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Obstacles Confronting Rural Entrepreneurs in Eastern Cape Province of South Africa

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ABSTRACT The study seeks to investigate the challenges facing the rural entrepreneurs in Eastern Cape Province of South Africa. The study used both quantitative and qualitative research approaches for the collection of data. Self-administered questionnaires were used to collect information from 42 rural entrepreneurs (owners of small business), 31 entrepreneur employees while face-to-face interviews were conducted with 20 customers. A purposive random sampling technique was used to select the participants. Descriptive statistics and thematic analysis were used to analyze quantitative data and qualitative data respectively. The findings of the study revealed that rural entrepreneurs faced numerous challenges, such as lack of finance, poor market access, inadequate infrastructure, inflation, lack of skill labour and insecurity. To address all these identified barriers in the economy of South Africa, there is a need for the government to provide supportive machinery and innovative strategies for all rural entrepreneurs in order to create more employment opportunities and reduce the poverty rate in the country. The study recommends that government and other relevant stakeholders should create conducive environment for rural entrepreneurship growth so that rural entrepreneurship can increase in its efforts for creating more jobs opportunities for societies.

INTRODUCTION

Poverty, unemployment and migration are the major problems facing most of the African countries today. Recently, the role of entrepreneurship in addressing poverty has received a significant recognition from scholars, policy makers, development planners and international agencies (Petrin 1994; Khan et al. 2012). Entrepreneurship contributes to poverty reduction through creation of employment opportunities, innovation and provision of goods and services. Furthermore, it improves rural economy through innovation, investment and effective utilization of local resources. However, despite this role, many rural entrepreneurs failed within a short period of operation due to financial and non-financial related challenges. Lack of markets, poor infrastructure, inadequate finance and insecurity were some of the main barriers of entrepreneurship growth in rural areas. According to Brink et al. (2003), inadequate capital, high competition, lack of market, crime and corruption were major hindrances of entrepreneurship growth in South Africa. In addition, bureaucracy and regulation, labour turnover, inflation, lack of skill labour, unemployment and high taxation also hampered rural entrepreneurship growth in Eastern Cape of South Africa (Agbenyegah 2013; Leboea 2017).

The lack of business infrastructure makes things difficult for rural people to engage in entrepreneurship activities. Business infrastructure, such as: telecommunication, internet, transportation network, banks, suppliers, business premises, electricity, water and roads as well a social infrastructure which include: education and health are limited or less developed in rural areas compared to urban areas (Diochon 2003). On the other hand, the remoteness of many rural places present challenges to rural entrepreneurs because the population is widely dispersed and the distance is longer from the markets (Barkema and Drabescott 2000). Moreover, the bad terrains and harsh climate conditions in rural areas contribute the less attraction for entrepreneurs to established business.

Statement of the Problem

Despite their role in poverty reduction, rural entrepreneurs face numerous challenges. Previous studies on challenges of entrepreneurs in rural areas indicated that finance and non-finance related factors affect the growth of entrepreneurship in rural areas (Saxena 2012). For instance, lack of finance, market access, poor infrastructure and crime are the major hindrances for entrepreneurship growth in rural areas. Therefore, the challenges of entrepreneurship growth in ADM need to be investigated which helps policy makers to implement policies and strategies for entrepreneurship growth in rural areas. Hence, entrepreneurship increases contribution in poverty reduction.

Research Questions

- What are the main problems or challenges of entrepreneurship development in the Eastern Cape?

Literature Review

The Concept of Rurality

The definition of rural has been in dispute for many years. Individuals, organizations and countries define rural in different way. Frasier (2009) has argued that rural places are those that are sparsely settled away from the influence of large cities and towns where people live in villages, on farms, insolated places and are mainly characterized by primary economic activities. Similarly, Atchoarena and Gasperini (2003) define rural areas as areas where human settlement and infrastructure occupy only a small share of the land scape, where the environment is dominated by pastures, forests, mountains, deserts as well as low population density with most people engaged in farm activities. For the purpose of this study, rural areas are defined as villages and small towns' as well as rural clusters that are largely depend for their survival on farming and non-farming activities.

The Concept of Entrepreneurship

Entrepreneurship is a complex and controversial concept and its definition has been debated among scholars, policy makers and researchers since the concept emerged in the mid-1700s. To some, entrepreneurship means primarily innovation; to others; it means risk-taking; to others; it means a market-stabilizing force; and to others; it means starting, owning and managing a small business (Tyson et al. 1994). Petrin (1994) defines an entrepreneur as a person who either creates a new combinations of productions factors such as new method of production, new products, new markets, finds new sources of supply and new organizational forms; or as a person who is willing to take risks; or a person who, by exploiting market opportunities, eliminates disequilibrium between aggregate supply and aggregate demand, or as one who owns and operates a business. Coulter (2001) also defines entrepreneurship as the process whereby an individual or a group of individuals use organized efforts and means to pursue opportunities to create value and growth by fulfilling wants and needs through innovation and uniqueness, no matter what resources are currently controlled.

Within the context of this study, entrepreneurship defines as the establishment of small business or expansion by individual or group of people that introduce new products, services or new markets.

Obstacles Facing Rural Entrepreneurship in Eastern Cape

Empirical evidences from many countries around the world indicated that rural entrepreneurs face numerous challenges during at the initial stage of the business as well as operation of the business. Brink et al. (2003) in their study found that lack of markets, inadequate finance, crime, distance markets and lack of information are the major obstacles for entrepreneurship growth in rural areas. Lack of access to finance limits the expansion of entrepreneurial activity, choice of technology, hiring suitable premises and the employment of skilled personnel.

Commercial banks have not venture in rural areas to serve entrepreneurs. As pointed out by Robinson et al. (2004), lack of adequate finance is one of the major impediments for rural people to create their own business. Most of entrepreneurs in rural areas rely on their family and friends to source capital to start and run their business. Other challenges include lack of suitable business premises, regulations and bureaucracy, under-developed transport and poor communications channels; these also make it difficult for entrepreneurs to establish businesses in rural areas. In many rural areas, internet service is very expensive. Rural people do not have the necessary skills and knowledge on how to use the internet which in turn affects rural people's access to important information and opportunities. Many entrepreneurs in South Africa are not aware of the support programmes offered by the government due to lack of skills and knowledge on how to use the information technology. For instance, a survey taken by Venter et al. (2010) revealed that in Western Cape, seventy percent (70%) and fifty seven percent (57%) entrepreneurs in Gauteng respectively were not aware of support programmes available to them.

Location also hinders rural entrepreneurs. Rural entrepreneurs are located some distance from urban centres where customers, suppliers, banks, advisors and support organizations tend to be concentrated. Singh and Belwal (2008) carried out a survey to assess the challenges of women entrepreneurs in Ethiopia. Their study indicated that lack of securing finance, limited opportunities for promotion and participation, lack of markets, inadequate government institutional support, corruption and lack of technology are the major bottlenecks to entrepreneurship growth in rural areas.

Similarly, the United Nations Industrial Development Organization (UNIDO 2003) conducted a study in Sub-Saharan African countries which showed that bureaucratic procedure, costly and time-consuming custom procedures, delays and unnecessary financial requirements in obtaining business licenses are the major hindrances in rural entrepreneurship growth. Moreover, lack of managerial skills and technical skills and unnecessary regulations and rules also hinders entrepreneurship growth in rural areas.

RESEARCH METHODOLOGY

Study Area

The province of the Eastern Cape was created in 1994 and comprises the former homelands Transkei and Ciskei. The province is located in the South east of South Africa, and shares its borders with Free State and Lesotho in the north, Kwa- Zulu Natal in the north east, Indian Ocean in the south and South-Eastern border and Western and Northern Cape in the west. Eastern Cape is the third populous province in the country after KwaZulu-Natal and Gauteng province. The province has 6.7 million people and makes up twelve point eight percent (12.8%) of the national population (Jonas 2013). Eastern Cape is the poorest province in the country (Jonas 2013). The province faces numerous socio-economic issues such as poverty, unemployment, and food insecurity. More than half of the population in the province are unemployed and live in extreme poverty (Jonas 2013; Hamann and Tuinder 2012). The Eastern Cape Province has the highest net out-migration in the country due to lack of employment opportunities.

Entrepreneurship has been seen as one of the key tool for poverty reduction in South Africa. The government has taken a number of measures to promote entrepreneurial activities in the country so that poverty and unemployment can be reduced significantly. However, most of small businesses in South Africa fail within short period operation. Therefore, it is important to investigate the challenges faced by entrepreneurs so that policy makers can adjust their policies towards entrepreneurship development.

The study used a mixed methods research to investigate the obstacles confronting rural entrepreneurs in Eastern Cape Province of South Africa. The population of the study consists of all the SME owners in the Eastern Cape. Self-administered questionnaires were used to collect information from 42 entrepreneurs (owners of small business) while face-to-face interviews were conducted with 31 entrepreneur employees. A purposive random sampling technique was used to select the entrepreneurs. The data were collected using both open-ended and closed-ended questions. Sensitive questions were avoided because it may be difficult for respondents to attempt and to avoid false information. Therefore, the questionnaire contained information like age, sex, as well as the educational status, which forms a part of the demographic information. The data collected were analysed using descriptive statistics.

FINDINGS AND DISCUSSION

The Profile of Entrepreneurs

The majority (71.4%) of the entrepreneurs were male while the minority (28.6%) of entrepreneurs were females. Majority (52%) of the entrepreneurs' age ranged between (26-33) years. 59.5 percent of entrepreneurs were married while 40.5 percent were single. The majority (40%) of entrepreneurs had elementary education, 19 percent had certificate and diploma respectively. This indicates that most of entrepreneurs who operate small business in Eastern Cape Province do not have high academic qualifications such as, diploma, degree and masters and this might be the biggest obstacles for rural entrepreneurship growth in Eastern Cape Province. Moreover, most of the entrepreneurs who own small businesses in Eastern Cape Province were males. This indicates that there is high gender imbalance in entrepreneurship activities in Eastern Cape Province. The women in South Africa might be expected to restrict to child care, caring for the sick and fetching water rather being economically productive and employed in the broader economy.

Profile Businesses

Most of the enterprises (40.5%) had been operating between 4 and 6 years and comprised mainly partnership form of business (52%). Majority (57%) of businesses were registered with local revenue services and the rest 43 percent of the businesses were not registered with local revenue services. In terms of employment, most of the businesses employ five people on an average.

Obstacles Facing the Rural Entrepreneurs in Eastern Cape Province

Inadequate Capital

Lack of finance is a major problem for rural entrepreneurship growth in Eastern Cape Province. In a similar study Robinson et al. (2004) and Saxena (2012) agree that lack of finance is the most prominent impediment for rural people to engage in entrepreneurship activities. Lack of finance limits the expansion of business, hiring suitable premises, employment of skilled personnel and choice of technology. As a result, small business experience prominent challenges towards poverty reduction in the district and the country at large.

Rural entrepreneurs in Eastern Cape Province do not have assets that can be used as collateral to get loans from financial institutions. The entrepreneurs indicated that they use their own savings or borrow funds from friends or family members during the start-up or expansion of the business. This can be linked to the findings of Sarpong (2012) who in a similar study indicated that personal savings and loans from friends or relatives are the most common source of funding for rural entrepreneurs.

Poor Physical Infrastructure

Infrastructure is vital for entrepreneurship growth in rural areas. It includes business incubations, roads, and electricity, water, telephone, availability of business suppliers and banking facilities. Lacks of infrastructure makes difficult for entrepreneurship growth in Eastern Cape Province. Entrepreneurs in Eastern Cape Province operate in environments with limited access to basic services such as water, electricity, roads and communications. The entrepreneurs mention that lack of water, shortage of business premises as well as insufficient electricity supply are the most prominent problems for entrepreneurship growth in Eastern Cape Province. The lack of availability of electricity in Eastern Cape Province contributes to the increase costs of doing business because many small businesses are dealing with perishable products.

Entrepreneurs reported that they fetch water every day from a far place in order to continue offering their daily services to their customers. The entrepreneurs used their own transport or paid some amount of money to fetch water somewhere else. This contributes the increase cost of in the operation of small businesses in Eastern Cape Province.

Lack of business suppliers is also another factor constraint for entrepreneurship growth in Eastern Cape Province. The remoteness of business suppliers presents major problems for entrepreneurship growth in Eastern Cape Province.

The entrepreneurs indicated that they travel to Port of Elizabeth and East London to buy goods in bulk from the suppliers or producers. This contributes to additional business costs that could be invested in the business. The cost of business premises remains high in Eastern Cape Province. High rent for business premises from the landlords is reported as a big problem for entrepreneurship growth in Eastern Cape Province. Without consultation of the entrepreneurs, the landlords increase the rent of the premises. This is in line with the findings of Fal (2012) which indicated that lack of physical infrastructure, such as water, road, business premises, communication and electricity, is the major obstacle to the entrepreneurship growth.

Insecurity

Crime is a major constraint to rural entrepreneurship growth in Eastern Cape Province. The entrepreneurs cited crime as the greatest obstacle to entrepreneurship growth in Eastern Cape Province. This is in line with the findings of Brown (2001) that small businesses in South Africa are largely suffering from crime and violence. Similarly, a study shows that crime is cited as the greatest obstacles for small businesses growth in Latin America countries (McDonald 2008).

Crime was reported to raise business costs, decreased productivity and motivation, creativity, ingenuity and resourcefulness. Crime affects rural entrepreneurs in Eastern Cape Province directly through theft of property and money and indirectly reduces business confidence and investment. Many immigrant entrepreneurs who own small businesses in Eastern Cape Province do not have access to bank accounts. The entrepreneurs indicated that they keep their money at their home or shop and this exposes them to theft. Some immigrant entrepreneurs said that "due to lack of bank accounts, our money is burnt by fire in our houses and shops" and this money is supposed to be invested in the business to create additional jobs for the local communities.

Lack of Access to Market

Lack of market is one of the major problems for rural entrepreneurship in Eastern Cape Province. Rural entrepreneurs in Eastern Cape Province have limited market opportunities due to low population density, remote location, inflation and high unemployment. This is in line with the findings of Lee and Suzanne (2000) that showed that communities in rural areas are economically stagnated, thus offering limited market opportunities as well as capital accumulation availability.

The high competition from large businesses as well as among small businesses makes it difficult for rural entrepreneur's access to market. This is supported by Saxena (2012) in a similar study indicating that rural entrepreneurs face severe competition from large businesses as well as urban areas. Rural entrepreneurs have limited financial resources, technology and human resources to compete with large businesses in the market. The remoteness of location affects rural entrepreneurs in Eastern Cape Province.

The high unemployment rate in South Africa also contributes to the small market size for rural entrepreneurs. Many rural households in ADM do not have regular income to buy goods and services from rural entrepreneurs. Inflation is also a major constraint for rural entrepreneurship growth in ADM. Inflation is the increase of average price of goods and services in particular time. The rise of price of goods reduces consumer expenditure on rural entrepreneurs, thus reduces rural entrepreneur's profits and reinvestment.

Shortage of Skill Labour

Lack of skill labour is another challenge of rural entrepreneurs in ADM. This is in line with the finding of Sarpong (2012) and Agupusi (2007) agree that lack of skill labour is a common problem for rural entrepreneurs. The workers in rural areas are not skilled enough, especially business services such as accounting, management and sales and they are characterized by low levels of educational attainment and formal skills.

Moreover, labour laws have been reported as a significant obstacle to business growth in ADM. The entrepreneurs indicated that the law makes it difficult to lay the workers off if the business can no longer afford to keep workers or if the workers prove to be unproductive. Labour turnover is key problem for rural entrepreneurs in ADM. The more skilled workers often move from small business to large firms in search of better pay and employment security. As a result of this, rural entrepreneurs are forced to rely on cheap casual workers. The entrepreneurs also reported that lack of good work ethics among workers is challenge for rural entrepreneurship growth in ADM. Most of the workers do not take work seriously and are mostly absent from work.

High Tax Rate

High tax rate is another factor that constraints rural entrepreneurship growth in Eastern Cape Province. The entrepreneurs stated that utility bill, such as electricity and water bills are high. This contributes to increase costs of doing business in the district. This is similar with the findings of Brixiova (2009) and Mahadea and Pillay (2008) which revealed that high taxation is a major constraint for small business development. High business taxation reduces small business engagement in entrepreneurial activities, investment, innovation and employment.

CONCLUSION

Realistically, the study has been able to prove beyond a reasonable doubt that lack of finance, poor physical infrastructure, lack of market access and insecurity were some of the major constraints facing rural entrepreneurship growth in the Eastern Cape Province. Further, high tax rate, lack of skill labour, inflation and labour turnover were also noted as other impediments facing entrepreneurship growth in the Eastern Cape Province. To address all these identified barriers in the economy of South Africa, there is a need for the government to provide supportive machinery and innovative strategies for all rural entrepreneurs in order to create more employment opportunities and reduce the poverty rate in the country.

RECOMMENDATIONS

Access to finance should be improved for small businesses in Eastern Cape Province. It is recommended that financial institutions should come up with new policy and strategies to provide financial assistance to rural entrepreneurs. Furthermore, financial institutions should make access to flexible credit to all rural entrepreneurs. There should be flexible requirements to open bank accounts to secure funding and for rural entrepreneurs to be more eligible for better loans. This would bolster their financial muscle towards business development.

There is a need to improve infrastructure facilities in rural areas such as roads, water, electricity, communication channels, business suppliers and business premises in order for rural entrepreneurs to have a positive impact for poverty reduction in Eastern Cape Province.

Entrepreneurship training and education should be enhanced among rural entrepreneurs. Entrepreneurship education and skills is an important tool to improve entrepreneurship activities in rural areas. Education and training must focus on business skills, technical skills and entrepreneurial skills training.

Rural entrepreneurs continue to be hindered by crime and therefore security measures should be enhanced. Government officials, communities, community leaders, religious people and other stakeholders should work hand-in-hand to fight against crime in order for rural entrepreneurs to grow and blossom.

The sustainability of business depends on market access. Market is the key constraint factor for rural entrepreneurship growth in Eastern Cape Province. High competition from large business, poor location, inflation and unemployment contribute to the lack of market for rural entrepreneurs. Market accessibility should be improved for rural entrepreneurs and government agencies and private sectors should assist rural entrepreneurs in expanding markets for their products and services by organizing workshops or by helping to advertise their products or services through social media, TV, radio, news paper and internet. Furthermore, financial institutions such as micro finance institutions should be expanded in rural areas. Micro finance institutions play a key role in promoting entrepreneurship activities in rural areas by provides credit and entrepreneurship training as well as skills for rural people.

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