

The contribution of youth in Local Economic Development and entrepreneurship in Polokwane Municipality, Limpopo Province

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ABSTRACT

This article reports on an investigation of the challenges facing fifty young entrepreneurs in the Polokwane municipality, Limpopo Province, South Africa (Leshilo, 2014). Data were collected by means of 10 face-to-face interviews and 40 questionnaires. The findings highlighted the following issues: unfavourable administrative and regulatory burdens; insufficient entrepreneurship education; a lack of access to finance, markets and business development services for start-ups. The key recommendations of the study are as follows: government should simplify the criteria for obtaining finance from its own established financial institutions by reviewing its current lending policies and replacing them with less stringent requirements in order to allow for equal opportunities among the youth; government and the private sector could play more of a critical role, for example by taking young entrepreneurs on international trade missions to market their goods and services; and should also ensure the provision of targeted entrepreneurship support services to this group.

Key words: local economic development; youth entrepreneurship; small businesses, youth-owned businesses

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INTRODUCTION

Despite its numerous benefits, the development of youth entrepreneurship faces numerous challenges in many countries around the world (World Bank, 2002; Chigunta, 2002). In South Africa, low entrepreneurial activity among youths contributes significantly to the poor overall rate of entrepreneurship (Von Broembsen, Wood and Herrington, 2005). Pretorius and Shaw (2004) postulate that entrepreneurship is widely recognised as the engine that drives the economy of most nations. This resonates with remarks made by Van Vuuren and Groenewald (2007) about the important role played by small businesses and entrepreneurship in stimulating economic activity, creating jobs, alleviating poverty and uplifting living standards. South Africa has one of the lowest levels of entrepreneurship in the world, however, with entrepreneurs contributing around 35% of the Gross Domestic Product (GDP) compared with 60% in countries like Brazil and India (Dlamini, 2009). The trend has continued. According to the Global Entrepreneurship Monitor for 2015-2106 (GEM, 2016), South Africa ranks 38th out of 60 participating countries.

In addition, levels of entrepreneurial activity continue to be low amongst South African youth (Department of Trade and Industry, 2013). According to the GEM report (2016), youth constitute only 9.2% of South Africa's Total Entrepreneurial Activity (TEA). This is a cause for concern, because the youth are expected to be actively involved in activities that bring about job creation and economic emancipation. The consequences are far-reaching. As Herrington, Kew and Kew (2009) have observed, the growing number of unemployed youths in South Africa³ places an additional burden on a limited government budget, which has to cater for a large number of demands. According to the Youth Enterprise Development Strategy 2013 -2023 (Department of Trade and Industry, 2013:10), the low economic participation of young people expresses itself in high levels of unemployment, poverty, illiteracy among youth and lack of exposure to sustainable livelihoods, which in turn exposes the youth to social ills. Given the context described above, this article aims to investigate the contribution of the youth to local economic development and entrepreneurship. The focus of the study is on the Polokwane municipality in Limpopo province.

YOUTH ENTREPRENEURSHIP

Rwigema and Venter (2004: 6) define entrepreneurship as 'the process of conceptualising, organising, launching and through innovation, nurturing a business opportunity into a potentially high growth venture in a complex and unstable environment'. This implies that entrepreneurship is a process requiring ordinary people (including the youth) to possess extra-ordinary skills in order for them to achieve success at the end. In addition, youth

³ 'Youth' is defined by the United Nations as those persons between the ages of 15-24 years of age (Chigunta, 2002). In South Africa, the range is 14-35, as legislated by the National Youth Development Agency Act 54 of 2008 (Republic of South Africa, 2008). Leshilo (2014) adopted the South African definition for the purposes of his study.

entrepreneurship involves the development of entrepreneurial attitudes, skills and opportunities for young people, from secondary school level through young adulthood. Schoof (2006) identifies three types:

- Pre-entrepreneurs (between 15-19 years and comprising the formative stage). The youth in this category are often in transition from the security of home or education to the workplace.
- Budding entrepreneurs (between 20-25 years and comprising the growth stage). They are likely to be more experienced and have greater skills and capital at their disposal for commencing their own business start-ups.
- Emergent entrepreneurs (between the age of 26-29 years and comprising the prime stage). These youth are the most experienced, which provides them with the highest level of maturity. They are therefore more likely to run viable businesses than the youth in the pre-entrepreneur and budding entrepreneur phases (Chigunta, 2002; Schoof, 2006; Oseifuah, 2010).

YOUTH ENTREPRENEURSHIP IN SOUTH AFRICA

In South Africa, young people represent the majority of the population (Mahadea, Ramroop and Zewohir, 2011). In line with South Africa's poor performance on entrepreneurial activity described earlier, the levels of youth entrepreneurship have been particularly low, due to prevailing socio-economic conditions which require young people to look for (rather than creating) meaningful employment. The picture becomes a gloomy one in the light of the non-employability of many individuals in this group (City of Johannesburg, 2009). Indeed, the unemployment rate amongst young people has continued to rise (Fatoki and Chindoga, 2011). Graham and De Lannoy (2016:1) purport that: 'despite much policy attention and a range of public and private interventions having been implemented, youth employment rates have remained high since the country's transition to democracy. The situation is now considered chronic'. The poor levels of economic empowerment in this group also reflect the lack of consistent budget allocation and reporting by government departments and agencies, responsible for driving enterprise development at the national, provincial and local government levels, in Estimates of National Expenditure (ENE) (Department of Trade and Industry, 2013).

Chigunta (2002) sums up a number of reasons for promoting youth entrepreneurship:

- creating employment opportunities for self-employed youth as well as the other young people they employ
- bringing alienated and marginalized youth back into the economic mainstream and giving them a sense of meaning and belonging
- helping address some of the socio-psychological problems and delinquency that arises from joblessness
- helping youth develop new skills and experiences that can then be applied to other challenges in life

- promoting innovation and resilience in youth
- promoting the revitalization of the local community by providing valuable goods and services
- capitalising on the fact that young entrepreneurs may be particularly responsive to new economic opportunities and trends.

It is against this background that initiatives for developing entrepreneurial skills amongst the youth, such as the Youth Enterprise Development Strategy (the dti, 2013), have been implemented.

CHALLENGES FACING YOUTH ENTREPRENEURS IN SOUTH AFRICA

The section that follows outlines four key challenges facing young entrepreneurs in South Africa, namely: a lack of entrepreneurship education; insufficient knowledge of government initiatives for supporting this target group; difficulties accessing business development support services and over-stringent government policies and regulations.

Lack of entrepreneurship education

Fogel, Hawk, Morck and Yeung (2006) emphasise the value of effective youth entrepreneurship education in preparing young people to be responsible, enterprising individuals who go on to become entrepreneurs, or entrepreneurial thinkers, thus contributing towards economic development and the growth of sustainable communities. In a study on entrepreneurship education in tertiary institutions in Sub-Saharan African (SSA), Bawuah, Buame and Hinson (2006:6) argue that the bottleneck in entrepreneurial activity in developing nations is caused by a lack of entrepreneurial skills and that formal education is 'unabashedly' oriented towards preparing students for employment in the public sector and existing businesses, rather than towards entrepreneurial activity and the establishment of new businesses.

In general, the South African school system does not place a strong enough emphasis on the kind of entrepreneurship education which prepares youth; providing a basic understanding of how to start and run a business, as well as access to financial literacy, marketing and business skills. The high failure rate at National Senior Certificate (NSC) level means that many youth do not qualify for enrolment into further training and education opportunities and may therefore fall into anti-social behaviour (Herrington, Kew and Kew, 2009).

Lack of awareness of government initiatives supporting youth entrepreneurship

Many Small, Micro and Medium Enterprises (SMMEs) fail to access the government support that targets them, due to lengthy, bureaucratic processes, or to a lack of information about specific interventions (Rogerson, 2005). Access to, and awareness of, this kind of information has been identified as an impediment to the growth and development of SMMEs (Chigunta, 2002), either because they do not know where and how to access business finance, or how to use it (Ayodele, 2006). The discussion of our study findings will show that the same issue applies for the youth in Polokwane Municipality.

Lack of access to business development support services

According to Schoof (2006), access to business support services such as mentoring, support networks, business clubs and incubators by young people enhances the chances of sustaining enterprises beyond start-up stage. In the Youth Enterprise Development Strategy (the dti, 2013), a lack of packaged information on available business opportunities is identified as a key challenge. As a result, the dti is planning to develop a smart mechanism under the Youth Directorate which will package these opportunities for young entrepreneurs to access.

Stringent government policies and regulations

Entrepreneurial activity may also be hindered by institutional obstacles. A young person's aspiration to pursue a career in entrepreneurship depends on the economic environment, which can be either facilitative, or detrimental. Institutional obstacles include rules and regulations; property rights, and the effectiveness of the services provided by government and its agencies (Fogel *et al*, 2006).

RESEARCHING THE CHALLENGES FACING YOUTH ENTREPRENEURS IN POLOKWANE MUNICIPALITY

In the following section, we report on the findings from Leshilo's study (2014), showing how the challenges described above apply in the context of young entrepreneurs in Polokwane Municipality in the Limpopo Province. On the basis of these findings, recommendations are provided as to what could be done to overcome these challenges.

Study area

The Integrated Development Plan (Polokwane Municipality, 2016) situates this municipality within the Capricorn District Municipality in the Limpopo Province. Polokwane Municipality covers a surface area of 3775 km² and accounts for 3% of the province's total surface area of ±124 000km². In terms of physical composition, the municipality is 23% urbanised and 71% rural. The remaining area (6%) comprises smallholdings and institutional, industrial and recreation land. The major contributor to the municipal economy is the community services sector, which is responsible for 32.1% of the value of contribution to the Gross Domestic Product (GDP). The finance sector is the second largest contributor at 21.5%, and includes banking, business, insurance and consulting services to real estate transactions. This reflects Polokwane's status as a service centre for the Limpopo Province. Trade is the third largest sector at 18.3%, and includes wholesale and retail. Transport is the fourth largest, with a contribution of 11.7%. The other economic sectors are relatively small. Manufacturing contributes only 4.8% to the local economy. Electricity and water contribute 3.8%. The contribution from construction, agriculture and mining are 4.2%, 3.1% and 0.5% respectively.

Methodology

The research took place from August to October 2014. Using convenience sampling, which is appropriate for an exploratory study such as this one (Babbie, 2008), fifty youth entrepreneurs were identified and invited to participate. At the time, all were operating businesses in the Polokwane Municipality. To collect data on the challenges they faced, a mixed model of research methods was employed: both qualitative (interviews) and quantitative (semi-structured, self-administered questionnaires). The same tool was used for both data collection activities. Of the fifty participants, ten underwent in-depth interviews and 40 completed the questionnaire.

SUMMARY OF THE RESULTS

Demographic profile

Age

More male youths established businesses in the earlier age cohort of 26-30 years, while fewer youths (male and female) established businesses at the age of 31-35 years. These findings support Chigunta (2002), Schoof (2006) and Oseifuah (2010), who highlight that youth at the age of 26-29 years (categorised as emergent entrepreneurs) are more experienced and therefore more likely to run viable businesses than those in the pre-entrepreneur and budding entrepreneur phases. The inference is that youth in this age

category may be more likely to run successful businesses compared to those in other age groups.

Gender

Male youth respondents constituted 56% and females 44%. The findings show that more male youth (22%) had established their businesses at the age of 26-30 years than their female counterparts (18%). However, more female youth respondents had established businesses at the higher age group of 31-35 years than their male counterparts. Women in the Polokwane municipality may therefore be more likely to start a business at an older age group, compared to their male counterparts.

Level of Tertiary Education

According to Bawuah, Buame and Hinson (2006), a lack of tertiary education is one of the key factors contributing to low entrepreneurial activity amongst the youth. This is reflected in the research findings from the Polokwane study: only 4% of the respondents had access to university qualifications. Sixty two percent had a secondary education, 20% had access to college education, through Technical Vocational Education and Training (TVET) colleges, while 14% had received primary level education only. For respondents, this was the biggest challenge they faced, given the critical role that education plays in running a successful business.

Business sector

The results of the study revealed that youth prefer to operate in service businesses, rather than selling/producing goods. Of the respondents, 76% provided services, while only 24% were suppliers of goods. The findings suggest that youth entrepreneurs in Polokwane are less involved in the manufacturing or production sectors.

Challenges faced by youth entrepreneurs in their day-to-day business activities

Access to finance

Only 8% of the respondents obtained the finance for establishing their businesses from the bank. Twelve percent were successful in accessing government funding schemes. Sixty percent obtained finance from personal savings and 20% from their families. The results therefore support Llisteri, Kantis, Angelelli and Tenjerina (2006)'s assertion that one of the main barriers facing youth entrepreneurship in South Africa is a lack of access to financing. Having no credit history makes it difficult to access mainstream products, such as bank and equity finance. Respondents who could not obtain finance from government funding

schemes cited a lack of collateral and viable business plans as their key challenges. Ninety four percent indicated that they could not obtain access to finance due to lack of collateral, while only 30% cited a lack of business management skills as the reason.

Entrepreneurship education and training

Entrepreneurship education and training is considered one of the key solutions to promoting entrepreneurship among the youth, providing them with the skills that are most needed to run a successful business, such as marketing, human resources and financial management skills (the dti, 2013). With regard to the study of youth entrepreneurs in Polokwane: 82% of the respondents did not have access to entrepreneurship education prior to starting their business. As discussed previously, Bawuah *et al* (2006) point out that the bottleneck in entrepreneurial activity in developing nations is contributed towards by a lack of entrepreneurial skills. Most respondents suggested that entrepreneurship education should be introduced at secondary school level (58%), while only 28% suggested that it be introduced earlier, at primary school level. Only 14% suggested the introduction of entrepreneurship education at a tertiary level.

Access to market opportunities

Fatoki and Chindoga (2011) found that bad market conditions and no market opportunities can impede youth entrepreneurship. The study supported these findings. Youth entrepreneurs in the Polokwane municipality experienced significant challenges accessing market opportunities, with 36% of the respondents citing high competition as a major factor. Market saturation was viewed as the least serious (6%) challenge. Key suggestions made by respondents were as follows:

- Government should increase procurement opportunities for youth entrepreneurs.
- Big businesses should partner with youth entrepreneurs to give them more publicity.
- Exhibition shows should be hosted, where youth entrepreneurs are linked to big businesses and captains of industries.

Government policies and regulations

Government regulations such as taxation and business registration laws play a key role in promoting youth entrepreneurship. The Polokwane study findings revealed that 84% of the respondents regarded government policies and regulations as not being conducive to doing business. Only 16% of the respondents stated that they had no difficulty in complying with government policies and regulations. The majority of respondents (74%) indicated that taxation laws are the most difficult from a compliance point of view, while 16% cited competition laws as being an issue.

The findings also indicated that inflation, tax regulations, uncertainty about the costs of regulations and state bureaucracy were the main barriers impeding youth entrepreneurial

intentions. Respondents made the following suggestions as to how complying with government policies and regulations could be made easier for youth entrepreneurs:

- exempting start-up youth entrepreneurs from paying tax until they are established
- increasing the threshold of VAT registration so that many youth entrepreneurs are not compelled to register (responses indicated that Value Added Tax compliance comes with a heavy burden, as declarations have to be submitted to the South African Revenue Services (SARS) every two months, which comes with the associated cost of appointing and paying a tax practitioner)
- SARS conducting tax workshops specifically targeted at youth entrepreneurs, many of whom fall victim to non-compliance with tax laws, resulting in the failure of their businesses
- reducing the costs of registering companies with the Companies and Intellectual Property Commission (CIPC) and improving turnaround times, as it the process tends to be a lengthy one.

Awareness of government initiatives to promote youth entrepreneurship

The findings suggested that government initiatives aiming to encourage youth entrepreneurship in Polokwane municipality are failing to do so. Of the respondents, only 26% were aware of such initiatives, posing a serious question about their effectiveness. The respondents who were not aware of such programmes blamed government for failing to publicise them. Sixty six percent highlighted the lack of sufficient marketing as a major reason for why youth entrepreneurs are not aware of them. The remaining 34% indicated that government officials are abusing such initiatives by allocating them on the basis of political affiliation. The results align with an earlier study conducted by the dti (2008), which indicated that despite a lack of financing being cited as a constraint, various funding schemes are in fact available, through the use of guarantees, in addition to other funding programmes. However, awareness and uptake of these schemes has been very low.

RECOMMENDATIONS

The recommendations that follow for promoting the development and success of youth entrepreneurship are based on the research findings from the study (Leshilo, 2014).

Recommendation 1: Access to finance

Access to finance for establishing a business is the main challenge facing many youth entrepreneurs, as the majority do not meet the requirements for accessing business loans, either from the banks, or from government's financial institutions, because of their socio-economic background. Access to finance can be a lasting and viable solution for promoting youth entrepreneurship, while in turn reducing unemployment among the youth. Since

government aims to promote and accelerate youth entrepreneurship, finance should be made accessible to young entrepreneurs. Government should therefore simplify the criteria for obtaining finance from its own financial institutions by reviewing its current lending policies, replacing them with less stringent requirements in order to allow for equal opportunities among the youth. Young people should be allowed to obtain the necessary finance to establish and grow their businesses without having to provide collateral, or having to deal with bureaucratic procedures, or being charged exorbitant interest rates. Further, Government should monitor those youth who have been given access to finance, by appointing experienced business mentors, who have the responsibility of transferring skills to young entrepreneurs, so that they are able to manage on their own when they transition out of the business at a later stage.

Recommendation 2: Access to market opportunities

Accessing market opportunities is a challenge for many young entrepreneurs, who have to compete with well-established businesses. As a result, market opportunities are limited. Government could play a critical role in ameliorating the situation, for example by taking young entrepreneurs on international trade missions to market their goods and services.

Recommendation 3: Entrepreneurship education

Entrepreneurship education and training should be made a compulsory subject at secondary school level for all subject streams that are offered, as it is not only students who have studied commercial subjects who engage in entrepreneurship. Furthermore, entrepreneurship education and training should be in line with the real challenges of the business world, rather than focusing solely on examinations. A person running a business should be equipped to manage all business functions, including marketing, financial management, procurement and project management.

Recommendation 4: Government policies and regulations

Government policies and regulations are often experienced as problematic and do not always promote youth entrepreneurship to the extent originally envisaged. These policies and regulations could be relaxed, for example through exempting start-up youth enterprises from submitting tax returns, paying taxes and registering for certain types of taxes, such as VAT, until such time that they have grown, since such rules place unnecessary financial burdens on youth enterprises.

Recommendation 5: Awareness about government initiatives to promote youth entrepreneurship

Although there are existing government initiatives for promoting youth entrepreneurship, including access to finance, markets and training, they are not always known, or visible, due to being insufficiently publicised. Some respondents mentioned that these initiatives are known only to those who are already established in their businesses; or that they are open to abuse by officials, who use them for personal gain, or corrupt activities such as nepotism. A further recommendation is that government should reach out frequently to communities in rural and urban areas, in order to find out whether young entrepreneurs are satisfied with the initiatives that are on offer. A further issue is that the majority of the youth who know about these initiatives are often reluctant to apply for them, because of long procedures, administrative red tape and a long waiting period, before they can benefit. Thus, the requirements should be made less stringent and the red tape removed in order to make them more accessible.

Recommendation 6: Government and Private sector interventions to address challenges faced by youth entrepreneurs

Entrepreneurship support services contribute enormously to the success of youth entrepreneurs. Such support services enable them to manage their businesses effectively and in the most economical way. The few respondents who were able to benefit from these support services indicated that they were helpful for advertising their businesses and that they had increased their revenues. The following entrepreneurship support services are proposed:

- frequent business management seminars, workshops and road shows in order to empower youth entrepreneurs to run their businesses
- business development vouchers for branding, promotional materials, business plan development and bookkeeping services.

CONCLUSION

The research study reported on in this article (Leshilo, 2014) aimed to explore the challenges faced by youth entrepreneurship in the Polokwane Municipality. The findings revealed that a lack of access to finance, entrepreneurship education and training, market opportunities and an awareness of the initiatives offered by government all pose significant obstacles to young entrepreneurs, who are additionally constrained by stringent government policies and regulations. Through implementing the recommendations above, youth will be better equipped to engage in entrepreneurship activities for creating jobs and gaining their

own income. This will in turn contribute to the growth of the local economy and a reduction in unemployment.

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