

# 7. Entrepreneurship

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National, provincial and local governments have been promoting small and medium enterprise (SME) entrepreneurship to boost economic growth and provide employment opportunities. Recently there has been a particular policy focus on growing businesses in the township economy. Yet results from the 2015 Quality of Life (QoL) survey found that the proportion of current business owners among respondents fell from 11% in 2011 and 2013 to 8% in 2015. The proportion of respondents who had ever tried to start a business similarly fell from 18% in 2013 to 15% in 2015. Most concerning, of those who had tried to start a business 45% said that their business had failed, up from 34% in 2013 (Figure 1).

These statistics confirm trends detected in the most recent Global Entrepreneurship Monitor (GEM) survey. According to GEM, South Africa's 'Total early-stage Entrepreneurial Activity' (TEA) – the percentage of the 18-64 year old population who are either a nascent entrepreneur or owner-manager of a new business – dropped to 7% in 2014, down from 11% in the previous survey.

The 2015 QoL survey provides a range of insights into the challenges faced by formal and informal entrepreneurship in the province, as well as dynamics in the township economy and the impact of government labour-market intermediation programmes. Only initial findings are presented here.

## Entrepreneurship

The proportion of entrepreneurs operating in the informal sector remained stable at 65% in both the 2015 and 2013 QoL surveys. Not surprisingly, informal businesses tended to be less well established. 51% were less than 4 years old, compared to 36% of formal businesses. By contrast 17% of informal sector business owners said their enterprise was more than 10 years old, compared to 25% of formal sector entrepreneurs (Figure 2).

There are significant differences in the entrepreneurial experiences of men and women, different population groups as well as between people born in Gauteng, internal migrants, and international migrants (Figure 3). 7% of African respondents owned a business, down from 10% in 2013; 10% of white respondents owned a business, down from 15% in 2013. While this spread is not wide,

white-owned businesses tended to be more formalised and larger. 74% of the businesses owned by African respondents were in the informal sector compared to only 45% of those owned by whites; 60% of African-owned businesses were single-employee operations compared to only 23% of those owned by whites.

In 2015 international migrants were more likely to own a business (16%) than people born in Gauteng (7%) or people who migrated to Gauteng from another province (8%). International migrants were also more likely to operate in the informal sector (73%), compared to internal migrants (66%) and people born in Gauteng (63%).

This does not mean that international migrants dominate the informal or formal sector business communities. Figure 4 shows changes in business ownership by migrant status between 2011 and 2015. Those born in Gauteng have increased their share of both formal and informal businesses since the last survey.

## Business constraints

Business owners in the survey identified access to start-up capital as a problem. Personal savings were the first named primary source of start-up capital for 70% of formal sector and 81% of informal sector entrepreneurs. Bank loans were the primary source of capital for only 14% of formal sector and 5% of informal sector business owners. Remarkably, only 4% of African business owners said that their primary source of start-up capital was a bank loan, compared to 20% of white owned business. Lack of access to finance was a main constraint to business for 11% of informal and 10% of formal sector entrepreneurs while the cost of borrowing was the main constraint for 9% and 4% respectively.

Crime was reported as the largest constraint to the businesses by both formal (15%) and informal sector entrepreneurs (16%). Business regulations (3% of informal and 6% of formal) and labour regulations (2% each for both categories) did not feature significantly as main constraints. Competition from foreign owned business was cited as a constraint by 6% of informal and 7% of formal sector business owners.

## Government support

For the first time in 2015, the QoL survey asked all respondents whether they were satisfied with

government initiatives to grow the economy and create jobs. Only 22% said they were satisfied, while 60% said they were dissatisfied. This stark picture is reflected in responses from business owners on whether they had heard about and accessed government support. Only 0,9% of formal sector and 0,3% of informal sector entrepreneurs had accessed start-up funds through a loan from a government agency. 24% of informal sector and 46% of formal sector entrepreneurs had heard of a government agency that supports SMEs. Of these, only 28% of informal and 43% of formal entrepreneurs had approached a government agency for support.

Overall, 38% of current business owners who had engaged with government were satisfied with the support they received (31% in the informal and 44% in the formal sector). 37% were dissatisfied (43% in the informal and 30% in the formal sector).

More encouragingly, the percentage of all respondents who owned or had owned a business who had approached government for support increased from 5% in 2013 to 9% in 2015. However it is clear that there is still much work for government to do in supporting emerging entrepreneurs.

### **Township economies**

The 2015 QoL survey asked respondents a set of questions about the economy in their local area. For example respondents were asked whether any of a range of economic services were within easy walking distance of their home. The question reflects both on whether those wanting to conduct economic activity in a local area have easy access to key goods and services, and also whether economic activity is present in an area, bringing local jobs. Indicatively, 37% of respondents said hardware/building supplies were within easy walking distance, 41% said banks were, and 42% said internet services were. Only 28% could reach business services easily on foot. By contrast 66% said they could easily walk to supermarkets and 51% said they walk to a liquor store.

How far someone is prepared to walk, and therefore what is an 'easy walking distance' is of course a subjective measure. That said, Figure 5 shows, as an example, the concentrations of respondents who said they could not walk to banks using 750m as an 'easy walking distance'. The lack of accessibility clearly concentrates in township areas, as it does for many other economic services we asked about.

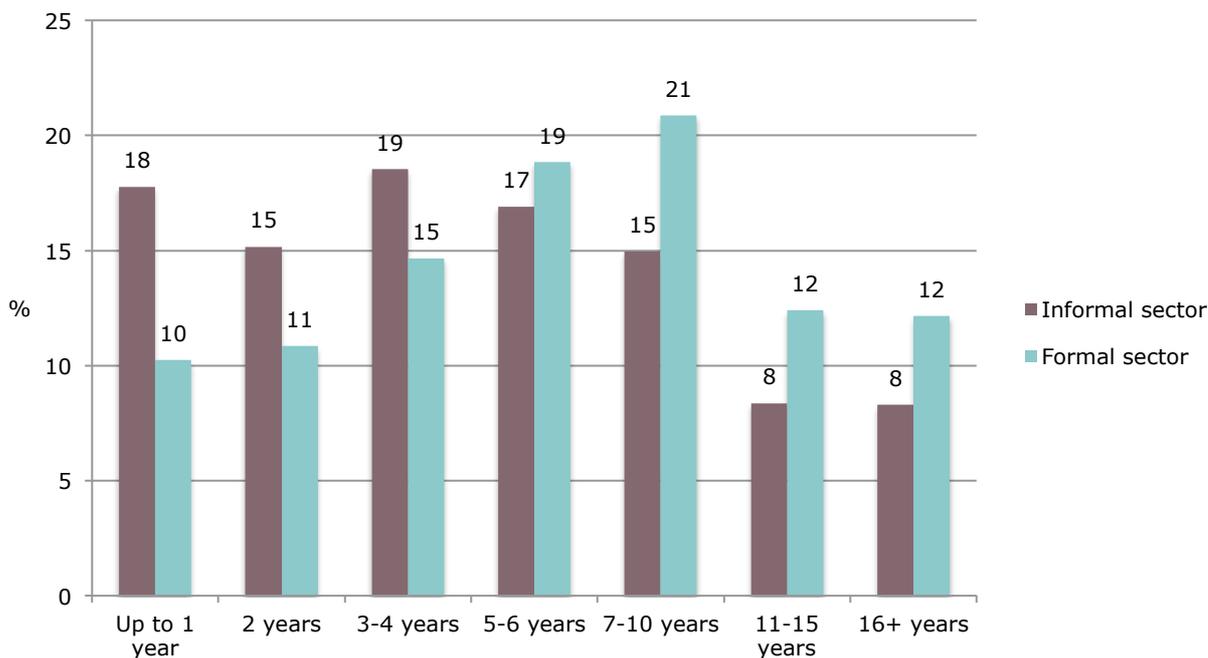
### **Job creation programme**

The 2015 QoL survey also asked respondents whether they had worked in any government job creation programme – such as Jozi@work, the Expanded Public Works Programme (EPWP) or the Community Works Programme (CWP) – in the previous 12 months. 4% said they had done so, rising to 5% in Johannesburg. These

percentages seem low, but they represent some 340 000 beneficiaries in Gauteng, and 175 000 in Johannesburg. Respondents who had participated in one or other of these government-led labour market intermediation programmes were then asked what if any benefits they had received. 27% said money and 47% said they had gained skills. Less encouragingly for entrepreneurship, only 6% said their experience had led them to start their own business and only 11% said they had gained business ideas and networks.

	2011	2013	2015
Respondents who have tried to start a business	14	18	15
<b>Of these respondents who tried to start a business the following breakdown applies:</b>			
Too early to tell	22	21	15
My business failed	40	34	45
My business is a success	21	28	27
My business was a success and I sold it / stopped running it	4	4	6
My business brings in some money, but not enough, so I have to do other things to earn an income	13	12	7

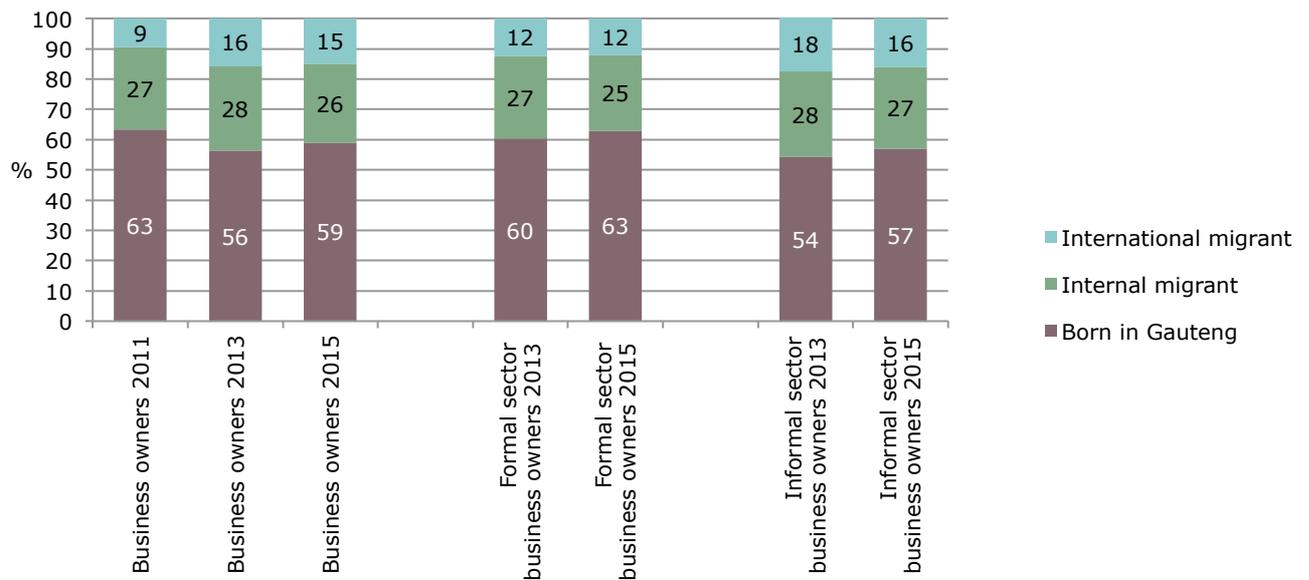
**Figure 1: Business success and failure (2011, 2013 & 2015, %).** Compared to previous surveys, there appeared to be a lower level of business entrepreneurship, and an increasing rate of business failure, in 2015.



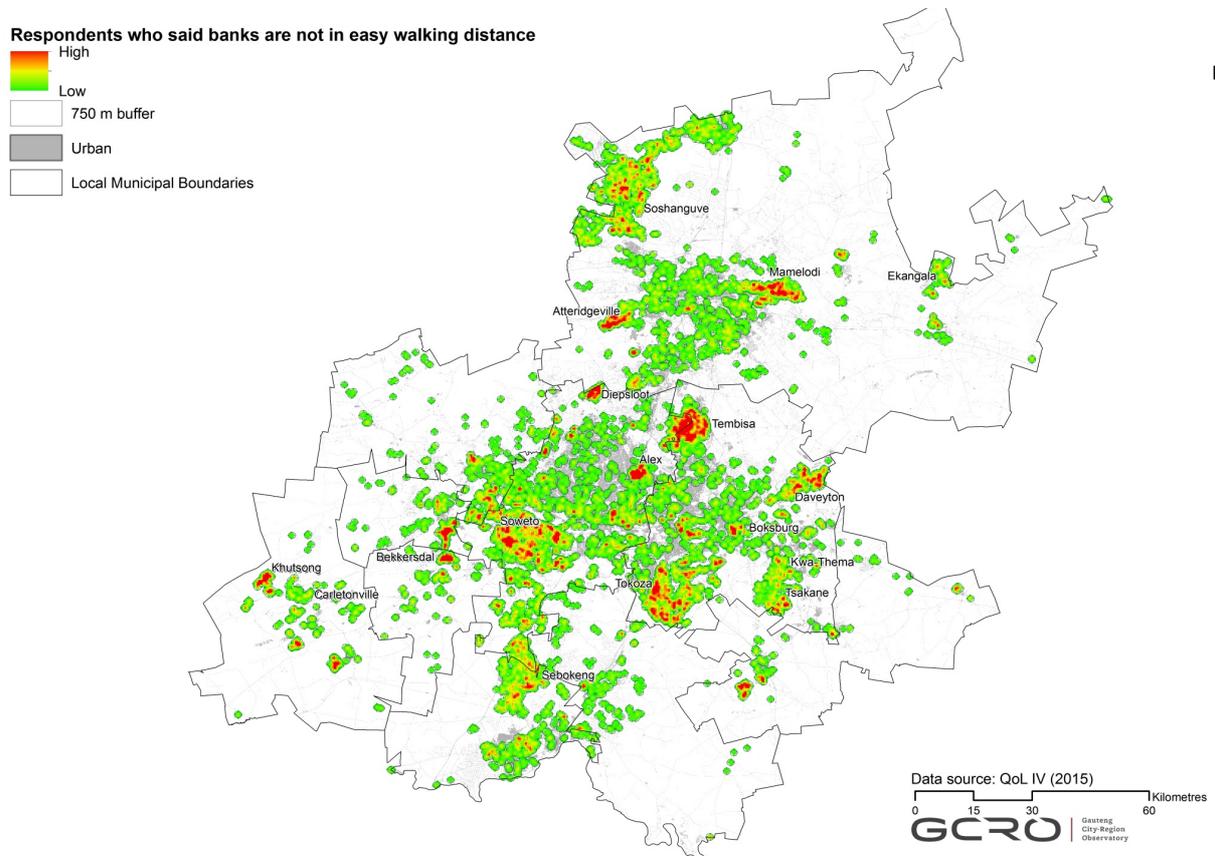
**Figure 2: Age of formal and informal sector businesses (%).** Informal sector businesses tend to be younger, or less well established. On the other hand formal sector businesses are proportionately likely to live longer than informal sector businesses.

	Own a business	Business is in the informal sector	Primary source of start-up capital: Personal savings (1st named)	Primary source of start-up capital: Bank loan	Number of employees: Sole employee	Number of employees: 1-5 employees
	All (%)	Business owners (%)				
<b>Sex</b>						
Male	9	63	76	9	45	37
Female	7	68	78	7	55	32
<b>Race</b>						
Black African	7	74	82	4	60	31
Coloured	5	59	68	23	33	37
Indian	18	42	67	14	24	49
White	10	45	63	20	23	42
<b>Migrant status</b>						
Gauteng born	7	63	75	10	46	37
Internal migrant	8	66	78	7	54	31
International migrant	16	73	82	3	53	36
<b>GAUTENG</b>	<b>8</b>	<b>65</b>	<b>77</b>	<b>8</b>	<b>49</b>	<b>35</b>

**Figure 3: Selected aspects of business ownership by sex, race and migrant status (%).** The table compares – across sex, race and migrant status – aspects of business ownership, whether the business is in the formal or informal sector, the primary source of start-up capital, and whether businesses employ more than one person.



**Figure 4: Business owners by migrant status (2011, 2013 & 2015):** The share of business ownership by people born in Gauteng fell between 2011 and 2013 but increased between 2013 and 2015 in both the informal and formal sectors. The proportion of informal sector business owners who are international migrants fell from 18% in 2013 to 16% in 2015.



**Figure 5: Banks not in easy walking distance:** Only 41% of respondents said that banks are within easy walking distance of their home. This heatmap shows the concentrations, high to low, of respondents who said that they could not easily walk to banks, with 750m assumed as an 'easy walking distance'.

#### OTHER RECENT RESEARCH IN THIS THEME:

- South African and international entrepreneurs and the Gauteng informal sector (2016 forthcoming) by Dr Sally Peberdy, GCRO Research Report
- International migrants in Johannesburg's informal economy (2016) by Dr Sally Peberdy, SAMP Research Report
- Informal sector enterprise and employment in Gauteng (2015) by Dr Sally Peberdy, GCRO Data Brief
- Where informal sector cross border traders sell their goods (September 2015) by Dr Sally Peberdy et al., GCRO Map of the Month and Vignette