

# Mainstreaming willingness among black owned informal SMMEs in South Africa

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## Introduction

The objective of this research was to understand the driving forces for black informal small micro and medium enterprises (SMMEs) in South Africa to changeover into the formal sector. The country has been struggling to find its way towards creating sufficient and shared growth to create jobs for the poor. Economic growth has disappointed in South Africa failing to impress above 2% whilst unemployment has been surging on a yearly basis and it currently stands at 27.7% (Statistics South Africa 2018). The episodes of slow, disappointing and unsustainable economic growth coupled with rising unemployment in South Africa has made it inevitable especially for black owned SMMEs to act as one of the most important pillars to the economy on spurring economic growth and job creation hence motivation for the paper.

## Methodology and data issues

This paper employed a multinomial logit model (MLM) mainly because of the nature of the dependent variable that we have in our model which is trichotomous in nature. The model is adapted from the work of Powers and Yu Xie (2008).

## Findings of the study

Interpreting logs of the odds (logits)

Multinomial logistic regression	Number of obs=328 LR Chi2 (33) = 157.12 Prob > chi2 = 0.0000
Log likelihood= -279.47178 Pseudo R2 = 0.2194	

Willingness	Coef	Std. Err	z	P> z	[95% Conf. Interval]
Not yet decided					
Edu	.719	.268	2.68	0.007***	.1923 1.2462
Famlab	-.411	.225	-1.82	0.068*	-.8539 .0310
Sect	.339	.1751	1.94	0.052**	-.0036 .6828
Succperc	-1.335	.412	-3.29	0.001***	-2.168 -.549
Finincl	-1.046	.320	-3.27	0.001***	-1.6741 -.4184
Formeff	-.768	.367	-2.09	0.036**	-1.4886 -.0491
Corr	-.596	.276	-2.15	0.031**	-1.1382 -.0539
Emplcomp	1.073	.387	2.77	0.006**	.3148 1.8322
_cons	.6065	1.0942	0.55	0.579	-1.5381 2.7511
Not anytime soon					
Succperc	-1.554	.368	-4.22	0.000***	-2.2764 -.8316
Finincl	-.650	.277	-2.35	0.019**	-1.1942 -.1068
Govtsupport	-1.218	.340	-3.58	0.000***	-1.8855 -.5506
Corr	-.513	.235	-2.18	0.029**	.9746 -.0523
Emplcomp	.951	.332	2.86	0.004***	.2996 1.6033
_cons	3.090	.932	3.31	0.001	1.2622 4.9189
(Yes very soon==1 is the base outcome)					

## Concluding remarks

Informality is both a social and economic problem in both developing and developed countries. Jobs that are created in the informal economy are not sustainable and poverty rates in the informal economy are high. When informality is high, that jeopardises public services in a country since the tax base shrinks. Our findings point to lack of government support, lack of funding opportunities, corrtion and inability to hire and compensate qualified personnel as some of the factors that are acting as hindrances for increased rates of formalisation. Policy recommendations arising from our output mainly point to the government and its agencies that are responsible with SMMEs. We suggest that seed funding programmes be created in South Africa and other multiple forms of credit enhancement strategies that are specifically targeted at informal SMMEs so that the number of SMMEs that transit from the informal increases at a faster rate than currently.

## References

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