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Exploring Challenges Faced by Small Business Owners on Poverty Reduction in Rural Eastern Cape, South Africa

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ABSTRACT This study aimed to explore challenges encountered by the small business holders in the rural Eastern Cape Province of South Africa and examined the effects on the poverty rate. It is a survey research, and structured questionnaires were used to collect information with a simple random sampling method. Data was analyzed with the adoption of descriptive and inferential statistics. From the findings, lack of business skills, lack of access to capital, and poor marketing are various challenges faced by these business owners, which have increased the poverty level and crime rate as a result of business deterioration. In order for small businesses to be an affective instrument to reduce poverty, potential businesspersons must seek valuable advice from experienced ones and research thoroughly about the availability of business assistance programs prior to investing in small businesses.

INTRODUCTION

In both developing and developed economies, legislatures from national level down to the local level have agreed that small businesses are the core mechanism for alleviating poverty, job creation, economic promotion as well as innovation development (Shafeek 2006: 2). In this embracement, rural areas are not left out. Thus, about seventy-five percent of the South African population acquires their livelihood in villages while roughly seventy percent of them live in absolute poverty, because the rural economies are not buoyant enough to provide opportunities for remunerative employment (Statistics South Africa 2012: 3).

Lack of modern and adequate infrastructures is the major cause why most rural areas remain remote and isolated and thus, its contribution to the country's economy is less, this therefore calls for a serious concern. In contrast, researchers have shown that the small business sector stood as fuel that lubricates the wheels of job creation and thus significantly contributes to nations' economies and development. For example, job creation through small business alone boosted economic growth in Nigeria to eighty percent in 2008 and 2009 (Aliyu and Bello 2013).

The formal sector is able to absorb only eight percent of the working force of Eastern Cape, and the unemployed population stood at twenty-eight percent out of sixty-four percent that are economically active (Amatole Economic Development Agency 2010: 2). Therefore an idea of poverty eradication through small business arose. Although, rural dwellers in Eastern Cape venture into small business as an option to reduce poverty, yet poverty persists in the province (National Development Agency 2014: 50).

Problem Statement

The study identified a high level of poverty in the rural areas of Eastern Cape as a main problem that emanated from the failure of small businesses in rural of the province. High rate of poverty in the rural Eastern Cape therefore continues to grow. Similarly, the rate of unemployment in Eastern Cape, which has aggravated to about thirty percent, also contributes to poverty level. As a result, there is high rate of crime, youth prostitution, and daylight robbery to mention a few (Statistics South Africa 2014: 11). It is therefore necessary to examine what challenges the small business operators encounter, as they strive to alleviate poverty, which is the focus of this study.

Research Objectives

- To establish if there are any challenges faced by small business owners
- To identify those challenges
- To explore the effects of those challenges on poverty reduction

Research Questions

- Are there any challenges faced by the small business owners?
- What are those challenges?
- What are the effects of those challenges on poverty rate reduction?

Sustainable Livelihood Theory (SLT)

The SLT was propounded by the Brundtland Commission on Environment and Development and formally drawn out by at the United Nation Conference on Environment and Development in 1992. The theory advocates for a linkage between socioeconomic issues and environmental consideration in a unified and a policy-related structure (Krantz 2001: 6). In a general term, livelihood encompasses capabilities and all actions that endorse the means of living. Meanwhile, a sustainable livelihood is the one that can help cope and recuperate from stress and shocks, uphold and improve its present assets and capabilities, add value to other livelihoods both at global and local levels whether in long or short-term, and also capable of sustaining the next generation's livelihood prospects. This implies that wellbeing indicators are subjective as far as livelihood is concerned.

The notion of Sen (1984, 1987) and Chambers (1995) was accorded in the formulation of IDS framework in 1998. According to them, capability is not defined by possessing material things or having food on the table alone, but the value of what individuals are able to procure with their earnings. Similarly, the IDS framework highlighted five sustainable livelihoods indications that is, livelihood adaptation, creation of working days, wellbeing capabilities, vulnerability and reliance, and poverty reduction. This means that to reduce the poverty level in a society, capability must be guaranteed.

Before people can be empowered, there is a necessity to expand the range of alternative strategies by diversifying into other livelihood opportunities that can reduce vulnerability (Goldman 2000). Reducing poverty requires proper measures of social policy that will positively affect individuals' wellbeing either by implementing decent policies, which the idea is to promote livelihood or through direct welfare services.

According to Goldman (2000), the SLT possess the strength of creating a comprehensive view on the importance of both physical and natural resources combination for the benefit of the poor, and also advocates for social and human capital. SLT also promotes knowledge to identifying reasons for the existence of poverty by focusing on many factors at various levels that could be the determinants of accessing assets/resources and livelihood by the poor. These strengths imply that SLT advocates for better livelihood than focusing on income criteria or single dimension productivity.

In contrast to this above notion, Krantz (2001:4) argued the weaknesses of the SLT that, neither approaches focus on identifying the poor themselves. It was set up in such a way that the distribution process of local resources is influenced by informal arrangement of community leadership. Although, the idea behind SLT is to start with varied and open-ended analysis, yet that calls for a very flexible planning of which it does not exist. Therefore, the important measure is ensuring that development initiative that is put in place suits the livelihood of the people, and put them at the right angle that could enable them respond to the challenges of the poor. So the approach itself could be a useful one.

Small Business Policy in South Africa

The National Business Act of 1996 defined small business as an entity (incorporated/registered under law or not) that is made up of ten persons on its operations in which such business is established to promote small business activities. While the World Bank referred to it as an entity with about three hundred employees, from the perspective of the European Union (EU) small business is an entity that operates at the level of two hundred employees (OECD 2004:7). While there are different definitions as regards to small business, there is a common agreement that it is an entity operating with small numbers of employees.

It is also crucial to understand that such definitions depend on the society. Small businesses can be businesses with five hundred employees in some developed nations while such entity may be categorized as medium enterprises in other parts of the world. So basically there is no definite or unified definition of small business. For example, businesses with five employees or less and with annual turnover below the mandated Value Added Tax (VAT) registration limit (which is the focus of this study) are categorized as small businesses in South Africa (Department of Trade and Industry 2007: 2).

South Africa has joined other countries of the world that have struggled to encourage their small business sector by equipping their local enterprises against challenges. This clearly appeared in the country's national strategy for developing and promoting small enterprises, which was duly addressed in the 1995 White Paper. Timmons and Spinelli (2014) also denoted in the White paper, it was emphasized that it is the duty of South African government to establish a facilitating framework, ease channel to adequate information and proper consultation services as well as apposite infrastructure. In a sincere manner, several agencies and institutions have been set up in the country to cater for the financial support and training for the benefit of small businesses. For example, the white paper policy nurtured the National Business Act of 1996 and the establishment of Khula Enterprises Finance Limited in other to cater for financial and non-financial provision to small businesses.

In spite of various measures and initiatives put in place for reassurance and development, the small business sector in South Africa still lags behind and performs below expectations. Timmons and Spinelli (2014) reported that small business initiatives and supportive agencies impacts in South Africa are less than intended and consequently, the desired objectives to promote small business sector has not been achieved for the past eighteen years.

Poverty Rate in Eastern Cape

Rogan (2012) attributed poverty to inability to control and manage an appropriate strategy during a period of disaster. Meanwhile, households or individual poverty is a situation in which an individual lacks amenities that could assist them to manage an external shock and negative effects. Individuals are also said to be experiencing poverty if they are in a state of social deprivation, which can place them in state of public rejection and isolation and thereby live below a suitable standard of living. This is the exert condition that people of Eastern Cape Province are experiencing. Although, Antonites and Van Vuuren (2004) associated the poverty level and failure in their entrepreneurial practices in the province to lack of basic education, saying that basic education is not attained by most entrepreneurs in the SMME sector, and this has been a common factor that leads to their poor performance and failure, which automatically drag them back to the state of unemployment and poverty.

According to Statistic South Africa (2012: 11), the poverty rate in the province stood at 35.7 percent, occupying second position in the poverty table among other provinces in South Africa. Westway (2012) denoted that seventy-three percent of people in the rural Eastern Cape still live below R300 monthly, and more than half of the population build survives below R220 monthly, and this is far below a monthly poverty line of R293.

This predicament was fashioned by the unemployment situation in the province. Fifty percent of available jobs are offered by the education sector (Amatole Economic Development Agency 20012: 2). Therefore, to ease the problem and pressure of unemployment, people in the rural Eastern Cape find delight in establishing and operating small business. Such businesses are mostly owned and operated by women, as Narayan et al. (2000) say that women find it easier than men to swallow their ego and do any job or trade to combat the strikes from poverty. Similarly, in the rural area, small business is the best way to centralize forces in the process of power distribution (Holmes 2009).

Small Business and Poverty Reduction

The then Ministry of Trade and Industry (1994: 9) (now Department of Trade and Industry) declared that for the past several centuries the gold and diamonds discovery and the contemporary capitalist economy has led to the neglect of small business in South Africa. However, after the independence the government recognized small business as a vital sector for job creation and abyss to absorb unemployment in the country. Consequently, researches show that small businesses have been contributing massively to the economy by creating employment and generating income for the nation. Ntsika (2002: 110) argued that about sixty percent of jobs in the country are subjected to small businesses and thereby contributed more than thirty-five percent to GDP in South Africa. Through small businesses, the lower class people have redeemed their access to the economy and wealth distribution.

Studies show that rural environments are prone to poverty easily than urban areas. The gap between rural and urban settings in terms of strength and occurrence since 1980s and 1990s is yet to be bridged (Lipton 1999:10). The rural poverty often occurs and all rural settings continue to bear the surge. Although, the objectives of small business are seemingly promising and striving to reduce poverty through employment creation, one of the biggest challenges facing business owners is start-up capital.

In an attempt to incorporate the poor to economy through small enterprises, Vadenberg (2006:8) developed an approach, which was built on four pillars of work ethics, right at work, productive and remunerative job, social security and social dialogue. He argued further that the similarity between poverty alleviation and business as decent occupation is that they emphasize that people's welfare is derived from their income acquired through social security and productive employment.

The right to work is associated with an individual's right to bargain and associate, being free from predicament of racial discrimination and secured and healthy work environment. The liberty forms the fear of being arrested, unlawful seizures and destruction of property by public officials is a motivation to potential entrepreneurs. The second pillar, which is remunerative and productive occupation accentuated sufficient income is generated through productive enterprises and consequently poverty reduction is certain and sustainable livelihood is guaranteed at the same time. Provision of social security, which can elevate poor people's wellbeing, is the third pillar. While the last pillar advocates for social dialogue in other for the small business and entrepreneurs gain firm momentum for their businesses.

RESEARCH METHODOLOGY

Research Design

The design for this study is a descriptive survey in order to have a proper investigation of the challenges facing small entrepreneurs as they strive to alleviate poverty in their province.

Population/Sample

The total number of thirty small business operators is the population, and the selected sample is twenty-four in both wholesale and retail trade. The reason is that these businesses are among economic growth contributors in Eastern Cape Province.

Research Instrument's Reliability and Validity

The research instrument used for data collection is a questionnaire. Validation of the instrument was done by entrepreneurship experts in which its reliability was measured using Cronbach alpha in order to predict the correlation between two tests that seeks to measure single construct. 0.74 is the reliability coefficient 9 (that is, r=0.74).

Administration and Data Analyses

The researchers were assisted by research assistants to administer the questionnaire for data collection. Descriptive statistics was for data analysis.

RESULTS AND DISCUSSION

Demographic Information

Demographic information includes, respondents' age, gender, and educational qualifications. Since the age is a sensitive issue that respondents may not feel free to disclose, the researcher structured the questionnaire in such a way that respondents will not state their exact age but identify the age group they belong to.

Age Distribution

In order to avoid putting the respondents in an uncomfortable zone, the researcher used age range intervals to retreive information from respondents. Table 1 shows details.

Table 1: Age group distribution

Age	*Percentage (%)*
1-15	4.4
16-30	56.5
31-45	34

Table 1 shows that 4.4 percent of the respondents are below sixteen years of age, 56.5 percent falls between sixteen and thirty years, thirty-four percent were recorded for ages thirty-one and forty-five, and between ages forty-six to sixty, only 4.4 percent were recorded. The implication of this result is that the largest percentage of the workforce engaged in small busieness as a result of being unemployed in formal sectors.

The Amathole Economic Development Agency (2010) confirmed that securing a job in the formal sector remains a huge challenge in Eastern Cape even for those who are still in the working age. Findings fron this study confirmed that to be correct, as it shows that larger percentage of the respondents fall in these working age categories. The finding also presented that adults who fall under the normal retirement age are also found in small business operation. Brief interviews show that most of them ventured into small business when they are unable to secure white collar jobs during their youth days and after aquiring their accedemic qualifications.

Findings from this study show a larger percentage of women than men in small businesses. Only thirty-five percent was recorded for men while women stood at sixty-five percent (Table 2). This results suggests that Nrayan et al. (2000) were correct by saying that women can easily swallow their pride in the face of hunger and engage in any form of job than men can do. Most of the female respondents truthfully said that they will not wait to see their family members dying of hunger. Doing small business is the lasting solution they have found beneficial for the sustainability of the family in the face of hunger and poverty. Such a statement is best explained by what Krantz (2001: 4) sees as a sustainable livelihood, that it is the one that can help cope and recuperate from stress and shocks.

Table 2: Gender of respondents

Gender	*Percentage (%)*
Male	35
Female	65

Although, their level of education differs, this study revealed that respondents in this study are educated with only thirteen percent of them having primary education, twenty-two percent possessing a Bachelors' degree while the remaining sixty-five percent have Matric. This finding shows that at least the small business owners are not illiterates. This is contrary to the idea of Antonites and Van Vuuren (2004) that said basic education is not attained by most entrepreneurs in the SMME sector, and this has been a common factor that leads to their poor performance and failure, which automatically drags them back to the state of unemployment and poverty (Table 3).

Table 3: Level of education

Education	*Percentage of respndents (%)*
Primary	13
Matric	65
Bechelor's degree	22

Research Question 1: Are there any challenges faced by the small business owners?

From Table 4, although some respondents who are small business owners attempted the question of whether they faces any challenges in their business or not and the reason for that is best known to them as they did not signify. But the overall findings regarding the question shows that challenges of small business owners are numerous because a larger percentage of the respondents agreed to that as shown in Table 4. The results in Table 4 therefore answer the research question one in this study, that is, are there any challenges faced by the small business owners? Understanding that these business people face challenges necessitates identifying and naming those challenges. Table 5 presents list of challenges and respondents' opinion.

Research Question 2: What are the challenges faced by the small business owners?

There are numerous challenges faced by the small business owners in this study as shown in Table 5. The highlighted challenges include lack of access to capital, which Lipton (1999) also said is one of the big challenges facing potential

Table 4: Challenges of small business owners

	Strongly agreed	*Agreed*	*Undecided*	*Disagreed*	*Strongly disagreed*
Small business owners really faces numerous challenges in their operations	52.0	45.0	3.0	0	0

Table 5: Various challenges of small business

	Strongly agreed	*Agreed*	*Undecided*	*Disagreed*	*Strongly disagreed*
Lack of access to capital	33.6	50	3.2	1.8	11.4
Lack of adequate skills and knowledge	34.8	48	4.2	4.3	8.7
Poor marketing	34.9	52.3	0	3.6	9.2
Poor planning and direction	28.6	67.2	0	0	4.2
Innovation deficiency	32.5	43.5	6.7	3.5	13.8

business people. The result in this study also shows that inadequate business skills hinder growth of small businesses, and most of the respondents confess that they have no previous business experience, but they venture into the business in order to earn a living and cater for their family members. Other challenges that were identified in this study are innovation deficiency, poor planning and poor marketing. Results in Table 5 therefore serves as an answer to the above research question two.

Research Question 3: What are the effects of those challenges on poverty rate reduction?

From the findings in Table 6, it has been revealed that challenges faced by small business owners hindered them from reducing poverty, which was the aim of most businesses in the study area (Amatole Economic Development Agency 20012: 2). Consequently, there is increase in unemployment, increase in crime rate, adolescence prostitution, robbery as well as high mortality rate. This means the continuous challenges of small businesses have adverse effects on the standard of living, health, life and the economy of the country as a whole.

CONCLUSION

The study revealed that truly, small business owners faces several challenges. Challenges like access to capital, inadequate business experience and lack of innovation, among others hindered them from functioning properly and thereby jeopardized the initial intention of such businesspersons of employment creation and poverty reduction. Although, after the independent South African government shifted attention to assisting small businesses, the challenges faced by the small business owners in this study could be subjected to gold and diamond trade as well as modern capitalist economy in those years before independence, because there was no business orientation given to people. Those small business challenges such as the ones identified in this study have led to aggravation in social vices like high rate of crime, increase in unemployment rate, prostitution among adolescence, illness and mortality rate.

RECOMMENDATIONS

Empirical evidences from this study as well as the reviewed literatures maintained that small businesses are viable instruments for job creation and poverty eradication. However, enormous challenges face small business operators in this study. The researcher therefore recommends that potential businesspersons must make adequate inquiries about conditions or problems associated to the kind of business they intend to venture into. Government agencies and private entities may be consulted for both financial and non-financial business assistance rather than depend on their own insufficient funds. On the other hand, this study recommends that government should create prompt awareness

Table 6: Small business challenges and its effects on poverty

	Strongly agreed	*Agreed*	*Undecided*	*Disagreed*	*Strongly disagreed*
High rate of unemployment	7.3	74.8	10.8	2.4	4.7
Crime upsurge	15.9	42.1	24.1	12.8	5.1
Teenage prostitution	17.3	18.4	49.3	12.4	2.6
Increase in robbery	20.8	65.4	6.1	4.3	3.4
Increase in disease mortality rate	35.2	59.3	2.9	2.6	0

programs across the country to enable the potential and the existing business operators to know about the availability of business assistance in their area. Further study could also be conducted on the availability of development assistance for small businesses.

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