



## ***CREATING A VIBRANT ENTREPRENEURSHIP CULTURE***

***Proposals for the facilitation of increased youth entrepreneurship in South  
Africa: A DA Youth discussion document***

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## **1. INTRODUCTION**

Youth unemployment in South Africa has reached crisis point, and it is vital that we explore new ways to actively bring young people into the economy. The DA Youth has therefore embarked on a campaign to highlight constructive ways in which we can do this. We began by lobbying for the introduction of a youth wage subsidy, and have now turned our attention to entrepreneurship as a means of addressing the youth unemployment crisis.

In this document, which outlines practical ways in which youth entrepreneurship can be actively encouraged in South Africa, a number of proposals are presented which, if implemented by government, would contribute to an environment in which it is easier than at present to enter the market as an entrepreneur between the ages of 18 and 35 – the population group most affected by unemployment.

In presenting these proposals, we hope to see a greater awareness emerge of the important role entrepreneurship has to play in alleviating the youth unemployment crisis.

## **2. YOUTH UNEMPLOYMENT CRISIS: WHY ENTREPRENEURSHIP?**

As per the latest Quarterly Labour Force Survey, almost three quarters (72%) of the unemployed population of 4.5 million people are younger than 34. Fewer than 50% of current matriculants will hold jobs before the age of 24.

Public discourse has been dominated by discussions of this spiraling youth unemployment crisis, yet government intervention has been slow and ineffectual. As a part of an ongoing drive to present government with solutions to this crisis, the DA Youth proposes the increased facilitation of youth entrepreneurship as a means of bringing more young people into the economy. This follows our lobbying for the introduction of a youth wage subsidy, which would incentivize business to give opportunities to inexperienced young people in exchange for tax breaks and could create hundreds of thousands of new jobs for young people.

According to Youth Business International, running a business helps young people achieve economic independence, reducing their reliance on state welfare. Young entrepreneurs are more likely to engage in their local community, spreading their experience and energy, and creating additional jobs.

In both developed and developing countries, the small business sector is regarded as the driving force of economic growth, innovation and job creation.

In the UK, small and medium-sized enterprises account for 99.9% of all enterprises, and are responsible for 59% of private sector employment and 52% of private sector turnover.

In Brazil, small and medium sized-enterprises comprise 98% of all companies in the country and responsible for 96% of the nation's jobs.

It is clear that if we are to see a significant dent in youth unemployment, we need to both encourage existing business to give opportunities to young people, as well as create an environment in which young people are encouraged and supported in developing their own job-creating enterprises.

### 3. BARRIERS TO YOUTH ENTREPRENEURSHIP

The Global Entrepreneurship Monitor (GEM) 2010 report indicates that the Total Entrepreneurship Activity (TEA) for South Africa is ranked 27 out of 59 countries at 8.9%. The average for the countries surveyed is 11,9%. According to GEM, South Africa should have a TEA rate of 15%.

Over 60% of businesses that are started by young people fail within the first year of opening. This can be largely attributed to four major factors, as per the GEM report:

1. *Culture* - entrepreneurship is not encouraged as a career in schools, where there is more focus on seeking employment than creating employment,
2. *Skills* - lack of knowledge, experience, business and entrepreneurial skills, largely due to a lack of formal education and training,
3. *Support* - lack of government and private sector support for new enterprises, and high administrative burdens and high costs,
4. *Finance* - while finance is available, it is difficult to access.

South Africa also has a higher prevalence of necessity entrepreneurs - people who become entrepreneurs as a means of survival and, for example sell sweets or fruits at a street corner - than opportunity entrepreneurs - those who start a business when they see a lucrative market-driven opportunity, such as a opening a Laundromat in a block of flats.

In order to create much needed jobs, the country needs to support and encourage opportunity-motivated entrepreneurs, as it is these entrepreneurs who are most likely to grow their businesses into job-creating enterprises.

#### **4. PROPOSALS FOR FACILITATING INCREASED YOUTH ENTREPRENEURSHIP**

Taking in to consideration the most significant barriers to market entry for young entrepreneurs, the following section outlines practical interventions that can be made by the state to facilitate increased levels of entrepreneurship among 18 – 35 year old South Africans.

The proposals do not deal with broader entrepreneurial constraints in general in South Africa, such as burdensome labour and tax regimes, which have been dealt with in a number of other studies such as the Global Entrepreneurship Monitor. These constraints also require attention by government if we are to build a thriving entrepreneurial culture in South Africa.

##### ***4.1 Career guidance to include entrepreneurship as a field***

Traditionally, career guidance advice tends to steer young people towards working in a corporate environment or for the government. Career guidance testing for young people should be adapted to include an assessment of traits that identify entrepreneurial tendencies. Those who display a compatible set of skills and values should be encouraged to examine self-employment in addition to being driven towards traditional career fields.

These individuals should be linked up with relevant organisations such as the Branson Centre for Entrepreneurship, the Raymond Ackerman Academy of Entrepreneurial Development and the South African Institute for Entrepreneurship who can offer guidance and support with starting a business.

##### ***4.2 Entrepreneurship focus in Life Orientation***

It is worth noting that less than 35% of learners who successfully pass matric enroll for university/college education. It therefore means that around 65% of all matriculants annually will be job seekers or adding to the high number of the unemployed young people in the country. Thus it is vital for young people to be prepared at a school level for possible entry into the market as an entrepreneur.

There is a great emphasis on maths and science education in schools as the gateway to professional careers, and while these are important areas, equal emphasis should be placed on enterprise and entrepreneurial development. Entrepreneurship education should therefore form at least 50% of the Life Orientation curriculum prescribed by the Department of Basic

Education. This module must introduce business concepts at an early stage and should run from senior primary to matric, including a focus on practical work such as requiring students to run stands at market days etc.

#### ***4.3 Opportunity Vouchers for successful matriculants***

All matriculants who successfully pass matric should qualify to receive an opportunity voucher from government to the value R2000 which can either be used to fund the costs of further education at a SAQA registered institution or to subsidize the costs of a small business, subject to that young person attending an accredited business development programme and submitting acceptable business plan.

The training should be offered by the Department of Trade and Industry in conjunction with the NYDA, KHULA and SEDA. The training should run for at least 14 days and cover areas like business management, financial management, accessing credit, identifying markets and other core business concepts.

#### ***4.4 Tax breaks for business mentoring***

As well as not having the requisite education and knowledge about running a business, one of the reasons that youth owned enterprises fail is a poor understanding of the market in which they operate. This could be addressed by linking up young entrepreneurs with relevant business mentors.

The Department of Trade and Industry should accept applications from appropriate, screened business mentors, link them up with appropriate entrepreneurs between the ages of 18 and 35 and in exchange, the approved mentors could qualify for a small tax relief from their annual tax return if they have successfully completed one year of mentoring.

#### ***4.5 Reintroduce business opportunity vouchers***

The NYDA should reinstate a business services voucher programme to provide young entrepreneurs with access to a range of subsidized business services such as web design and accounting assistance at a nominal cost in the region of R200.

These vouchers enable young entrepreneurs to access the professional services they require to run an effective business at a fraction of the cost of market rates, which are usually unaffordable.

This programme was originally driven through the Umsobomvu Youth Fund (UYF), which was systematically shut down by the NYDA upon its inception, despite being the one element of the Youth Commission that was actually working. Although the voucher support programme at the UYF was not widely offered, there is definite evidence of its success in supporting young entrepreneur's successfully where it was available.

#### ***4.6 Streamline entrepreneurship resources***

At present there is no single definitive government source of entrepreneurial resources for young people. There are numerous agencies such as KHULA, SEDA and the NYDA that offer forms of support to entrepreneurs, but none are widely publicized or accessible to young people. There is also much confusion about which one to actually turn to for support.

The government should run a national entrepreneurship campaign focused on 18 to 35 years olds that will direct them to one single resource that consists of consolidated information on entrepreneurship from all relevant stakeholder agencies. From finance to mentoring to business vouchers, there needs to be a single consolidated government repository and source for all of this information.

#### ***4.7 Youth Entrepreneurship Collateral Fund***

As many young entrepreneurs complain about not having sufficient capital to start their business, and not having enough assets to raise capital from banks, the state could create a fund whereby they can put up the collateral/surety for young entrepreneurs who qualify based on the merit of submitted business plans to access commercial/private sector credit.

This has the advantage of putting the market to work to advance youth entrepreneurship and would not require the same capital outlay on the part of the state as would be the case if the state itself were to act as a credit provider.