

ECONOMISTS VERSUS THE STREET:

Comparative Viewpoints on Barriers to Self-employment in Khayelitsha, South Africa¹

PAUL CICHELO

Haverford College
pcichell@haverford.edu

LIBERTY MNCUBE

University of Johannesburg.

MORNE OOSTHUIZEN

Development Policy Research Unit
Morne.Oosthuizen@uct.ac.za

LAURA POSWELL

Feed, Uplift, Empower, Love (FUEL)

ISBN 978-1-920055-85-1

November 2011

© University of Cape Town 2012

1 The authors are highly indebted to the researchers who took the time and effort to complete this survey.

ABSTRACT

What prevents the unemployed in Khayelitsha, South Africa from trying self-employment? Perceptions of a small group of academic economists are presented and compared to the perceptions of unemployed Khayelitsha residents themselves. The largest differences in view-points are that a) academics believe that the general business skills of residents hold the unemployed back substantially while residents perceive it as a minor issue; and b) compared to academics, residents of Khayelitsha give much more weight to jealousy within the community and to the continual vulnerability to business failure as barriers to trying self-employment.

KEYWORDS: self employment, informal economy, unemployment, perceptions, South Africa, crime, risk

CONTENTS

1. INTRODUCTION	4
<hr/>	
2. SURVEY DESIGN AND RESPONSE RATES	5
<hr/>	
3. RESULTS	6
<hr/>	
4. CONCLUSION	14
<hr/>	
REFERENCES	17
<hr/>	
SURVEY INTRODUCTION	18
<hr/>	

1. INTRODUCTION

What prevents the unemployed in South Africa from entering self-employment? Given South Africa's disturbingly high unemployment rate, which was 32.8 percent (including discouraged workers) in late 2005 and remained at 33.9 percent in the second quarter of 2011, the answer to this question should be of critical concern for policymakers (Statistics South Africa 2009; 2011).² Rather than attempting to answer this question for all of South Africa, we attempted to narrow our focus and address the issue within a limited geographic area in the Khayelitsha township in Cape Town. By gathering information from a variety of qualified research economists, we can now provide policymakers with a list of what some of the research community believes to be pivotal barriers to self-employment. In doing so, we hope this paper will give policymakers information on where to concentrate their efforts to assist individuals' movement from unemployment to profitable self-employment. We also hope this will spur more research on this topic, both in Khayelitsha and elsewhere throughout South Africa, allowing us to offer more concrete ideas on how to best tackle these barriers.

A second key purpose of the paper is to examine the differences in perspectives on the issue between knowledgeable researchers employed in an academic (or research center) environment and everyday residents of Khayelitsha. This paper makes no claim on which group is correct. We have no direct evidence to make such a claim. Our view is that policymakers should examine constraints that *either* group finds significant. Additionally, we encourage fellow researchers to re-examine, on both theoretical and empirical fronts, constraints that residents or a significant portion of fellow researchers deem significant.³

The main weaknesses of the paper are the limited sample size of research economists and the concern that researchers may be non-representative of the larger cohort of research oriented economists who might be advising policymakers. These concerns stem from both a low response rate and a sample construction that was potentially biased towards those engaged with Development Policy Research Unit (DPRU) activities. The authors are acutely aware and forthright about these drawbacks and results should be viewed accordingly. The safest interpretation is to view the researchers' opinions with the same weight as a roundtable discussion at a conference, albeit a relatively large roundtable discussion. Nonetheless, we believe the sample is a large enough proportion of the set of active labour market economists likely to hold sway with South African policymakers to be worthwhile. Additionally, some of the results are strong enough that they are highly suggestive, even if they were to come from a slightly non-representative sub-population.

Results show commonality across groups in many respects. A lack of access to start-up capital, high transport costs, and low expected profits ranked as three of the top five deterrents for both groups. The largest differences in view-points are that: a) academics believe that the general business skills of residents hold the unemployed back substantially, while residents perceive it as a minor issue; and b) compared to academics, residents of Khayelitsha give much more weight to jealousy within the community and the continual vulnerability to business failure on a month-to-month basis as barriers to trying self-employment. Other large differences are that: a) compared to academics, residents of Khayelitsha are much more concerned about crime and the long term cost in material support from the family if the business fails; and b) compared to residents, academics are more concerned that the ignorance over expected profit levels can't be determined until an individual actually enters the business.

The paper proceeds as follows: Section II details the design of the academic survey and the survey response rates. Section III examines the knowledge and confidence of respondents on the hindrances to self-employment. It then presents the key results of the academic survey and compares them to results from a similar survey of unemployed Khayelitsha residents. It includes modified estimates that adjust for an individual's confidence, as

2 Note: The 2005 unemployment figures are adjusted to represent the broad unemployment figures expected if the Quarterly Labour Force Survey had been implemented in 2005. The original data from the Labour Force Survey resulted in a broad unemployment rate of 38.8 percent.

3 We would also encourage residents to re-examine hindrances that the research community deems important but they are unlikely to read this paper.

well as other robustness checks. Section IV summarizes the main findings and comments on the path forward to better understand the transition from unemployment to self-employment.

2. SURVEY DESIGN AND RESPONSE RATES

The purpose of this survey was to identify the general understanding among the research community as to why the unemployed in Khayelitsha do not enter self-employment. The universe of individuals within the “research community” was a bit nebulous. We limited our focus to those researchers whom we felt policymakers would consider knowledgeable on the informal economy in South Africa. Thus, our strategy focused on identifying academic labour economists working in South Africa, economists from abroad who have recently written on the South African labour market and/or informal economy in particular, and researchers from other disciplines who have recently worked on the informal economy.

The construction of a list of such individuals began with a list of those whom the authors knew to have written on this subject including those who had recently published in South African journals, or authored Development Policy Research Unit (DPRU) conference papers and/or working papers. It may therefore be biased towards the perspective of those who attend DPRU conferences or do work with the DPRU. Additionally, we searched websites of previously disadvantaged universities for those individuals who listed the South African labour market and/or informal economy as part of their research interest.⁴

Altogether, this gathering produced a list of 50 researchers who were to be sent the survey.⁵ Five researchers were given an initial survey for pre-testing. This pre-testing revealed significant problems with the wording of the survey (related to issues discussed below). The 45 remaining researchers were sent an improved survey in June 2006. Just 22 researchers returned completed surveys for an overall response rate of 48%. The response rate for those whom the authors deemed primarily non-economists was just 10% (1 of 10) and this completed observation is not used in any of the analysis. Thus, the results presented are solely for research economists receiving the improved survey. This group had a 60% response rate (21 of 35).⁶

The survey asks researchers to identify what percentage of the unemployed in Khayelitsha would find a particular hindrance to be a large or very large deterrent to entering self-employment *if they accurately understand their situation*. This is completed for 17 potential hindrances, which will be detailed later in the paper.⁷ These 17 hindrances are presented in parallel fashion to the questionnaire from the 2005 Khayelitsha Survey, Wave III, a random sample of Khayelitsha residents undertaken from October 2005 to January 2006.⁸ Thus, we also have an estimate of the percentage of unemployed Khayelitsha residents that *perceive* each hindrance to be a large or very large deterrent to self-employment. To the best of our knowledge, none of the respondents had seen or heard of the results from the 2005 survey of residents prior to answering our questionnaire.⁹

4 We recognized that strong research networks in South Africa, as elsewhere, would perhaps hinder researchers from previously disadvantaged universities from participating in DPRU conferences or having their work published in main South African journals.

5 The authors recognized at the time that this should not be thought of as completely exhaustive. We do feel that we captured the vast majority of key players in the environment close to Khayelitsha.

6 An informal comparison of respondents versus non-respondents does not cause the lead author to suspect any particular bias with regard to viewpoints on the hindrances to self-employment. However, there was no systematic review of respondents and non-respondents to identify potential bias.

7 The complete survey, including detailed instructions, is included in the Appendix. The hindrances are also listed in Table 3.

8 Details of the 2005 Khayelitsha Survey, Wave III survey and results from Khayelitsha residents can be found in Cichello, Almeleh, Mncube and Oosthuizen (2006). Note, however, that as this is a 3rd Wave of a panel, it is no longer completely representative of the existing population.

9 This led to a subset of 11 potential respondents being given just 48 hours to respond before they were given a preview of early results of the KS-III results. Not surprisingly, the response rate was particularly low for this group. This group agreed to voluntarily keep these results to themselves until other researchers elsewhere had time to complete this survey.

In constructing the survey, the authors identified three distinct concepts that might be worthy of investigation. Academics could be asked one of the following questions:

- 1) To what extent will the unemployed in Khayelitsha say they are not entering self-employment due to a given hindrance?
- 2) To what extent will the unemployed in Khayelitsha not enter self-employment due to their perception (correct or incorrect) of difficulties imposed by a given hindrance?
- 3) To what extent will the unemployed in Khayelitsha not enter self-employment due to the difficulties imposed by a given hindrance if they are reasonably well-informed?

Each of these questions could lead to potentially interesting analysis. The authors felt that the last item was the most interesting and most important to know and give policymakers.¹⁰ Thus, we are able to present policymakers what research economists believed to be the true underlying problems preventing entry into self-employment and compare it to those that unemployed Khayelitsha residents who said were the most important. It also points out that differences between the groups can NOT be interpreted as saying research economists do not understand those whom they are studying.

The second major design issue of the survey was whether we should have respondents answer these questions for one specific self-employment activity (for example, starting a spaza) or to leave it open to all potential self-employment activities individuals might choose. The downside of the latter approach is that survey takers would face a much more difficult task. To answer the question a survey taker must implicitly identify what percentage of unemployed residents would want to try certain activities. Then they must implicitly aggregate over all activities the percentage of those trying that activity times the percent who would find the hindrance to be a large or very large problem conditional on trying the activity. Though complex, we were confident that research economists could handle this. It did, however, impose a large burden on them and may explain the low response rate (and low confidence levels to be discussed later in the paper).

The benefits of this approach were two-fold. First, it represents exactly the issue that policy-makers often face. In trying to get more people into self-employment, they are not trying to get individuals into street trading or into shebeens or into any other particular occupation. They are trying to get them employed. In short, many of the hindrances are meso-level problems that cut across a variety of business activities and measuring the problem across a variety of activities gives a better gauge of the depth of the problem. Likewise, at least some hindrances may have meso-level solutions, rather than requiring individual industry specific solutions. This should not be confused as believing that the informal sector comprised of a single homogenous group.

Secondly, there was an issue of sample size – not for the academic survey, but for the comparison group. As we are trying to compare the results to those of the unemployed respondents in the Khayelitsha Survey, Wave III, we did not want to limit it to the unemployed respondents who were asked about starting one particular type of self-employment. We preferred to use the entire sample of approximately 100 unemployed respondents who chose the activity they would most likely enter into as the comparison.

3. RESULTS

GENERAL CONFIDENCE LEVELS

The authors consider small-scale self-employment and the informal economy to be generally understudied by research economists. Responses from the academic survey only reinforced this concern. The lack of self-confidence among researchers and the disparate viewpoints on which hindrances prevent the unemployed from entering self-employment were both clear.

10 The instructions on the survey make this distinction clear. The complete survey, including instructions, is included in the Appendix.

For example, the survey asked respondents to choose whether they consider the informal economy a) an area of expertise; b) an area they are comfortable discussing but not an area of expertise; or c) a topic I leave others to study. Of the 21 economists surveyed, only three considered themselves experts. Four others left it to others, while the bulk of the respondents (14) described it as something they are comfortable discussing but they do not consider themselves an expert.

Likewise, respondents were not comfortable with the terrain in which this self-employment primarily operates. Seven respondents did not know Khayelitsha at all. Twelve knew of it vaguely. Two knew it well and none of the respondents claimed to know it very well. This may be a result of a limited number (4) of valid responses from individuals living in Cape Town at the time of the survey.¹¹ However, it is believed by the authors that most individuals who completed the survey have spent considerable time in Cape Town over their lifetimes.¹² The larger issue is likely that most researchers do not regularly live, work, or play in townships.¹³ This makes it more difficult to form confident priors on which problems, if any, are interfering with free entry decisions based simply on risk and reward. It makes it more difficult to form narrow priors on the levels and types of risk faced by individuals and to form narrow priors on the profit streams individuals should expect.

To help get a feel for Khayelitsha, all respondents were given the following description prior to completing the survey¹⁴:

BRIEF DESCRIPTION OF KHAYELITSHA

Khayelitsha, with 327,355 residents (2001 Census) is Cape Town's largest African township. The income distribution in Khayelitsha approximates that for Africans as a whole in Cape Town (Magruder and Natrass (2005)). 25 percent of households reported zero income in the 2001 Census and 58 percent of the population report annual household income in the bands between R 4,801 and R 38,400.

After giving their best point estimate for the percent of unemployed residents that would find a particular hindrance to be a large or very large hindrance, individuals were then asked to pick a band saying they were confident the true population value would be within X percentage points of their estimate. This served multiple purposes. First, it served to encourage respondents to respond to this survey, even if they did not view themselves as experts in the area. Second, it allows us to gauge respondents' *a priori* confidence in the issue. Third, it allows us to re-weight respondents' answers according to his/her confidence on the issue when aggregating responses, just as a policymaker might re-weight a person's input if they were having an informal discussion and the individual expressed a strong or weak confidence in their beliefs.

Table 1 sums the confidence bands chosen by the 21 respondents across all 17 hindrances. It demonstrates that respondents generally chose very large bands around their point estimates. Over half of the responses implied that they could not limit the true population parameter to a band 20 percentage points wide.¹⁵ For individual hindrances, the percent of respondents choosing a band greater than plus/minus 10 percentage points varied from 42.8% to 61.9%.

11 The five observations lost in pre-testing all came from Cape Town residents.

12 While only four respondents say that they live in Cape Town, a number of cvs show previous extended study or work history in Cape Town or nearby (within an hour) and numerous others are known to have been in Cape Town for multiple conferences/extended working periods.

13 This is not meant to imply that the vast majority of researchers surveyed have not been to a township or have not at one point studied a township area. Indeed, we believe they have. It simply is meant to suggest that most researchers are more likely to know Pinelands better than Langa or Khayelitsha, Sandton better than Alexandra, and Kloof better than Umlazi.

14 Magruder's and Natrass's names were unintentionally flipped in the version sent to respondents.

15 The band is smaller than 20 percentage points for responses < 10 percent (10.6% of responses) or > 90 percent (0% of responses) but the statement still holds if these observations are removed.

TABLE 1: Confidence Bands for all Hindrances

CONFIDENCE RANGE	FREQ	%	CUM %
TOTALLY UNCERTAIN	75	21.0	21.0
± 20%	116	32.5	53.5
± 10%	120	33.6	87.1
± 5%	40	11.2	98.3
± 2.5%	6	1.7	100
TOTAL	374	100	

Additionally, the point estimates exhibited quite large variation across individuals. Table 2 demonstrates this fact. The difference between the largest and the smallest point estimate across the 21 respondents was *at least* 55 percentage points for *each* of the 17 hindrances. The interquartile range (IQR) shows this was not just driven by one or two outliers, with IQRs varying between 10 and 45 percentage points. Figure 1 shows a histogram for the hindrance with the *smallest* standard deviation and the picture is clearly one of disparate responses.

TABLE 2: Variation in Responses from Research Economists

HINDRANCE	VARIATION IN STATED RESPONSES, BY HINDRANCE			VARIATION IN DEVIATIONS FROM INDIVIDUAL SPECIFIC MEAN STATED RESPONSE, BY HINDRANCE
	RANGE MAX – MIN	IQR (75TH % – 25TH %)	ST. DEV	RANGE MAX – MIN
LITTLE (EXPECTED) PROFIT	70	30	18.08	67.1
PRE-ENTRY PROFIT UNCERTAINTY	80	24	22.34	56.2
GOVERNMENT NOT ALLOW	70	20	19.68	72.1
NO NEWCOMERS	75	45	23.46	65.6
NO SPECIFIC SKILLS	73	40	22.91	68.2
CAN'T START ANY BUSINESS	85	20	22.95	68.8
SHAME	70	10	16.73	67.5
CRIME	85	35	25.92	80.9
JEALOUSY IF SUCCESSFUL	60	15	16.98	62.9
NO ACCESS TO START-UP CAPITAL	70	45	23.59	56.4
VARIABLE INCOME	65	30	20.38	60.8
RISK OF BUSINESS FAILURE	75	30	21.06	83.6
HARRIS-TODARO	55	20	15.38	49.1
NO SOCIAL/BUS NETWORK	70	40	22.41	62.1
TRANSPORT COSTS	85	25	21.76	83.8
FAMILY ASK FOR MONEY	85	35	25.22	73.9
LT COST IN FAMILY	66	22	19.31	58.8

* Results from an independent survey of economists from academia or research centers, June 2006, n = 21. Economists were asked to state the percent of unemployed Khayelitsha residents who find a particular hindrance to be a large or very large deterrent to self-employment

FIGURE 1

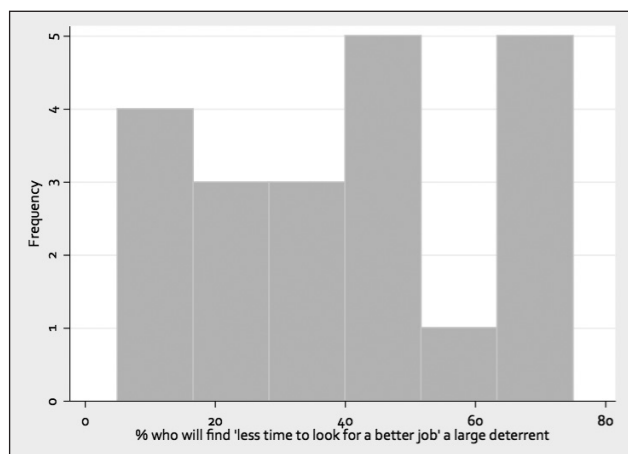
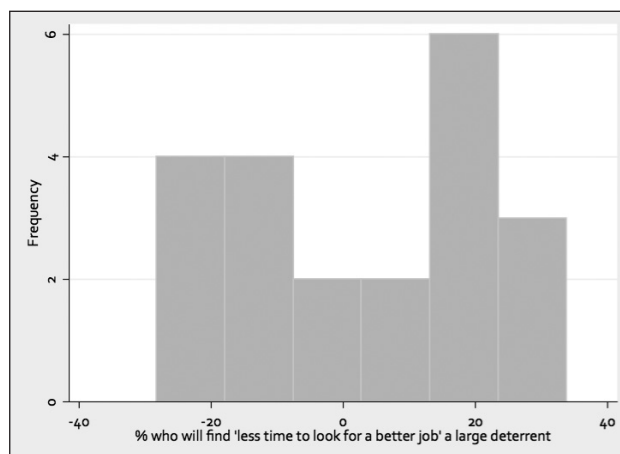


FIGURE 2



These large differences are not driven by individual respondents continually giving high or low values across all hindrances. This is shown by constructing a deviation from the individual specific mean response across all 17 hindrances for each person-hindrance. First, Figure 2 plots the difference from an individual's mean response for the same hindrance as Figure 1. While the variation is less than in Figure 1, it is still quite sizeable. Secondly, the last column of Table 2 takes the range over these deviations from individual specific means for each hindrance. These range from 49 to 84 percentage points. Finally, when analyzing how individuals ranked the hindrances, every hindrance was ranked as high as fourth by at least one of the 21 respondents, and all but four hindrances received the top ranking by at least one respondent.¹⁶ Likewise, all hindrances but one were ranked as low as 13th or lower by at least one respondent, with that one exception being ranked 10th by two respondents.

In short, there is no consistent viewpoint being put forward by research economists. This may well be a result of the lack of literature identifying such constraints. We come back to this point in the conclusion.

COMPARING VIEWPOINTS

What is a policymaker to make of all this? We first assume that the policymaker aggregates the information, giving equal voice to each research economist. We start with a simple average of the academic estimates of how many residents would find a hindrance to be a large or very large hindrance and compare this to the percentage of unemployed Khayelitsha residents who stated the hindrance was a large or very large hindrance to himself/herself entering self-employment in the Khayelitsha Wave III survey, as reported in Cichello, Almeleh, Mncube, and Oosthuizen (2006). We then show that these results would not differ dramatically if we use median responses or re-weight the data to give more confident responses greater *voice* in the aggregation process.

The leftmost column of Table 3 shows the average response of the 21 research oriented economists when they estimate the percentage of residents who would find each hindrance a large or very large hindrance. The hindrances are listed in descending order by rank according to this measure (as shown in column 3). The top five barriers, according to this group and this aggregation approach, are: 1) Individuals can not start any type of business; 2) Individuals do not have access to start-up capital; 3) Individuals can not know the (expected) profit levels until they actually start the business; 4) The expected profit levels are too little; and 5) Transport costs are too high.

¹⁶ In this paragraph, and throughout the paper, all parties to a tie are given the highest rank. For example, if the numbers were 90, 90 and 80, both 90s would be given rank 1 and the 80 would receive a rank of 3.

Three of these barriers (no access to start-up capital (4th), little expected profits (5th), and transport costs (3rd) were also in the top five barriers listed by Khayelitsha residents (see columns (5) and (8) of Table 3). However, there were significant differences as well. The top two concerns for Khayelitsha residents are further down in the academic view. Crime came in sixth for academics. This sounds high in rank, but the average percent estimated to be heavily affected (40%) was 22 percentage points lower than the point estimate from unemployed residents in the KS-III survey, and well outside the 95% confidence interval constructed from that survey (as shown in columns 6 and 7). The risk of business failure on a month-to-month basis, the second largest concern among residents, was ranked just 10th on the academic list with researchers expecting, on average, 33% of the unemployed to find this a major hindrance. This was 26 percentage points below the point estimate from KS-III survey.

Similarly, two of the researchers' top five hindrances were not on the mind of Khayelitsha respondents. "Individuals do not know how to start a business" ranked number one for researchers, affecting, they felt, 56% of the unemployed. The unemployed in Khayelitsha ranked it 16th with just 19% calling it a large or very large hindrance. The other hindrance listed by researchers, but not residents, was that "Individuals cannot be sure that they will make money until they actually start this business." This hindrance ranked third for researchers, but just 10th for residents.

The four differences highlighted above were identified simply by identifying the top five ranked hindrances from each group and seeing which the other group did not also rank in the top five. Another way to identify differences is to impose (an admittedly arbitrary) criteria on differences in rank and absolute differences. The criteria we use to deem a "significant difference in viewpoint" is that the difference in rank must be at least 5 and the difference between the point estimates of both groups must be at least 15 percentage points.¹⁷ All four differences mentioned above qualify as significant differences in viewpoint according to this criteria.

Two other significant differences in viewpoints also exist, both being areas where residents place a higher concern on the hindrance than researchers. The first hindrance is jealousy within the community that one faces if you start a successful business. Researchers had ranked this as the hindrance they were *least* concerned with, while the unemployed Khayelitsha residents had this ranked seventh on their list, with a point estimate double that of the academics.¹⁸ The other item that the unemployed viewed considerably more serious than academics was the material support they would receive from their family if they were to open a business and it failed, which we often refer to as the long term cost within the family.

17 The point estimate of the academic group is actually the average value of the average response and the median response in the academic survey (the median scores are shown on Table 3, column 2).

18 This hindrance ranked even higher when including the non-unemployed Khayelitsha residents, as reported in Cichello, Almeleh, Mncube and Oosthuizen (2006)

TABLE 3: Comparison of Perceived Hindrances to Self-Employment: Economists and Khayelitsha Residents

COLUMN	ACADEMICS ^a				KHAYELITSHA RESIDENTS ^b			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
HINDRANCE	AVG	MEDIAN	RANK (AVG)	RANK (MED)	AVG	LOWER	UPPER	RANK (AVG)
CAN'T START ANY BUSINESS	56.24	60	1	1	18.94	9.19	28.69	16
NO ACCESS TO START-UP CAPITAL	52.38	60	2	1	55.21	44.60	65.81	4
PRE-ENTRY PROFIT UNCERTAINTY	48.48	50	3	3	33.05	23.59	42.51	10
LITTLE (EXPECTED) PROFIT	45.38	40	4	4	47.61	35.54	59.69	5
TRANSPORT COSTS	41.90	40	5	4	56.06	44.53	67.60	3
CRIME	40.24	40	6	4	61.91	53.35	70.46	1
NO SPECIFIC SKILLS	39.10	40	7	4	28.50	18.52	38.49	13
NO SOCIAL/BUS NETWORK	38.76	40	8	4	33.58	20.90	46.25	9
NO NEWCOMERS	37.90	30	9	9	32.19	21.54	42.83	11
RISK OF BUSINESS FAILURE	33.24	30	10	9	59.20	47.89	70.51	2
VARIABLE INCOME	32.71	27	11	11	41.62	30.95	52.29	6
FAMILY ASK FOR MONEY	28.71	20	12	12	25.91	15.69	36.14	14
HARRIS-TODARO	22.86	20	13	12	24.00	12.90	35.11	15
GOVERNMENT NOT ALLOW	22.76	15	14	15	30.86	18.93	42.78	12
LT COST IN FAMILY	21.19	10	15	16	33.68	22.70	44.65	8
SHAME	21.19	20	15	12	14.26	5.56	22.96	17
JEALOUSY IF SUCCESSFUL	16.67	10	17	16	39.18	29.46	48.91	7

a Results from independent survey of economists from academia or research centers in June 2006, $n = 21$.

b Results from KMP Wave III Survey, 2005. There are roughly 100 observations used in each cell.

Bold formatting indicates a difference of 5 or more in the rank given across groups. Bold formatting is used only for the group that believes the hindrance has a greater relative severity.

TABLE 4: Significant Differences between Economists and Khayelitsha Residents

HINDRANCE	DIFFERENCE IN:	
	POINT ESTIMATE	RANK
A. RESEARCHERS HAVE SIGNIFICANTLY GREATER CONCERN		
INDIVIDUALS DO NOT KNOW HOW TO START A BUSINESS.	39.2	15
INDIVIDUALS CANNOT BE SURE THAT THEY WILL MAKE MONEY UNTIL THEY ACTUALLY START THIS BUSINESS	16.2	7
B. RESIDENTS HAVE SIGNIFICANTLY GREATER CONCERN		
ONE UNLUCKY MONTH WHEN BUSINESS IS NOT GOING WELL COULD SUDDENLY CAUSE THE WHOLE BUSINESS TO FAIL	-27.6	8
INDIVIDUALS WHO MAKE TOO MUCH MONEY IN SELF-EMPLOYMENT WILL FIND PEOPLE IN THE COMMUNITY ARE JEALOUS.	-25.8	10
INDIVIDUALS MAY BE ROBBED IF THEY DO THIS KIND OF WORK.	-21.8	5
IF THE BUSINESS WERE TO FAIL, THESE INDIVIDUALS WOULD NO LONGER BE ABLE TO RECEIVE THE SAME LEVEL OF MATERIAL SUPPORT FROM THEIR HOUSEHOLD THAT THEY CURRENTLY ENJOY.	-18.1	7

^a Results from independent survey of economists from academia or research centers in June 2006, $n = 21$.

^b Results from KMP Wave III Survey, 2005. There are roughly 100 observations used in each cell.

Table 4 summarizes these significant differences. Overall, researchers appear to be more concerned that individuals in Khayelitsha do not have enough general business/entrepreneurial skills and experience. In fact, two other hindrances that fall in this same vain (highlighting a lack of job specific skills and a lack of social networks) had higher point estimates and were ranked higher by researchers than by the residents themselves, though these differences were not so large as to be deemed significant differences. Residents appear more concerned with issues existing beyond the market transactions and profit concerns. Concerns over crime, jealousy within the community, and long-term resource distribution with the household are items generally thought of as independent of labour market choices by researchers modeling labour supply decisions. The vulnerability to risk of business failure is also highlighted.

ROBUSTNESS OF AGGREGATION APPROACH

So far, this analysis has highlighted one form of aggregation, a simple mean of responses from researchers. An unweighted mean is prone to outliers and has other characteristics that may cause policymakers to use other implicit methods of aggregation of opinions across researchers. Table 3 shows the (unweighted) median response among researchers (column 2) and the rank based on median responses (column 4). This does not dramatically change the results presented above. The major difference is that distinctions between hindrances ranked 4th through 8th based on the average response, now become indiscernible, though clearly separated from the top concerns and those falling below. Crime moves up into the top 5 by virtue of the large tie for 4th, but the median researcher response is still very far outside the 95% confidence interval for the (population) proportion of unemployed residents finding it a large or very large hindrance.

Another way to rank the importance of barriers would be to rank the average individual z-score for each hindrance, where the individual z-score is the deviation from the individual mean for that hindrance divided by the standard deviation across all deviations from mean for that individual; $z_{ih} = (x_{ih} - \bar{x}_i) / sd_i(x_{ih})$ where i is the individual and h the particular hindrance. This would help alleviate concerns that rankings are driven by the fact that different individual respondents may be prone to exaggeration in espousing dramatic variations

around a fixed individual specific mean.¹⁹ Table 5 shows that using this approach causes little change in the rankings. The only two rankings that change more than one position are crime, which falls from 6th to 8th in importance, and a lack of business or social skills, which rises from 7th to 5th. Both of these changes amplify differences between academics and residents found using the simple mean for aggregation mentioned above.

So far we have assumed that policymakers are treating all 21 observations with equal voice. Yet, the researchers have also identified their level of confidence in their stated values. A policymaker would likely place greater weight on responses where researchers expressed a greater degree of certainty in the precisions of their point estimate. Thus, we calculate a weighted average response for each hindrance, giving the responses with smaller confidence bands higher weight. Data are dropped if the individual is “totally uncertain,” otherwise weights are inversely proportional to the confidence band size (1/2.5, 1/5, 1/10, 1/20).²⁰

Table 5 shows that such re-weighting of responses does not result in any major changes in the rank of hindrances, with no hindrance moving more than one position. The weighted median offers a larger number of changes in rank, but no hindrance moves more than two positions in rank and many are caused by ties where certain ranks are no longer assigned. Thus, the general conclusion is that the re-weighting in this manner would not cause policymakers to hear a different message from economists in the research community.

19 Note: Rankings based on average hindrance levels already eliminated concerns that individual specific fixed effects would affect our ranking. When using the mean, the within person variation across hindrances drives the rankings and the between person variation has no impact. The z score approach alters the aggregation process to reduce the impact of variation in the variance of answers across respondents; i.e. if one person is continually giving answers in a narrow band, say point estimates differ only between 50% of residents and 70% of residents, and another has much wider fluctuations in point estimates across hindrances, say varying between 10% and 90% of residents, then this approach will give less weight to the absolute differences across hindrances espoused by the second individual. These statements are approximations as neither the use of the mean nor the z-score approach account for the bounding issue for respondents answering zero.

20 If the weights were inversely proportional to the variance implied by the band outer limits, the authors believe the weights end up giving too much voice to those few observations expressing a confidence band of 2.5%. (For example, if there were just 2 observations one with a band of plus/minus 10% and one with a band of plus/minus 2.5%, our weights give the latter 4 times the weight of the former, but the alternative formulation would count it 16 times the weight of the former.)

TABLE 5: Alternative Aggregation Methods for Ranking Perceived Hindrances to Self-Employment

COLUMN	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	UNWEIGHTED AVERAGE		UNWEIGHTED Z-SCORE		WEIGHTED AVERAGE		WEIGHTED MEDIAN	
HINDRANCE	AVG	RANK	AVG	RANK	AVG	RANK	MEDIAN	RANK
CAN'T START ANY BUSINESS	56.2	1	0.988	1	67.7	1	70.0	1
NO ACCESS TO START-UP CAPITAL	52.4	2	0.754	2	58.5	2	65.0	2
PRE-ENTRY PROFIT UNCERTAINTY	48.5	3	0.597	3	51.3	3	50.0	3
TRANSPORT COSTS	45.4	4	0.536	4	42.4	5	40.0	4
LITTLE (EXPECTED) PROFIT	41.9	5	0.237	6	49.1	4	40.0	4
CRIME	40.2	6	0.177	8	38.5	6	40.0	4
NO SOCIAL/BUS NETWORK	39.1	7	0.287	5	36.7	8	25.0	9
NO SPECIFIC SKILLS	38.8	8	0.224	7	38.2	7	30.0	7
NO NEWCOMERS	37.9	9	0.157	9	35.8	9	20.0	11
VARIABLE INCOME	33.2	10	-0.160	10	31.4	11	30.0	7
RISK OF BUSINESS FAILURE	32.7	11	-0.178	11	35.1	10	25.0	9
FAMILY ASK FOR MONEY	28.7	12	-0.288	12	27.2	12	20.0	11
HARRIS-TODARO	22.9	13	-0.499	13	22.9	13	20.0	11
GOVERNMENT NOT ALLOW	22.8	14	-0.636	14	21.0	14	15.0	14
LT COST IN FAMILY	21.2	15	-0.640	15	16.8	15	15.0	14
SHAME	21.2	15	-0.714	16	16.5	16	10.0	16
JEALOUSY IF SUCCESSFUL	16.7	17	-0.840	17	13.0	17	10.0	16

Results from independent survey of economists from academia or research centers in June 2006, $n = 21$.

Weights were determined by confidence rank the respondent gives around their point estimate and are 1/2.5, 1/5, 1/10, 1/20 and 0.

Zero weights are for those who said they were totally uncertain.

Bold print is used to denote a cell where the rank differs from the rank using the unweighted average response. **Highlighted cells** show where this difference is greater than one.

4. CONCLUSION

The main lessons from this exercise can be described as follows:

- 1) There is no strong consensus among research economists on what prevents the unemployed in Khayelitsha from entering self-employment and there is little self-confidence in their ability to identify such barriers.
- 2) The research community and Khayelitsha residents both consider a lack of access to start-up capital, low expected profits, and high transport costs to be important barriers to self-employment.
- 3) The research community generally believes that Khayelitsha resident's lack of general business/entrepreneurial skills and experience are greater barriers to self-employment than residents themselves believe.
- 4) Khayelitsha residents find the vulnerability to business failure and a series of issues that economists generally consider independent of labour supply choice or of minor significance (fear of increased

jealousy within the community, increased likelihood of being robbed, and access to family resources in the long run) to be much stronger barriers than economists.

With regard to the last three summary points, the authors hope that issues raised by *either* group will be studied further. Proper evaluation studies should be constructed to determine if programmes designed to increase access to start up capital, lower transport costs, reduce crime, or alter other hindrances deemed significant by either group are truly effective in encouraging more unemployed individuals to enter self-employment (in addition to studying their other impacts). Existing labour supply models should be modified to incorporate these important issues. Additional qualitative work on the issues that economists are less familiar with, particularly the jealousy within the community hindrance, would allow economists to better understand this phenomenon and its role in labour supply decisions. In the meantime, policymakers will hopefully be bearing these hindrances in mind when they set up programmes to lower unemployment rates in South Africa.

The first summary point is, in many ways, the most intriguing to economists in general. It is worthy of further reflection and commentary. We believe that the lack of consensus and confidence of economists is driven primarily by the fact that there is relatively little research on our question of interest by economists.

Why is there such little research on the movement from unemployment into self-employment? This is likely a result of many forces. We list some potential forces below and then offer our own assessment.

First, the top academic departments and the top journals, and the authors of the highest selling textbooks in economics, including labour economics, are generally located in developed countries where a comparable informal sector is relatively non-existent or much more limited in size. Thus, analysis of such small-scale entrepreneurial activity is not a common feature in the writing of top economists and top selling textbooks. Young graduate students, in emulating the articles and concepts they see abroad, may be discouraged from tackling these issues. This could be thought of as a (lack of) *role model effect*.

Second, young research economists, particularly those trying for an academic route, may believe the potential professional benefit of such work is limited. This belief could stem from the relative lack of existing research in international journals. There may also be concern that editors, living in a world of well-functioning labour markets and – at least before the recent financial crisis – a world of low unemployment, will find such market failure assumptions untenable and/or dismiss South African unemployment rates as mis-measured and unworthy of further examination. In short, the benefits may be low.

Third, working in this area is difficult. The cost is high. In opening up Pandora's box as to why the market is not clearing, we may have to become more familiar with qualitative and quantitative work in other disciplines. This imposes a high cost. We are also likely to have to disregard some of the simplifying assumptions that make mathematical modeling and econometric work easier, furthering personal costs for this type of research.

Fourth, labour economists may view concern over such self-employment activities as a concern only for those focused on temporary poverty alleviation, not a concern for those focused on economic growth. This is a viewpoint that tends to consider all or at least the vast majority of informal economy as survivalist in nature, offering no long-term benefits or externalities. At its most flagrant, it considers such trade to be zero-sum, essentially charity. In this setting, studying such informal employment activity is essentially a study of how the economic pie is redistributed.

Fifth, labour economists may believe that the more effective way to lower unemployment and to foster economic growth (and poverty reduction) is to concentrate on amplifying labour demand in the formal economy. This viewpoint may acknowledge some gains from trade in the informal economy and small-scale self-employment. However, such gains are thought to be minimal compared to gains that may be realized if the formal economy gets rolling. If one has this point of view, it is natural to spend most of one's valuable time on efforts to energize the formal economy without much thought to the informal economy.

The authors believe that all of these factors may have played a role in explaining the relative lack of economic modeling and empirical analysis of constraints facing self-employed workers in South Africa. We believe the

benefits from future work in this area will far outweigh the costs and, therefore, expect this lack of knowledge to be a temporary phenomenon. We encourage many others to join us as we fill this void.

In fact, there has already been notable progress in bringing down many of the afore-mentioned barriers. Role model effects should work in a positive fashion when Harvard labour economist Richard Freeman, known for his work in developed countries, writes in the *Handbook of Development Economics* Volume 5:

“Because research has focused largely on formal sector labour markets, we know far too little about the informal market setting in which most workers make their living, and about policies and institutions that can help raise productivity in the informal sector, improve occupational health and safety, and deliver social services and protections to them. The informal sector is going to be the locus of work for the majority of workers for the foreseeable future and should be the focus of labor market analyses as well.” (Freeman 2010)

The donor community and the World Bank have also seen the worth of investigating small business ventures in Sub-Saharan Africa. Winning research proposals for recent Multi-Donor Trust Fund Grant “Understanding Labor Market Informality in Developing Countries” had titles such as “Identifying and Relaxing Constraints to Employment Generation in Small Scale African Enterprises” (Marcel Fafchamps and Christopher Woodruff) and “Unlocking Potential: Tackling economic, institutional and social constraints of informal entrepreneurship in Sub-Saharan Africa” (Michael Grimm).²¹ The winning proposals are led by internationally respected development economists who are Editors or are on Editorial Boards at highly respected international journals, further enhancing the role model effect.²²

We believe that, far from discouraging such detailed work, distinguished economists and journals will wholeheartedly accept challenges to a simple textbook labour market model, provided these challenges are rigorously modeled and empirically validated using the best methodologies. For example, randomized experiments giving access to capital could provide interesting analysis of the *causal* impact of capital constraints on self-employment decisions. The *Quarterly Journal of Economics* recently published an article focusing on returns to capital for existing small scale enterprises that were given randomized grants.²³ Similar work in South Africa could look at the impact on the unemployed entering self-employment as well as garnering similar information on the returns to capital for existing enterprises.

A more thorough understanding of the workings of jealousy within the community with respect to self-employment, while admittedly a high cost venture for a young labour economist, also has the potential to pay high rewards. An innovative empirical technique isolating its effect, particularly with an appropriately modified labour supply model, could be of high value for understanding self-employment decisions. It may also have much cross-over in the profession in understanding how jealousy impacts other investment decisions such as investments in children’s education.

South Africa’s unique setting allows an excellent setting for future work that better identifies hindrances to entering self-employment. The lack of a sizable subsistence agriculture sector allows unemployment to be visible, where similar constraints in other nations may be harder to spot due to disguised unemployment in the rural areas.

Many other questions regarding self-employment are worth investigating. The links between increased self-employment activity and poverty reduction or macro-economic growth are still awaiting convincing empirical

21 These proposals and some mid-project reports can be found at: <http://go.worldbank.org/KK5UXWE600>

22 Marcel Fafchamps is or has been an Associate Editor for the *Journal of Development Economics*, the *American Journal of Agricultural Economics*, *Economic Development and Cultural Change* and is currently editor of the *Journal of African Economies*. Chris Woodruff is on the Editorial Board of *The B.E. Journal of Economic Analysis & Policy*. Michael Grimm is a member of the Editorial Board of the *Review of Income and Wealth*.

23 See De Mel, McKenzie, and Woodruff (2008).

evidence. Links between an individual's past entrepreneurial activity and current labour productivity in formal employment also would be of interest to policy makers in South Africa.

Whether the committed researcher wishes to focus on the formal economy or the informal economy, is a personal choice. Both are needed. Improving labour demand in the formal economy may well have a more powerful effect. However, this has been the primary goal of most government labour market policies in the post-Apartheid era. In the meantime, inefficiencies in the labour market functioning persist and they continue to keep many poor individuals from getting any benefit from their labour. We hope that the hindrances mentioned here will be examined with rigor and effective policies may be created to overcome such hindrances.

REFERENCES

Cichello, P., Almeleh, C., Mncube, L. and Oosthuizen, M. (2006). *Perceived Hindrances to Self-Employment in Perceived Barriers to Entry into Self-Employment in Khayelitsha, South Africa: Crime, Risk, and Start-up Capital Dominate Profit Concerns*. Northeast Universities Development Consortium (NEUDC) Conference, Cornell University. September.

De Mel, S., McKenzie, D. and Woodruff, C. (2008). Returns to Capital in Microenterprises: Evidence from a Field Experiment. *The Quarterly Journal of Economics* 123, 1329-72.

Freeman, R. (2010). Labor Regulations, Unions, and Social Protection in Developing Countries: Market Distortion or Efficient Institutions? In D. Rodrik and M. R. Rosenzweig (eds) *Handbook of Development Economics, Vol. 5*. North Holland: Elsevier BV.

Magruder, J. and Nattrass, N. (2005). Attrition in the Khayelitsha Panel Study (2000 - 2004). *CSSR Working Paper No. 123*, Centre for Social Science Research, University of Cape Town.

Statistics South Africa (2009). *Labour Force Survey: Historical Revision, September Series 2000 to 2007*. Statistical Release P0210. Pretoria.

Statistics South Africa (2010). *Quarterly Labour Force Survey: Quarter 2, 2011*. Statistical Release P0211. Pretoria.

SURVEY INTRODUCTION

You have been selected to participate in this **one page** survey regarding barriers to entry into self-employment due to your recent academic work regarding the labour market and/or informal economy in South Africa.

Our research team is investigating the hindrances to self-employment for a group of individuals who were living in Khayelitsha in late 2000 and were found there again in late 2005. Thus, we are not investigating problems faced by new migrants to Khayelitsha.

We would like to call on the expertise in the academic community to identify the extent to which certain potential barriers represent a significant obstacle to individuals in Khayelitsha. You can greatly assist this process by filling in the one page survey.

If you are concerned that you are not an expert in small scale self-employment, the Khayelitsha area, or particular obstacles mentioned in the survey, you will have an opportunity to note this on the survey, but please respond.

The survey should take approximately fifteen minutes to complete.

As is standard in the surveys we all field and/or use, the identity of respondents will remain confidential. In fact, only one individual on our research team will know the identity of respondents. Each respondent will be given a randomly generated code to be emailed separately.

After completing the survey you may return it (preferably) in electronic form (Word or pdf) via email to (pcichello@loyola.edu). Or, you can fax the completed survey to +27 (0)21 650 5711, marked ATTN: Paul Cichello.

BRIEF DESCRIPTION OF KHAYELITSHA

Khayelitsha, with 327,355 residents (2001 Census) is Cape Town's largest African township. The income distribution in Khayelitsha approximates that for Africans as a whole in Cape Town (Nattrass and Magruder (2005)). 25 percent of households reported zero income in the 2001 Census and 58 percent of the population report annual household income in the bands between R 4,801 and R 38,400.

DETAILED SURVEY INSTRUCTIONS

The bulk of the survey consists of two questions, repeated for 17 potential hindrances. Therefore, this page is dedicated to explaining these questions in depth.

First, we are asking you to determine the percentage of **unemployed** Khayelitsha residents (resident in both late 2000 and late 2005) who would find each potential hindrance to be a **large or very large problem** if s/he were to try to enter self-employment (in the activity they would most likely attempt) **and s/he were to accurately understand her/his situation**. This requires you to first determine what activities individuals would most likely try to enter. (For example, you would likely expect a spectrum of choices including opening a spaza shop, making and selling clothes, selling goods in the streets of Khayelitsha, selling goods in the CBD, and a variety of other activities.)

In other words, if you were to analyze each resident noted above and give a grade for each potential hindrance, **what percentage of unemployed residents would receive a grade of 4 or 5 on the scale below?**

- 1 = This will not be a problem or it will be a trivial problem that would inhibit self-employment;
- 2 = This will be a small deterrent to entering self-employment;
- 3 = This will be a medium deterrent to entering self-employment;
- 4 = This will be a large deterrent to entering self-employment; and
- 5 = This will be a problem so large that it alone would prevent this individual from entering self-employment.

Please give your absolute best point estimate for this value. **Also, assume that each individual accurately understands his/her situation.** This will vary by item. For example, for item one, it implies assuming they have accurate expectations of their profits and, for item two, it implies they correctly assess their own range of uncertainty over profit levels before they enter this type of work. In item three, they correctly assess the impact of government fees and regulations, etc.

Second, please list the level of certainty you have over your point estimate using the following scale:

- 1: Complete or nearly complete uncertainty
- 2: I am confident the true proportion is within 20 percentage points of my answer.
- 3: I am confident the true proportion is within 10 percentage points of my answer.
- 4: I am confident the true proportion is within 5 percentage points of my answer.
- 5: I am confident the true proportion is within 2.5 percentage points of my answer.

For example, if you were to place “52%” in the first column and “3” in the second column for a particular hindrance, it would mean your best guess is that 52% of the people find this hindrance a large or very large deterrent to entering self-employment and you are confident that the true proportion is between 42 and 62 percent.

If you have any other comments for the research team, feel free to share them in your replies. If you have any questions on how to complete the survey, please email pcichello@loyola.edu.

We greatly appreciate you taking the time to fill in this survey. Sincerely,

Paul Cichello, Loyola College in Maryland Liberty Ncube, UCT, DPRU

Morne Oosthuizen, UCT, DPRU Laura Poswell, UCT, DPRU

SURVEY

Please list your respondent number (see personal e-mail): _____

I am: _____ an economist. _____ another social scientist.

I work: _____ within the city of Cape Town _____ outside the city of Cape Town

I consider the informal economy: _____ an area of my expertise.

_____ an area I am comfortable discussing but not an area of expertise.

_____ a topic I leave to others to study.

How well do you know Khayelitsha? _____ not at all _____ vaguely _____ well _____ very well

Please fill in the following table after reviewing the detailed instructions on the previous page:

		Percent for whom this hindrance would be a large or very large deterrent to entering self-employment if they accurately understand their situation	Confidence range 1 = totally uncertain; 2 ($\pm 20\%$); 3 ($\pm 10\%$); 4 ($\pm 5\%$); 5 ($\pm 2.5\%$)
1	Individuals will make little or no money.		
2	Individuals cannot be sure that they will make money until they actually start this business		
3	The government does not allow individuals to do this type of activity or charges permit fees to enter this activity.		
4	Those who are currently doing this activity will not allow newcomers to join in.		
5	Individuals do not have the skills or ability to do this particular type of work.		
6	Individuals do not know how to start a business.		
7	Individuals will be embarrassed if they do this type of work.		
8	Individuals may be robbed if they do this kind of work.		
9	Individuals who make too much money in self-employment will find people in the community are jealous.		
10	Individuals will not get anyone to loan them the money they need to buy stocks or other materials they need to start the business.		
11	Sometimes they will not be able to eat or pay accounts because the money from this type of business will change from month to month.		
12	One unlucky month when business is not going well could suddenly cause the whole business to fail.		
13	Individuals will have less time to look for a better job.		
14	Individuals do not have friends and relatives who can help them succeed in this business.		
15	The transportation costs to get them or their products where they need to be are too expensive.		
16	Other family members will ask them for money for their needs.		
17	If the business were to fail, these individuals would no longer be able to receive the same level of material support from their household that they currently enjoy.		

Finally, which 5 hindrances above do you believe would be the biggest problems for those who have **recently migrated to Khayelitsha**? (list #s in order #1, #2, etc.)