated that they would not replace existing workers with subsidy holders (see Figure 2.1.2). Of all the reasons given, business owners mentioned the premium that they put on the experience of older workers as the most common motivation.

Companies are also very hesitant about compromising existing labour relations through retrenchment, and list productivity and trust concerns as further barriers to hiring young workers.

### A job-seekers' grant

Although the details of the second proposed policy response, a grant for young job seekers, are not as clearly distilled, it seems likely that the grant would function either as a cash

transfer to young people who are looking for work, or as a subsidy for expenses, such as transport, that are incurred in the job-search process. This would make it cheaper to search for jobs, and could serve as an incentive for those who have become discouraged to resume their search. The sentiment behind the policy is sound. Young people face large costs in looking for employment, because often they are located far away from potential jobs and lack the savings that could be used to pay for search costs. In addition, they generally lack networks of people in jobs who could be relied on for information about potential openings. As such, they often have to go from workplace to workplace looking for opportunities. Despite the good intentions of the policy, it is, however, unlikely to create new jobs.

If successful in encouraging job search, which is not certain since a direct cash transfer to the unemployed might actually discourage them from accepting a job, the job-seekers' grant would increase the number of people searching. Although this might improve the match between employers and employees, it would not create many new jobs because it would have little or no effect on the cost of employment that businesses face. In addition, it may also cause firms to change the way they recruit, since it could increase the costs associated with recruitment. Currently, most companies use word of mouth to advertise low-skilled jobs, because sorting through a large pool of applicants is expensive. By confining the flow of information to their own employees and networks, businesses limit the number of people that hear about and apply for employment. This strategy also provides a filtering mechanism, because existing employees are likely to tell only those who they deem to have the correct profile for the job. Although companies do hire direct applicants, this channel is used far less than recruitment through networks.

### Aiding youth employment when times are tough

The transition matrices shown above indicate that unemployment rates among young people have increased over the past four years because 'churn' in the youth labour market has fallen. Higher unemployment rates are not a result of widespread retrenchments, but rather because previously successful pathways into employment are no longer as successful. Although policies that encourage firms to retain workers are likely to have some effect in helping those already in jobs,

they are unlikely to have a large impact in terms of reducing youth unemployment. Instead, different policies that encourage the hiring of young people are required. These policies would need to stimulate the demand for young people with little work experience and a low level of skills. This could be done in two broad ways.

The first would be to increase the demand for young people at existing wage rates. Policies of this nature would increase the output of firms and, thus, labour demand (given that this is a derived demand). Large increases in domestic consumption would be one way to do this, and could be achieved through cuts in personal income tax, increasing government social transfers or raising wage rates. However, these methods are unlikely to be sustainable in the long run.

The second approach would encourage the employment of young people by reducing the cost of hiring them. The youth wage subsidy is one such potential intervention. Others would include changing minimum or mandated wages for young people through the bargaining councils, or reducing the costs associated with the hiring and firing of young people. Such policies are not unusual. Various countries (such as France and Singapore) have separate minimum wages or employment legislation for young people. However, given the opposition to a fairly mild policy intervention to assist young people – the youth wage subsidy – it seems very unlikely that these more ambitious policies would be implemented.

What is clear is that young people have been disproportionately affected by the financial crisis. An already vulnerable group is now worse off and will bear the scars of the crisis for the rest of their working lives. Prompt, sensible policy interventions may mitigate the negative impact, but these seem unlikely given the competing constituencies within the government.

### Notes

1. Throughout this chapter, we refer to those in the 20–24-year age group as young people. We exclude those younger than 20, because the bulk of this group are in education. For comparative purposes, we consider those aged 35–65 years, since individuals in this age group would be well entrenched in the labour market.
2. Not all sequences ending in employment are shown in Table 2.1.10.

# OPINION | Obstacles and opportunities for youth entrepreneurship

TWO

## A CO-ORDINATED APPROACH CRITICAL TO PROMOTE YOUTH ENTREPRENEURSHIP

*Jacqueline Kew*

Over the past decade, sub-Saharan Africa has shown impressive growth rates, with gross domestic product (GDP) having increased by 4.9 per cent per year between 2001 and 2008 – more than twice its pace in the 1980s and 1990s (McKinsey & Co. 2012). However, the global crisis of 2009 slowed down growth for the region to approximately 3.0 per cent, and will limit the progress made in economic development and overcoming poverty (WEF 2009). Although many African countries have experienced an impressive expansion in the size of their economies, the growth has not led to the creation of sufficient employment – a situation that has been further exacerbated by the current financial crisis. With rapidly growing and urbanising populations across Africa, ensuring that they are both healthy and able to find employment is a key challenge.

The formal sector in many countries, especially in sub-Saharan Africa, is stagnant and unlikely to offer traditional jobs to the increasing number of young people looking for employment. The burgeoning young population, coupled with a growing sense of economic exclusion, represents a potentially explosive situation, which, if not effectively dealt with, could once again destabilise a continent that in recent years has become increasingly peaceful. Unless alternative employment options are encouraged, the number of unemployed and underemployed youth will continue to put pressure on their respective states. Youth unemployment, without doubt, is a pressing issue facing many African governments. The demographic profile of African countries has a significant youth bias, but due to the high and growing level of unemployment and underemployment amongst this section of the population, they are unable to fulfil these responsibilities in any meaningful manner. This has been emphasised by recent experiences in several North African countries such as Egypt and Tunisia. These developments, if left unchecked, can move into sub-Saharan Africa, and, if not correctly and timeously addressed, would have devastating effects on the social and economic spheres within the countries concerned (McKinsey & Co. 2012).

### **Entrepreneurship, job-creation and the potential to address poverty**

South Africans have traditionally relied upon the government and the corporate sector to provide jobs. However, the growing inability of the formal and public sectors to absorb the increasing number of job-seekers means that South Africa needs to create an environment that stimulates job creation and economic growth.

Figure 2.2.1 shows that 66.5 per cent of South Africa's population is under the age of 35 years, with the largest 5-year grouping, the 0–4-year age group. The 2011 Census further estimates that 33.7 per cent of young South Africans in the 25–29-year age group, and 27.4 per cent in the 30–34-year age group are unemployed. This further emphasises the need to seriously consider alternative modes of job-creation. Entrepreneurship provides such an avenue and positively affects economic growth. Entrepreneurs create new businesses, drive and shape innovation, speed up structural changes in the economy and introduce new competition – thereby contributing to productivity. Such enterprises also drive job-creation; hence, it is a critical potential contributor to economic growth that is inclusive and reduces poverty. Especially in sub-Saharan African countries, it has the potential to bolster economic growth and increase productivity. As traditional jobs-for-life career paths becomes increasingly rare, youth entrepreneurship should become a focus for allowing the youth into the labour market, and ultimately for alleviating poverty.

While it is not necessarily an all-encompassing solution for youth unemployment, ensuring that South Africa has an enterprise culture that encourages, rather than discourages, entrepreneurial activity is important. An enterprise culture is a 'set of attitudes, values and beliefs operating within a particular community or environment that leads to both enterprising behaviour and aspiration towards self-employment' (White & Kenyon 2008: 18).



In order to encourage entrepreneurial behaviour, South Africa needs to develop and encourage an enterprise culture that leads to both enterprising behaviour and increasing aspirations towards self-employment.

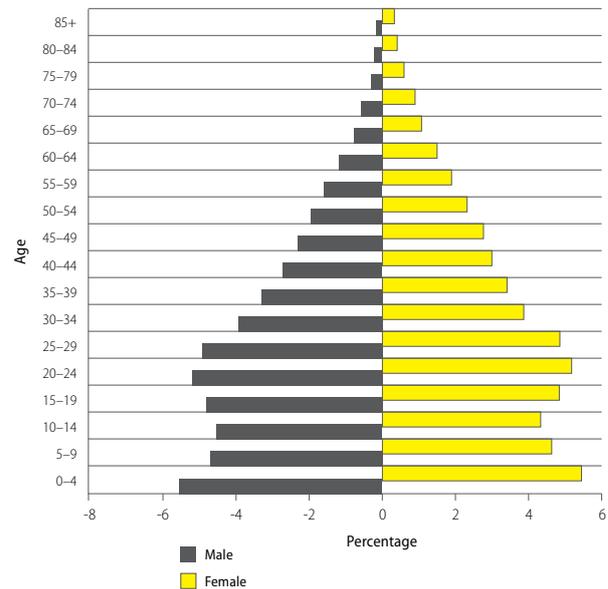
In order to encourage entrepreneurial behaviour, South Africa needs to develop and encourage an enterprise culture that leads to both enterprising behaviour and increasing aspirations towards self-employment. Several cultural traits that either encourage or inhibit entrepreneurial behaviour exist (Orford, Wood & Herrington 2004). In those cultures where innovation and creativity are not encouraged, entrepreneurial enterprises are unlikely to flourish. Conversely, those that see failure as a learning process are more likely to encourage entrepreneurial enterprises. Willingness to accept the possibility of business failure is a good indicator of entrepreneurial capacity (Orford et al. 2004). In South Africa, 40 per cent of young people indicated that fear of failure is a strong inhibiting factor in deciding to start their own business, with black African and coloured youths being more likely to be inhibited because of a fear that the business would fail (Herrington, Kew & Kew 2008b). At the outset there are, therefore, attitudinal obstacles to overcome before we can even think of addressing policy.

## The importance of skills and education

While an enterprise culture enables entrepreneurship to flourish, the development of economies in the global knowledge environment is also intimately linked to education and, particularly, the development of mathematical skills. This is a South African weakness. The importance of developing mathematically based skills is further reinforced by the 2012 *Global Competitiveness Report* which ranks South Africa 138 out of 144 countries with respect to maths and science education. There are also strong links between the level of formal education and entrepreneurial activity. Tertiary study in South Africa prepares young adults relatively well in terms of the knowledge and skills required to start a business, with over 60 per cent of young people with tertiary education indicating that they had the knowledge and skills to start a business. Only 40 per cent of young people with secondary education, and one-third of young people without matric, indicated that they had the knowledge and skills to start a business (Von Broemsen, Wood & Herrington 2005).

In the 2012 *Global Competitiveness Report*, South Africa is also ranked low on primary (127 out of 144) and secondary education (133 out of 144) and, given that only 15 per cent of young people advance to tertiary education, the quality of primary and secondary schooling is becoming increasingly important (WEF 2012). Schooling is not only important for its effect on an individual's propensity for entrepreneurial

Figure 2.2.1: South Africa's population by age and gender, 2011



Source: Stats SA (2011)

behaviour, but it also improves an individual's ability to find employment and to be trainable. A high-quality general education serves to make people more trainable and, therefore, allows for greater flexibility and productivity in the labour market. Moreover, it also enhances the time and cost-effectiveness of training, as poorly educated entrepreneurs require more training at a greater cost and often with fewer demonstrable results.

## Contextual factors that impact on entrepreneurship

A 2008 study done for the Western Cape Youth Commission found that two-thirds of young South Africans indicated an interest in starting a business (Herrington et al. 2008a). To determine whether such an interest could be interpreted as a predisposition towards entrepreneurial behaviour, the survey questioned their career option of choice. Formal employment, namely working in a corporate or large business (46 per cent), or the government (25 per cent), was cited as the career option of choice. Less than 10 per cent of the respondents indicated starting their own businesses as the career option of choice. Young people, whether studying, currently in the work force or unemployed, preferred the security of formal employment to the perceived risk of self-employment (Herrington et al. 2008a). These findings concur with the 2010 *Young Upstarts Report*, which found that while 65 per cent of young people indicated an interest in starting a business, the percentage of young people actively planning to turn this indicated interest into a reality was less than 10 per cent, with 8.0 per cent of the respondents indicating that they planned to start their business within a year (Herrington et al. 2011; see also Virgin Unite 2011).

The *Young Upstarts Report* also showed that younger, poorer respondents preferred to become a professional above starting their own business. The report argues that the lack of role models or networks that include business owners encourages young people to choose the stability of employment rather than seeking the risk of starting their own businesses (Herrington et al. 2011). The preference of previously disadvantaged young people for formal employment, particularly in a corporate setting, is also noted in the 2012 *Endevour Report* (Endevour 2012). In the past decade, there has been greater access to tertiary education for individuals who would have been denied it under apartheid, and, as a result, there has been an increase in the number of young black African and coloured individuals attending tertiary institutions. Equity targets for companies have led to growth in the demand for qualified black African applicants and, consequently, corporations have been willing to pay premium salaries to attract employees from designated categories. From an entrepreneurship perspective, however, this increases the opportunity cost for these individuals, should they consider starting their own business. This could, in part, explain why

the number of black African business owners, particularly those with tertiary qualifications, is lower than business owners with similar qualifications from other race groups (Herrington et al. 2008b). This is of concern as individuals with a tertiary education are more likely to start opportunity-motivated enterprises than they are to start a business due to a lack of other employment options. Necessity businesses (i.e. businesses that are started because the owner has no alternative for employment) generally only provide sufficient income for survival and employ significantly fewer people. Increasing the number of opportunity-motivated businesses would, therefore, have a positive impact on both the financial resources of the owners and, arguably, the unemployment rates in South Africa.

Entrepreneurial learning occurs through problem-solving, failure and learning from mistakes (Deakins 1999). As a result, individuals with access to family members who are business owners are likely to have a greater network of business people from whom they could learn and with whom they could discuss the problems and difficulties experienced by their enterprises. Exposure to entrepreneurial activity through personal networks provides strong role models, and individuals with entrepreneurial family members are more likely to start a business (Von Broensen et al. 2005).

The Global Entrepreneurship Monitor (GEM) is a worldwide study on entrepreneurial activity started by London Business School and Babson University in 1999. South Africa joined it in 2001. GEM South Africa has shown that black women in South Africa are more likely to start a necessity-based than an opportunity-based business. More than half of the young women believe that businesses in South Africa are started because there is no other option to earn a livelihood, and this perception is compounded by the limited exposure that successful, opportunity-based female entrepreneurs enjoy in the media (Herrington et al. 2008b).

When asked to identify successful business people, young people almost exclusively pointed out male business owners, with Pam Golding being the only female entrepreneur identified. With the exception of Mark Shuttleworth and Mzoli Ngcawuzele, all of the business role models identified were mature adults (Herrington et al. 2008b). The media, therefore, has an important role to play to ensure that both male and female business people, as well as young business people, are featured prominently in all forms of media. Together with school entrepreneurship programmes, young successful entrepreneurs need to be promoted and profiled, in order to dispel the notion that businesses are started only out of necessity and that becoming successful – as an entrepreneur – is only possible much later in life.

At present, however, many young people view businesses merely as temporary income generators until a better income option in the formal sector is found (Herrington et al. 2008b). This is unfortunate, given that in economically depressed times, such as the present, young people are often unable to



It is vital that the schooling system prepares students to see themselves as potential job-creators instead of merely job-seekers. It needs to provide subjects like entrepreneurship and financial literacy as core offerings for all pupils.

find better opportunities in the formal sector. This means that the number of people leaving school who need to rely on starting a business in order to survive is likely to increase. It is vital that the schooling system prepares students to see themselves as potential job-creators instead of merely job-seekers, and needs to provide subjects like entrepreneurship and financial literacy as core offerings for all pupils. Since many young South Africans do not complete secondary schooling, it is imperative that entrepreneurial skills are taught at primary school. Given the importance of education in influencing individuals' belief in their own abilities to start and run a successful business, it is possible that the South African education system directly contributes to the low level of early-stage entrepreneurial activity in the country. GEM South Africa has questioned the appropriateness of the kind of education offered at schools, and has noted that school-level training is failing a large proportion of the country's youth. Aside from the education system failing to prepare potential entrepreneurs for starting businesses, it has also done very little to address the massive skills shortage, which inevitably hampers economic growth (Herrington et al. 2011).

Access to technology is becoming an increasingly important requirement both for starting up a new business and for an existing business to remain competitive. It is, therefore, critical that young people become familiar with the necessary skills during their primary and early secondary schooling. Access to technology, particularly access to the Internet, remains limited for young South Africans, with 30 per cent never having used a computer and 55 per cent never having accessed the Internet or used email (Herrington et al. 2008b). This makes it difficult to obtain information about employment, as well as other business-related information. Young white South Africans are more than three times more likely to have access to a computer and more than seven times more likely to have access to the Internet and email than are their black African counterparts. Given these low levels of access, it is imperative that government agencies, mandated with improving the entrepreneurial propensity of the youth, ensure that enough satellite offices have the required technology and sufficiently qualified people to assist them in efficiently using the technology.

Sustained government support is critical. With the higher than expected unemployment figures, reflected in the 2011 Census, job-creation will have to remain a key feature of government policy. A co-ordinated focus on small business development must be one of the core points of departure. However, the poor quality of education, a lack of appropriate

business skills, and poor financial literacy hampers the growth and sustainability of this sector. Steven Timm (2011) argues that South Africa can learn from Brazil in developing adequate support for small businesses. He shows that South Africa and Brazil, apart from being two of the most unequal societies, have other similar development challenges, such as a lack of quality education, a shortage of quality infrastructure and a low share of international trade. Despite these similarities, Brazil is ranked as the 12th most entrepreneurial country in the world, while SA is ranked 28th out of 56 countries (Herrington et al. 2011). What is of greater concern is that with respect to the rate of established businesses (i.e. businesses that have been in existence for more than 3.5 years) South Africa fares far worse. Brazil is ranked 4th and South Africa is ranked 54th out of the 56 participating countries. It is important to note that established businesses have a significantly greater impact on job-creation than new businesses. What is also evident is that although South Africa has an increasing number of individuals who are starting businesses, the number of businesses that have been in operation for 3.5 years or more has not increased. Focused business support, offered by well-qualified professionals, or retired business people, as well as clear policy directives, are desperately required in South Africa to enable more enterprises to become sustainable and to have a greater impact on job-creation and economic growth within the country. Setting clear, measurable goals, such as the number of loans provided, actual employment created by small businesses, the percentage of small businesses involved in the export sector, and ensuring that individuals in these organisations have the necessary skills, have been key in Brazil's success. In South Africa, support structures, aimed at small business development are not effective, and awareness of many of the government support schemes remains extremely low. A further concern is that clear, measurable goals are not set for all agencies and, where goals are set, they are not monitored by external organisations.

Young people lack the skills, knowledge and experience to navigate the adult, business-oriented world. Although they may earn enough to survive, their ability to move into more sustainable enterprises is hampered by their inexperience and age-related constraints. Business advice centres and secondary schools have a particularly important role to play in equipping young people with the necessary skills to be able to move into sustainable business enterprises. The quality of business services is largely dependent upon the quality of the business advisors employed. In order to be fully

effective, business advisors need to be well-versed in the business environment, and preferably need to have practical experience in running a business. A core differentiator in the success of business advice offered is the ability of the advisor to develop a rapport with the entrepreneur. This is developed partly through communication in the individual's home language (De Waal 1997) and partly through the advisor's ability to understand the particular needs of the individual and not offer generic advice. It is important, therefore, that youth-oriented business advice centres are staffed by people who have an understanding of the particular needs and developmental stages of young entrepreneurs.

## The quantity and quality of financial support

Lack of finance and access to finance is often cited as the key constraint to entrepreneurial activity. This has led to academics and policy-makers questioning whether providing significantly more finance would increase the number of entrepreneurs. The GEM research has shown that young people regard lack of customers, insufficient skills and too little support as the main factors contributing to their reluctance to start up their own business (Herrington et al. 2008b). This seems to caution against an approach that views finance on its own as the panacea for a shortage of aspiring entrepreneurs. The *Young Upstarts Report*, conducted by the Branson Centre for Entrepreneurship in 2010, concurs and asserts that, for young people, access to finance and business skills have been the most significant obstacles to starting a new business. Significantly, most respondents recognised that providing funding, without the skills needed to run a successful business, would not help them to become successful entrepreneurs (Virgin Unite 2011). The infrastructure to support the efficient use of funding also needs to be in place. Yet, the GEM research reports that young people who have tried interacting with the various support institutions have found the service delivery to be poor, coupled with long lead times (Herrington et al. 2011).

In this regard, it needs to be asked how suited current government institutions are to provide the required services. The National Youth Development Agency (NYDA) is regarded as the government's primary vehicle for supporting young entrepreneurs. Thus far, its performance has not lived up to the requirements, with many questions being asked about the management of the resources at its disposal. For the budget year 2010/11, it was allocated R405 million, and according to the medium-term expenditure framework for 2012–2015, the comparative figure for the 2012/13 financial year will be R376 million. This decrease has been questioned by the NYDA, but a review of its 2011/12 annual report has led the National Treasury to query irregular expenditure amounting to R133 million. The same report showed that almost R142 million was paid in salaries and allowances, while the businesses to which it extended loans received a total of only

R14.2 million. This amount represents a mere 15 per cent of the funding that it allocated to hosting its highly controversial international youth conference in 2011 (McGluwa 2012).

The NYDA (2012) states that it created or sustained 15 810 jobs during 2010/11, and argued that these were a direct result of the micro-loans (totalling the R14.2m) offered. No information was provided as to whether these loans were linked with mentorship or whether contributions were made to sustainable industries. There was, furthermore, a lack of clarity on the longevity of the businesses that were funded, and whether they were start-ups or established businesses.

This information raises a number of additional questions, namely, whether the salaries of both key and other personnel are justified, what the measurable and tangible goals linked to these salaries are, how data is being collected on the number of new or sustained jobs created, and whether any independent research has been done on the number of new or sustained jobs that were created, assuming verification of the 15 000+ jobs. It also needs to be established what the cost per job created is and, if the NYDA aims to play a significant role in reducing unemployment, whether this is possible at the current cost-per-job rate. Arguably, more research needs to be done about the existence of other government-funded youth organisations in developing and emerging economies, and whether they have been more effective than the NYDA.

## Conclusion

Entrepreneurship is not the sole solution to South African youth unemployment. It is important to remember that entrepreneurial ventures are risky and require a level of innovation, the ability to deal with adversity, the ability to work independently and a level of confidence that allows the business owner to believe that he or she has, or can acquire, the skills and knowledge necessary to be successful in business. However, it is equally important to ensure that the environment in which young people operate enhances, rather than limits, entrepreneurial choices. It is also critical that all young people are afforded the opportunity of receiving a decent education. The low maths and science ranking, the lack of computer and other facilities in many schools, and the 2012 textbook debacle, raise questions about the seriousness with which the government views education. The lack of adequate education is compounded by the questionable value of business support agencies, such as the NYDA. South Africa requires a co-ordinated approach to business support that is business-driven, not politically motivated, and staffed by people with personal business experience. Without this, unemployment, poverty and exclusion will constitute the only future South Africa can continue to offer many of its young people.

**Mpumi Mazibuko,  
a lawyer, who carved  
out a niche for himself  
in intellectual property,  
trademark and  
copyright law.**



## CREATE ENTREPRENEURS INSTEAD OF TENDERPRENEURS

*Erica Penfold*

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

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

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

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

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

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

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

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



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

### Questioning numbers and neutrality

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

### Open governance and opportunities for reform

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

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

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

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

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

### Limitations for entrepreneurial growth

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

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

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

### Education

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

### Legislation

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

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

### Entrepreneurial training and awareness

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

### The contribution of government

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

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

In addition, the government is responsible for passing

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

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

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

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

Both documents have pushed for greater investment in youth development.

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



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## South Africa and the OGP

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

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

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

## What needs to be done?

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

## Towards improved collaboration

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

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

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

## Conclusion

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

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