

## The Influence of Government Support and Policies to Informal Small Businesses in the Wineland District of the Western Cape

Hazel Gcobisa Nxozzi<sup>1</sup>, Robertson Tengeh<sup>2</sup>, Zandislie Mkubukeli<sup>3</sup>

**Abstract:** This paper aims at discovering the contribution of the government support structures and policies towards the growth of informal small businesses of the Cape Winelands in the Western Cape beyond seed funding grant. It has been observed that despite the financial support from the government, informal small businesses in rural areas, continue to face barriers to growth. The main research question of this study was to ascertain the effect of government support and policies to the growth of the informal businesses who have received seed funding in particular those in the Wineland District. The study utilized a quantitative approach to collect data, questionnaires were administered to 60 entrepreneurs who received seed funding from Cape Winelands district municipality. The data was analysed using Statistical Package for the Social Sciences (SPSS). Findings indicated that there are still factors that are hindering the growth of their business such as lack of finance due to lack of access to financial facilities and insufficiency of the seed fund, instability of businesses, limited business space, crime, lack of infrastructure, marketing, coaching and mentoring, business management skills and transport. Government support structures and policies were analyzed and the findings included a lack of access and restrictions to qualify, as well as a blue print to manage financial assistance / grants received. There is a gap between the alignment of government business development policies and the informal businesses, as well as mentoring and coaching, which means complete involvement of government officials.

Recommendations were made for government should provide flexible policies that allow them to determine what support is necessary per individual business. Granting the same standard amount of money to every informal small business does not help, as some of the businesses have more start-up needs than others. This will lead them to provide more realistic essential support to the informal businesses.

**Keywords:** government support; policies; informal small businesses

**JEL Classification:** E42

---

<sup>1</sup> Business Administration, Faculty of Business, South Africa, Address: Symphony Way, Bellville, Cape Town, 7535, South Africa, Corresponding author: nxozih@cput.ac.za.

<sup>2</sup> Senior Lecturer, PhD, Departmental Research Coordinator, Cape Peninsula University of Technology, Cape Town, South Africa, Address: Symphony Way, Bellville, Cape Town 7535, South Africa, Tel.: +27214603450, E-mail: tengehr@cput.ac.za.

<sup>3</sup> Business Administration, Faculty of Business, South Africa, Address: Symphony Way, Bellville, Cape Town, 7535, South Africa.

## Introduction

The failure rate of small businesses continues to increase rapidly despite government support offered to them. It seems that to increase sustainability of small businesses is for policy makers to set policies that foster growth in the small business sector. Given the pervasive scholarship on informal small businesses, recent studies that research on this subject has not been dealt with from this angle. In attempt to answer the main research question following sub objectives were derived: Factors affecting the growth of the informal small businesses beyond seed funding, Support structures available to the informal small businesses, Impact of seed funding policy to the growth of the informal small businesses. Fatoki and Garwe (2010:731) are of the opinion that without capital, informal businesses will find it hard to grow their businesses. Given that a vast majority of informal business owners do have the appropriate registration documents, financial institution are reluctant to assist these entrepreneurs (Khosa & Kalitanyi, 2014:213). With this in mind, it unjust to discriminate against these entrepreneurs due to their informality. No wonder Rogerson (2010b:38) stated that there is very little support from government to assist these entrepreneurs. FinMark Trust (2006, cited by Fakoti & Garwe, 2010:731) states that only 2% of SMMEs can access bank loans in South Africa, since they do not have credit records and/or collateral which is a major requirement according to the policy. Government should adjust some laws and regulations such as (but not limited to) licensing, permits and surety bonds that place serious restrictions on the ability of entrepreneurs to operate their businesses. Ngoroa and Mago (2013:9) concur and claim that rural entrepreneurs will succeed when government regulatory systems improve to provide flexible policies which allows to determine a support necessary per individual business, that may create better business growth opportunities.

The debate surrounding the availability of support structures for small businesses has been a looked at from different perspectives. Despite this backdrop, support structures are available to aspiring and existing entrepreneurs regardless their sector (Mkubukeli & Tengeh, 2015:18). However, the failure rate of small businesses continues to increase rapidly. In this regard, Berger and Udell (2002:32) are of the opinion that a vast majority of small businesses fail to receive financial support due to their lack of access to public capital markets. It seems that most small businesses receive support from government entities more than they do from private institutions.

## **1. Literature Review**

Review of the literature was carried out under the following topics: challenges to the growth of businesses beyond seed funding, the need of small business (informal) in South Africa, support structures available to informal small businesses, impact of seed funding policy to the growth of small businesses.

Seed funding is the fuel on which a business runs. When a business first starts profits are going to be low so business funding is need to allow for the cash flow to meet expenses until profits pick up (Francis, 2018). In the context of this study seed funding is the money provided by the Cape Winelands district municipality to the informal small businesses.

### **1.1. Challenges to the Growth of Informal Businesses that have Received seed Fund**

Even though the on-going support to informal small businesses, it seems that both national and international economies are mostly driven by informal small businesses that experiences a variety of challenges that endangers their existence (Agbenyegah, 2013:1). These challenges include but are not limited to: lack of training and education; lack of finance and negative attitudes (Chinomona & Mazirir, 2015:6). There is a need to look at the extent of growth of government supported businesses as well as the role of the policies.

#### **1.1.1. Factors Affecting the Growth of Informal Small Businesses beyond Seed Funding**

Many would agree that informal small businesses do not grow to a point where they can become sustainable and contribute substantially to job creation and poverty alleviation. This premise is supported by the views held by (Ligthelm, 2013:57). Ligthelm (2013:57) points out one of the reasons informal small business do not grow is that informal small businesses are established predominately by survivalist entrepreneurs who lack business acumen and business mindset. Mwobobia (2012:112) also points out similar challenges; lack of finance; discrimination and problems with assistance from government officials. Given the backdrop of the literature on the challenges facing informal small businesses, there seems to be scanty literature on the challenges to the growth of informal small businesses, specifically in the Wineland District of the Western Cape Province, hence the main research question of this study was/is? to investigate to what extent do informal businesses that have received seed funding struggle to grow in the Wineland District of the Western Cape Province of South Africa.

#### **1.1.2. Lack of Access to Bank Loans**

According to the NCR (2012: 55) people in SA often borrow funds to establish their businesses. FinMarkTrust (2006, cited by Fatoki&Garwe, 2010:731) asserted that

only two per cent of small business have access to funding facilities in South Africa. Of the reason why commercial banks choose to neglect informal and small business is the inconsistency of their income and lack of creditability. According to Rath (2011) with limited funds and resources, informal business end up failing. Rogerson (2010:22) announced that the main impediments facing informal businesses is their inability to secure funds and generate cash sufficient cash flow. The essence of generating cash flow is to re-invest in the business to obtain more resources; equipment; inventory and so forth. The lack of the latter is persistent challenge to informal businesses. The GEM report motivated that new enabling funding models be developed for informal businesses (GEM, 2013:38).

Choto, Tengeh and Iwu (2014:96) concur and opine that the South African government's regulations have created massive administrative requirements, which are costly for someone who is starting a business. Implementation of these laws discourages potential entrepreneurs from starting sustainable businesses (World Bank, 2010). International evidence in this respect shows that the regulatory environment has a greater motivation on new entrepreneurial ventures growth and sustainability.

### **1.1.3. Limited Business Space**

The lack of business space was one of the major challenges of rural entrepreneurship (Mugobo & Ukpere (2012, cited by Khosa & Kalitanyi, 2014:210)). On the one hand, Fatoki and Garwe (2010:731) the limitless of business space has a negative influence on the success of a new venture. On the other hand, a study by Chikamhi (2011:54) revealed how difficult it is to locate a business successfully, near by its market.

Policy makers in the United Kingdom (UK) have long set policies that favour small businesses (Hoffman *et al.*, 1998:37) Walker and Preuss (2008: 1600) also note that it is important for policy makers to align their policies with small businesses, and to encourage buying from small businesses to increase their sustainability. Policy makers should establish policies that foster growth in the small business sector as means to increase sustainability within the sector, availability of business space and warehouses that are accessible to the market is crucial for any business growth.

### **1.2. The Need of Small Business (informal) in SA**

The unemployment rate in South Africa is at a staggering twenty five per cent (Statistics South Africa , 2014), In many parts of the world small businesses are considered to be the leading creator of new jobs both in developed and developing societies (Agupusi, 2007:2; Fatoki & Garwe, 2010:729; Fatoki & Odeyemi, 2010:128). This explains why the South African government has identified the informal sector as having prospects of ameliorate poverty and unemployment (CIGS, 1998:3). The rapid growth of this sector needs to maintain a standard with the growth of labour force. (Nieman and Nieuwenhuizen (2009:275).

Government should re-assess its strategies and systems. It is empirically evident that informal small businesses can contribute to economic development, which may lead to job creation and poverty reduction. More resources should be realised towards entrepreneurship training and education.

### **1.3. Support Structures Available to Informal Small Businesses**

The debate surrounding the availability of support structures for small businesses has been a look at from different perspectives. Despite this backdrop, support structures are available to aspiring and existing entrepreneurs regardless their sector (Mkubukeli & Tengeh, 2015:18). However, the failure rate of small businesses continues to increase rapidly. In this regard, Berger and Udell (2002:32) are of the opinion that a vast majority of small businesses fail to receive financial support due to their lack of access to public capital markets. It seems that most small businesses receive support from government entities more than they do from private institutions.

There are available support structures in SA, the questions is the access thereof. For instance, the Department of Mineral Resources (2006:1-43) in a report mentions a list of institutions that help empower balm owned businesses. These support structurers include but are not limited to: National Youth Development Agency (NYDA) National Empowerment Fund (NEF) and Industrial Development Corporation (IDC). According to Shen and Gunson (2006:427) some states do offer business owners with support. However, it seems that the support that governments offers remains inadequate.

Rogerson (2010:22) argues that the main impediments that informal businesses face are their inability to secure funds, and to generate sufficient cash. The essence of generating a cash flow is to re-invest in the business to obtain more resources, equipment, inventory, and so forth, which poses a persistent challenge to informal businesses. The GEM report states that new enabling funding models should be developed for informal businesses (GEM, 2013:38).

### **1.4. The Impact of Seed Funding Policy to the Growth of Small Businesses**

Seed fund is a capital needed to start or expand a business, this type of funding is often obtained in exchange for an equity stake in enterprise but in this case the money has been granted by government. (K.A Francis 2018:1), classifies seed funding as the fuel on which a business runs. During start-up phase profits are likely to be low financial aid is needed to cover business expenses until business cash flow becomes sustainable.

The reason funding received by these small businesses is called seed funding is because the amounts received ranges between R15 000 and R30 000, investments for seed funding usually range in the tens of thousands to hundreds of thousands unlike venture capital investment which can range into millions of rands.

Mensah (2004:3) explains that government introduced official schemes to increase the flow of financial assistance to SMEs, sometimes this is done with the support from donating agencies. It has been explored that such programs and schemes have the potential to improve access of SMEs to additional credit. Although he reveals the significance of the government finance schemes Rob Jennings J.D of Urban Ministry: Pros and Cons of Receiving Government Funding, argues that when you bring investors in your business you open up for them to have control over the business. You are also expected to abide by the restrictions of grant funds utilization, no matter how officious and challenging they are. Government grants comes with a lot of rules and regulations and there are budget constraints issues every year which affects the availability of funds to cover all businesses in need.

With the arguments addressed above this paper acknowledges the views that government aims at addressing small business challenges. Abdulaziz & Worthington (2013:5) declares government have acknowledged financial constraints faced by SME sector and lack of access to financial aid in the developed and emerging countries that may negatively affect the role of attaining national goals. To make sure that SMEs have access to financing, government schemes and programs have been excuted.

Vera & Onji (2010:12), Ono & Uesugi (2009:2) reveals that the majority of the literature has recorded that banks are the main external capital provider for SMEs sector for the advanced as well as the developing countries.

The economy of the country also depends on the growth of the SMEs, as it is mentioned by Fatoki & Odeyemi (2010:6) that the government throughout the world focus on the development of the SME sector to promote economic growth. Promotion of small business development is a helpful way of addressing unemployment it works together with influencing potential small businesses in job creation. FinMark Trust (2006:1).

Financing of SMEs has been a major issues across the continent, it is mentioned by Gbandi & Amisah (2014:10) that government has over the years introduced a variety of financing schemes and programs aimed at overcoming the financial constraints as witness by the SMEs in Nigeria, they further emphasized that proper financing of SMEs is an essential tool for promoting and leveraging small and medium enterprises development in Nigeria. Fatai (2009:5) also agreed that one of the major challenges faced by SMEs is that of capital to finance their operations.

Government seed funding for small businesses should make a difference in addressing finance issues as it is one of the major issues in South Africa. Rogerson (2008:7) highlights the resemblance of ability to access funding, skills and business management skills and training, accommodative rules and regulations as key strategic elements in supporting the three pillars of promoting entrepreneurship, strengthening the facilitating environment; and enriched enterprise level capacity

and competitiveness. The investigation in this section is linked to the analysis offered above, while it ties the arguments by exploring the challenges and disadvantages of receiving a seed fund. The study conducted by Amy Kay (2018:6) concludes that proposals are typically more involved and difficult to coordinate. Reporting requirements are very specific and can be time-consuming. Whereas Fraser Sherman (2017:1) argues that landing a government grant is a good deal as you don't have to pay the money back and government sometimes helps grant recipients network with each other but some government regulations and requirements are difficult for the informal business owners to meet, for an example drawing up a good proposal is so challenging that some freelance writers specialize in writing grant proposals for others.

Even in other countries such as Europe the government has moved from enhancing the availability of loan to finance SMEs, according to Mason (2008:1) the government intervention shifted during 1990s to the provision of venture capital. European Union and Member States introduced loan guarantee schemes in order to address insufficiency in the availability of loan finance.

## **2. Methodology**

This study utilized quantitative research methods. The reasons for utilizing quantitative research methods is because it enumerates the problem by way of generating data that can be transformed into usable statistics.

According to Brynard and Hanekom (2006:36), a quantitative method is more statistically orientated and therefore assigns numbers to observation whereas, a qualitative method seek an detailed understanding of a particular incident. The sample size of this research was 60 businesses, therefore the researcher was able to figure out the number of businesses affected by certain factors which resulted to the delay of growth in their businesses.

In research, population is the sum of members group who has similar characteristics which could enable the researcher obtain information and from which the units of analysis is selected. The foregoing statement is supported by Brynard and Hanekom (2006:55, and Flick (2007:85), who both agree that population is a group of people with equal opportunities chosen to participate in a study.

### **2.1. Sample Frame**

According to Bryman (2004:87), a sample frame is a criterion that is followed to weed out potential participant from the population since it is time consuming and expensive to target the whole population of a study. Hence, the sample frame of this study was entrepreneurs that have received a seed funding from Cape Winelands District municipality between 2015 – 2018 financial years.

## 2.2. Sample Size

The list of small businesses that received seed funding from the Cape Winelands Municipality between the financial years 2015 – 2018 provided the study's sampling frame. The total number of businesses on the database totalled 60. All the participants were potential interviewees, and hailed from the following local municipalities within the Cape Winelands district:

- Drakenstein Municipal Area – 10;
- Stellenbosch Municipal Area – 13;
- Witzenberg Municipal Area – 13;
- Breedevalley Municipal Area – 13; and
- Langeberg Municipal Area – 11.

## 2.3. Sampling Technique

This study adopted a simple random sampling. According to Alvi, (2016:16) probability techniques can be used only for finite population. So probability random sampling was suitable in this case in order for every entrepreneur that is on the list to get an equal chance of selection. It also helped the researchers avoid an unconscious bias they may have that would be reflected in the data they are collecting.

## 3. Discussion of findings

### 3.1 Profile and the Characteristics of the Entrepreneurs:

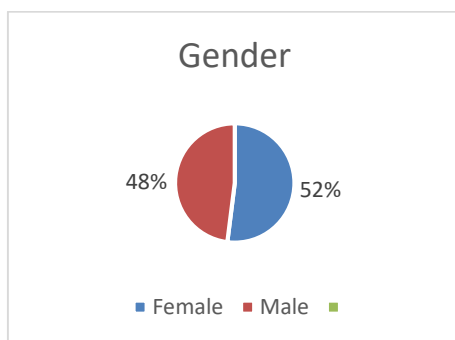


Figure 1. Respondent's Gender

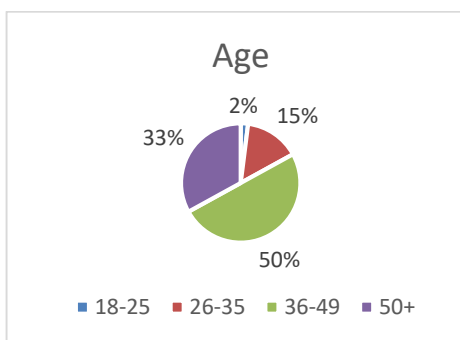
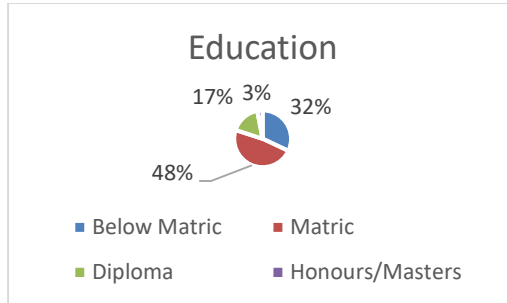


Figure 2. Respondent's Age

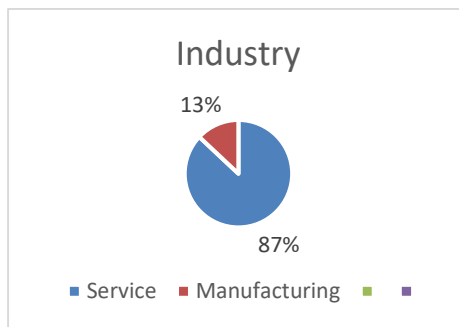
The majority of respondents are females which is fifty two percent, it is interesting as it shows that they are economically empowered and active in spite of few or no opportunities for employment, It is repellent to learn that there was only seventeen percent of youth The government should ensure that young people are aware of and can access their support systems.





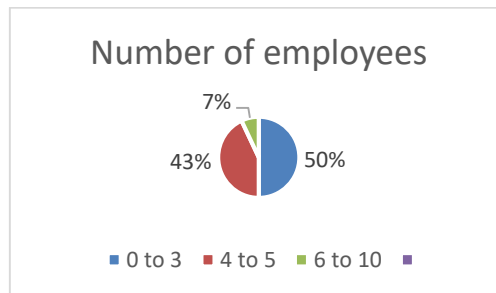
**Figure 3. Respondent’s Level of Education**

In terms of education findings indicated that most of the respondents are educated, which should enhance their decision making skills but their businesses are still struggling to grow.



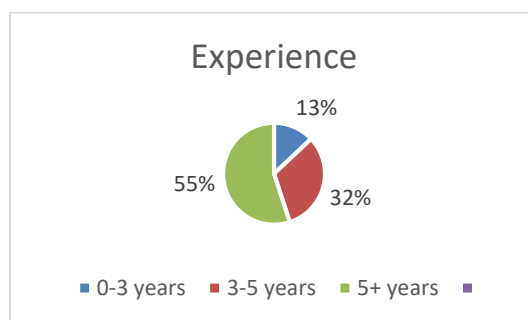
**Figure 4. Business Industry**

Majority of respondents confirmed their companies are in the service industry, because they struggle with finances, and it is difficult for them to obtain the required capital to engage in big industrial businesses, while seed funding amounts are also minimal.



**Figure 5. Number of Employees**

Most and the majority entrepreneurs are running their own businesses as families, for them to be able to hire more employees these entrepreneurs need to grow their businesses and acquire entrepreneurial skills to take care of human resource requirements.



**Figure 6. Number of Years in Business**

The majority of respondents has been running the businesses for more than five years, that has proven that number of years in business does not guarantee any sustainability or success as the literature revealed that most businesses die during first 2 years.

### **3.2. Seed Funding Policy Effect**

Table 1 below shows the majority of forty eight percent (48%) of businesses that has received a seed fund in Cape Winelands strongly believes that restrictions on accessing financial assistance affects business growth, while 32% feels that there is a little impact of restrictions that affects their businesses to grow, then 20% does not see any negative effect of restrictions on accessing financial assistance that causes their businesses not to grow. According to what has been said by the respondents in this study government should adjust some laws and regulations such as (but not limited to) licensing, permits and surety bonds that place serious restrictions on the ability of entrepreneurs to run their businesses. In agreement, Ngoroa & Mago (2013:9) has proven that rural entrepreneurs will succeed when government regulatory systems improves to provide flexible policies which may create better business growth chances. He further recommended that the rural entrepreneurs need coaching in business management, access to knowledge and advice, as well as proper guidance. They should be equipped with skills in financial management.

**Table 1. Impact of Seed Funding Policy on Business Growth**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Not at all	12	20	20.0	20.0
	Little	19	31.7	31.7	51.7
	Strongly	29	48.3	48.3	100.0
	Total	60	100.0	100.0	

### 3.3. Blueprint on Government Grant Financial Assistance

The study conducted by Kay (2018:6) concludes that business proposals are typically more involved and difficult to coordinate. Reporting requirements are very specific and can be time-consuming.

In this found the same, in Table 2 below that forty seven percent (47%) agree to the statement that blueprint on government grants offered to informal businesses affect the growth of the business as it is not easy to access the financial assistance there are so many processes and procedure to follow in order to qualify and mentoring is not available as they wish, twenty five percent (25%) is not affected at all, while seventeen percent (17%) is little bit affected, then eleven percent (11%) is uncertain.

In agreement, findings of the study done by Choto, Tengeh and Iwu (2014:96) is of the opinion that South African government regulations have created massive administrative which is costly to someone who is starting a business. The implementation of these laws discourages potential entrepreneurs from starting sustainable businesses (World Bank, 2010). It has been shown by the International evidence that the regulatory environment has a greater motivation on the new entrepreneurial ventures growth and sustainability. (Choto) emphasized on allocation of sufficient funding by national government towards business support programs.

**Table 2. Blueprint on Government Financial Assistance Limits Business Functioning**

	Frequency	Percent	Valid Percent	Cumulative Percent
Not at all	15	25.0	25.0	25.0
Little	10	16.7	16.7	41.7
Uncertain	7	11.7	11.7	53.3
Strongly	19	31.	31.7	85.0
Very strongly	9	15.0	15.0	100.0
Total	60	100.0	100.0	

### 3.4 Sufficiency of Seed Fund

Based on respondent's feedback shown in Table 3, sixty two percent (62%) strongly believes that seed funding is sufficient only to cover basic needs of the business, (10%) is uncertain whether it is sufficient or not, twenty three percent (23%) little bit believes that it covers basic needs, and five percent (5%) believes that it is not sufficient at all. Based on the information shared by respondents, the seed fund has helped them to buy start up equipment only some of them could not have enough money for business operation to buy more stock and pay staff, hence their businesses are not yet on sustainability stage. According to Rath (2011:18) with limited funds and resources, informal business end up failing. That is the case with seed funded informal businesses of the Cape Winelands.

**Table 3 Seed Fund Covered Only Basic Start-Up of the Business**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Not at all	3	5.0	5.0	5.0
	Little	14	23.3	23.3	28.3
	Uncertain	6	10.0	10.0	38.3
	Strongly	27	45.0	45.0	83.3
	Very strongly	10	16.7	16.7	100.0
	Total	60	100.0	100.0	

### 3.5. Government Business Development Policies

Based on feedback shown Table 4 below sixtyone percent (61%) of respondents strongly agreed that government development policies is aligned with informal businesses, while seventeen percent (17%) does not agree at all, twelve percent (12%) is uncertain, and ten percent (10%) believes that government policies are a little bit in alignment with the informal businesses. Even the literature reveals that policy makers in the United Kingdom (UK) have long set policies that are favourable to small businesses (Hoffman *et al.*, 1998:37) (Walker and Preuss 2008:1600) also noted that the significance of policy makers to better align its policy to small businesses and encourage buying from small businesses can increase the sustainability of small businesses.

The Minister of Business Development even encouraged non-South Africans to share their success strategies with their South African counterparts (Mbata, 2015:18). Ngorora & Mago (2013:2) believes that the information networks and communication infrastructure are also poor in rural areas. If the government can improve access to information and communication channels to reach rural entrepreneurs, challenges affecting the growth of the informal businesses would decrease because they will be able to give input in whatever plans that the government has in place.

**Table 4. Alignment of Government Business Development Policies with Informal Businesses**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Not at all	10	16.7	16.7	16.7
	Little	6	10.0	10.0	26.7
	Uncertain	7	11.7	11.7	38.3
	Strongly	31	51.7	51.7	90.0
	Very strongly	6	10.0	10.0	100.0
	Total	60	100.0	100.0	

### 3.6. Provision of Business Management Skills

Based on the feedback in Table 5, thirty percent (30%) of respondents stated that government support is strongly available after seed funding is released, twenty seven percent (27%) believes that a little support is given to seed fund beneficiaries, whereas twenty two percent (22%) is uncertain about it, then twenty one percent (21%) does not see any support given to informal businesses at all. It is very crucial for small informal business owners to be equipped with business and financial management skills in order for their businesses to grow and be sustainable to create employment. It has been proven from the study conducted by Choto (2015:68) that there is a relationship between the number of employees hired by the entrepreneurs that has completed the incubation program compared to those who did not do the program. About 70% of the respondents is not convinced that they have been provided with sufficient business management skills, stagnant business performance may be resulting from this finding, government should take the informal businesses to incubation programmes in order for them to be able to grow their businesses and create employment.

A number of researchers has picked up a need for business management skills development provision to the informal entrepreneurs. Similar findings by Ngorora and Mago (2013:10) suggest that entrepreneurship education should be prioritized with the intention to develop informal small business owners by providing skills, enterprise awareness, business attributes and behaviours as well as everyone else to realize and understand entrepreneurship as a career option. When existing entrepreneurs get trained the new skills addresses pressing needs in their business operations, as well as training of aspiring entrepreneurs give confidence and knowledge that they need in order to start sustainable businesses. In agreement Chinomona and Mazirir (2015:6) also stated that informal business challenges includes but are not to lack of training and education; lack of finance and negative attitudes.

**Table 5. Business Management Skills Received After Seed Funding**

		Frequency	Perce%nt	Valid Percent	Cumulative Percent
Valid	Not at all	13	21.7	21.7	21.7
	Little	16	26.7	26.7	48.3
	Uncertain	13	21.7	21.7	70.0
	Strongly	9	15.0	15.0	85.0
	Very strongly	9	15.0	15.0	100.0
	Total	60	100.0	100.0	

### 3.7. Mentoring and coaching

Ngorora and Mago (2013:10) suggested that rural lack business management skills, coaching and guidance, information and advice. It has been shown on the Table 6 below, that fifty percent (65%) of respondents concurred that there is a lack of mentoring and coaching from government, whereas twenty five percent (25%) feels that there is no lack at all, and ten percent (10%) is uncertain. The majority of respondents stated that there is no sufficient mentoring offered to them, according to the literature that can result to lack of business growth.

Furthermore, Morrison et al., stated that there is considerable evidence that entrepreneurial ventures that lack the relevant entrepreneurial skills, technical skills, management experience, and are inflexible tend to fail. Hence, (Tengeh and Lose 2015: 7(10) believes that entrepreneurial skills shared by business incubators with incubated entrepreneurs, helps them to become well-developed and balanced in their business operations.

**Table 6. Lack of Mentoring Can Cause Business not to Grow**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Not at all	15	25.0	25.0	25.0
	Little	9	15.0	15.0	40.0
	Uncertain	6	10.0	10.0	50.0
	Strongly	26	43.3	43.3	93.3
	Very strongly	4	6.7	6.7	100.0
	Total	60	100.0	100.0	

### 3.8. Involvement of Government Officials

Mwobobia (2012:112) also points out that challenges faced by informal businesses are caused by lack of finance, discrimination and problems with government officials. According to Table 7 below it shows that fiftyfive percent (55%) of the respondents strongly believe that government officials are visible and involved in

informal businesses, eighteen percent (18%) is uncertain, while seventeen percent (17%) feels that they are little bit visible not to their satisfaction, and ten (10%) feels that they are not visible at all. If government officials can be properly trained and be 100% available to informal businesses that can make a huge difference.

Looking at the views held by (Mwobobia, 2012:112) it seems that some of the challenges informal small businesses face is a consequence of the government officials, the unwillingness from government officials to support and assist informal small businesses is cause for concern. Which is contrary to the findings of the study, the majority said that government officials are visible.

**Table 7. Visibility of Government Officials in Informal Business for Site Visits and Advise**

		Frequency		Valid Percent	Cumulative Percent
Valid	Not at all	6	10.0	10.0	10.0
	Little	10	16.7	16.7	26.7
	Uncertain	11	18.3	18.3	45.0
	Strongly	27	45.0	45.0	90.0
	Very strongly	6	10.0	10.0	100.0
	Total	60	100.0	100.0	

### 3.9. The Actual seed Fund Received

Table 8 shows that sixty eight percent of the respondents received R25 000 seed fund, whereas seventeen percent (17%) R30 000, twelve percent (12%) R20 000 and three percent (3%) received R15 000 individually.

The amount of seed funding provided to the informal businesses between year 2015 - 2018 rates between R15 000 and R30 000 per entrepreneur.

**Table 8. Amount of Seed Funding Granted by Cape Winelands Municipality to Informal Small Businesses**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	15000	2	3.3	3.3	3.3
	20000	7	11.7	11.7	15.0
	25000	41	68.3	68.3	83.3
	30000	10	16.7	16.7	100.0
	Total	60	100.0	100.0	

### 3.10. Seed Funding Usage

Table 9, eighty three percent (83%) of respondents spent their seed funding on business equipment, while eight percent (8%) spent it in maintenance of their business infrastructure, seven percent (7%) bought inventory, and two percent (2%) was spent in other business functions.

Ngorora & Mago, (2013:4) recommended that the government should focus on providing equipment and develop infrastructure to support profitable businesses. If government can do as the literature recommends that would boost informal business growth, they can use the seed funding money for the business operations not to start from scratch with the equipment and maintenance.

**Table 9 The Business Function in Which the Money Was Used**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Maintenance	5	8.3	8.3	8.3
	Equipment	50	83.3	83.3	91.7
	Inventory	4	6.7	6.7	98.3
	Others	1	1.7	1.7	100.0
	Total	60	100.0	100.0	

### 3.11. Other Challenges Affecting Growth of Their Business

In this question one respondent mentioned different challenges at a time

- From the response of 16 (27%) respondents it has been mentioned that financial assistance is one of major challenges to their business growth
- A number of 16 (27%) respondents indicated that they need space to run their businesses, most of them are operating from garages at home and they do not have space to put equipment and for storage
- Crime is one of the challenges that the respondents face 2 of them (3%) mentioned that they experienced break ins, robbery and burglary in their businesses.
- Three of respondents (5%) believes that lack of mentoring and coaching has an impact in the business failure
- Business and financial management training has been identified as a challenge by the number of 9 (15%)
- A lack of Infrastructure in terms of building, store room, computers, machinery more advanced equipment, , more material, access to marketing has been identified as major challenge by 6 of respondents (10%)
- One (1.7%) respondent mentioned that he lacks marketing skills, he wishing that there could be a training on marketing only
- One (1.7%) respondent said politics between officials within the municipality affects the support that they waiting for



- Competition has been identified as another challenge by 6 (10%) respondents, they say that it puts too much press on them, and also if affects their pricing in order to win a tender they charge less and it results in low profit
- Seven (12%) respondents business are affected by transport challenge, they pay a lot of money to hire transport in order to reach their market, and others need to deliver for their catering service
- To save or invest money is a challenge to one (1.7%) of the respondents as the made from the business is also taking care of the family
- Government coaching are processes are taking too long, that is what three (5%) of the respondents seen as a challenge or cause to their business failure
- Two (3%) of respondents wishes that the seed fund can be more what they got in order to buy enough equipment and material to start the business
- Retaining loyal customers has been identified as one of the challenges by 3 (5%) respondents, they wish to have contract with big companies or factories in order for them to have commitment and stability in their businesses
- There is a lack of access to financial facilities 2 (3%) of the respondents said due to lack of security they cannot get any financial help to sustain their businesses
- On1 (1.7%) of the respondents does not have any other challenges that he feels he need to explain other that what he has ticked on the questionnaire
- Rental cost is a challenge to 3 (5%) of the respondents, they m feel that some of the profit goes to monthly rental
- Two (3%) of the respondents feels that stagnant growth is a challenge as they cannot set any targets or goals for their businesses
- Water restrictions has been mentioned by 6(10%) of respondents that it affects their business operation a lot, they spent +- R1 000 daily for water
- Weather conditions has an impact in running businesses, two (3%) respondents said that a shelter is needed to display, and for production purposes

### **Summary of Questions 3.11 (open questions)**

The majority of respondents confirmed that their business performance is constantly poor due to the following issues:

Major challenges they experiencing on their daily business operations is lack of finances, business space / shelter, coaching and mentoring, business training and marketing skills, infrastructure, competition, transport and rental costs, loyal customers and more crime.

Seemingly, most of the entrepreneurs share common challenges the literature survey have shown more researchers written about similar findings and made recommendation that may assist the informal small businesses who received seed funding from Cape Winelands :

A study done by Ngorora (2013:9) found the following aspects as a major cause that hinders growth and success of rural entrepreneurship in Nkonkobe Municipal area: small and distant markets, corruption, lack of marketing initiatives, scarcity of equipment. Due to poor transport infrastructure rural entrepreneurs in Nkonkobe Municipal Area face serious marketing challenges. Whereas, Choto (2015:40) also identified the reasons why there is a need for entrepreneurs to join business incubation it helps them to get access to technology and access to business networks, to address funding challenges, to improve their business skills and expertise.

#### **4. Conclusion**

This study investigated impact of government intervention to the growth of informal small businesses who have received seed funding. The main purpose was to explore the effect of government support and policies to the growth of the informal businesses who have received seed funding.

The most outstanding challenges found that affects to the growth of these informal small businesses is lack of finance, instability of businesses, limited business space, crime, lack of infrastructure, mentoring and coaching, business management and marketing skills, transport.

Additionally, all of the Informal small business owners stated that they did receive support from the government and although government policies most of the time poses red tape which makes processes difficult for the informal small business to follow.

#### **5. Recommendations**

Government need to re-assess its strategies and systems, It is empirical evident that informal small businesses can contribute towards economic development which may lead to job creation and poverty reduction. More resources need to be realised towards entrepreneurship training and education.

Informal small business owners agreed that they did receive seed funding of R15 000 to R30 000 which they used to buy equipment. Some of the equipment was not enough to expand the business. If government is seriously into improving small entrepreneurs they need to increase seed fund amounts to cover at least the infrastructural development, government also need to appoint officials or incubators to support the businesses until they become sustainable, bearing in mind that the informal business cannot get loans from the banks or other financial institutions due to lack of security and business stability.

The Minister of Business Development even encouraged non-South Africans to share their success strategies with their South African counterparts (Mbata, 2015:18). Ngorora and Mago (2013:2) claim that information networks and communication infrastructure are also poor in rural areas. If the government can improve access to information and communication channels to reach rural entrepreneurs, then challenges affecting the growth of informal businesses will decrease because they will be able to contribute to the government's plans in this regard.

## 6. Future Research

Nonetheless, the informal small business owners acknowledged that they did receive seed funding from government. Government support structures and policies were analyzed and the findings included a lack of access and restrictions to qualify, as well as a blue print to manage financial assistance / grants received. There is a gap identified between the alignment of government business development policies and the informal businesses, as well as mentoring and coaching, hence lack of finance, instability of businesses, limited business space, crime, lack of infrastructure, business management and marketing skills, transport has been discovered as challenges hindering the growth of informal small businesses.

Moreover, Future research should investigate to what extent government support and policies meet the needs of the informal small businesses and also be geared towards discovering the possible ways to rescue informal small businesses as well as the amendment of government policy.

## 7. References

- Agbenyegah, A.T. (2013). *Challenges facing rural entrepreneurship in selected areas in South Africa*. Unpublished PhD thesis, North-West Universities, Potchefstroom.
- Agupusi, P. (2007). Small business development and poverty alleviation in Alexandra, South Africa. Paper prepared for the *Second Meeting of the Society for the Study of Economic Inequality* (ECINEQ Society), Berlin, July, 12-14.
- Brynard, P.A. & Hanekom, S.X. (2006). *Introduction to research in management-related fields*. Second ed. Pretoria: Van Schaik Publishers.
- Chinomona, E. & Mazirir, E.T. (2015). Women in action: challenges facing women entrepreneurs in the Gauteng Province of South Africa. *International Business & Economics Research Journal*, 4(6): 835-850, November/December.
- Choto, P. (2015). *The impact of business incubators on survivalist entrepreneurs in the Cape Metropolitan area*. M.Tech. Thesis. Cape Peninsula University of Technology, Cape Town.

Choto, P., Tengeh, R.K., & Iwu, C.G. (2014). Daring to survive or to grow? The growth, aspirations, and challenges of survivalist entrepreneurs in South Africa. *Article in Environmental Economics*, 5(4):93-100.

CIGS, (Cultural Industries Growth Strategy). (1998). *The South African Craft Industry Report*. Report to the Department of Arts, Culture, Science and Technology. Final report. [http://www.gov.za/sites/www.gov.za/files/cigs\\_0.pdf](http://www.gov.za/sites/www.gov.za/files/cigs_0.pdf) [16July 2016].

Fatoki, O. & Garwe, D. 2010. Obstacles to growth of new SMEs in South Africa: a principal component analysis approach. *African Journal of Business Management*, 4(5):729-738. <http://www.academicjournals.org/AJBM.ISSN 1993-8233>. [12July 2016].

Khosa, R.M. & Kalitanyi, V. (2014). Challenges in operating micro-enterprises by African foreign entrepreneurs in Cape Town, South Africa. *Mediterranean Journal of Social Sciences*, 5(10): 205-215.

Ligthelm, A.A. (2014). Confusion about entrepreneurship? Formal versus informal small businesses. *Southern African Business Review*, 17(3): 57-75.

Mkubukeli, Z. (2016). *Challenges and prospects for small-scale mining entrepreneurs in South Africa*. M.Tech Thesis. Cape Peninsula University of Technology.

Mwobobia, F.M. (2012). The challenges facing small-scale women entrepreneurs; a case of Kenya. *International Journal of Business Administration*, 3(2):112-121, March 15.

NCR (National Credit Regulator). 2012. *Credit and borrowing in South Africa*. FinScope Consumer survey South Africa. [http://www.ncr.org.za/press\\_release/research\\_reports/NCR\\_14.03.2013.pdf](http://www.ncr.org.za/press_release/research_reports/NCR_14.03.2013.pdf) [12 July 2016].

Ngorora, G.P.K. & Mago, S. (2013). Challenges of rural entrepreneurship in South Africa: insights from Nkonkobe municipal area in the Eastern Cape Province. *International Journal of Information Technology and Business Management*, 16(1):1-10.

Nieman, G. & Nieuwenhuizen. (2009). *Entrepreneurship: a South African perspective*. Second ed. Pretoria: Van Schaik.

Rath, J. (2011). *Promoting ethnic entrepreneurship in European cities*. Eurofound Publications Office of the European Union, Luxembourg.

Rogerson, C.M. (2010b). One of a kind South African craft: The developmental challenges. *Africanus*, 40(2):18-39.