

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

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Abstract: Despite the financial support that is provided to informal small businesses by the South African government, small businesses struggle to grow. This paper sought to learn the effect of seed funding that is provided by the government on the growth of the informal businesses and the ensuing challenges faced by these businesses. Utilising the quantitative approach, questionnaires were administered to 60 entrepreneurs who received seed funding from the Cape Winelands district municipality. The data was analysed using version 25 of the Statistical Package for the Social Sciences (SPSS). Besides, lack of finance due to limited access to financial intermediaries and insufficiency of the seed funds, the results point to instability of businesses, limited access to business space, crime, lack of infrastructure, marketing, coaching and mentoring, business management skills and transport as challenges reported by the respondents. A recommendation is for the government to provide flexible policies that allow them to customise the support that they provide to businesses.

Keywords: government support; policies; informal small businesses

JEL Classification: E42

1. Introduction and Background

The failure rate of small businesses continues to increase rapidly, despite the support offered to them by the government (Fatoki & Odeyemi, 2010; Kumah, 2014; Mukwarami & Tengeh, 2017). To improve the sustainability of small businesses would require policymakers to enact policies that foster the growth of this cohort of businesses. Given the pervasive scholarship on the challenges of rural entrepreneurship (Agbenyegah, 2013; & Chinomona and Mazirir, 2015), it seems that little has been said about factors that challenge the growth of informal small businesses that received seed funding, particularly those located in the Winelands

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District of the Western Cape. In an attempt to contribute to this discourse, this paper sought to ascertain the factors that affect the growth of the informal small businesses that received seed funding from the government and the challenges faced after that.

Several authors (Fatoki & Garwe, 2010; Mukwarami & Tengeh, 2017) believe that informal businesses will find it hard to grow their businesses that believe that without capital. Given that a vast majority of informal business owners do not have the appropriate registration documents, financial institutions are reluctant to assist them (Tengeh, Ballard & Slabbert, 2011; Khosa & Kalitanyi, 2014). One may argue that it is unfair to discriminate against these entrepreneurs based on their informality. No wonder Rogerson (2010) stated that there is little support from the government to assist these entrepreneurs. FinMark Trust (2006, cited by Fatoki & Garwe, 2010) reports 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 crucial requirement according to the policy.

The government should adjust some laws and regulations such as (but not limited to) licensing, permits and surety bonds that place severe restrictions on the ability of entrepreneurs to operate their businesses. Ngoroa and Mago (2013) concur that rural entrepreneurs will succeed when government regulatory systems improve to provide flexible policies which are tailored to individual businesses' need.

Irrespective of the focus of the support, the overwhelming view is that proactive and positive policies will produce positive outcomes all things being the same (Mkubukeli & Tengeh, 2015). This becomes a cause of concern when the goal of the policy is not achieved. In South Africa for instance, it has been observed that small business (Kumah, 2014) and particularly informal businesses struggle to grow despite the financial support given to them (Mukwarami & Tengeh, 2017).

2. 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, and the impact of seed funding policy to the growth of small businesses.

2.1 Informal Small Businesses

According to Ligthelm (2013), an informal small business is any business that is unregistered and operates either in a residential area, or as a street vendor. In the context of this research, an informal small business is any business that is unregistered such as a salon or spaza shop. The terms informal small businesses and small businesses are used interchangeably throughout the research study.

2.2 Seed funds

Seed funding is the fuel on which a business runs. Profits are incredibly low when a business first starts, justifying the need for extra funding to cover 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.

2.3 Challenges to the growth of informal businesses

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 experience a variety of challenges that endangers their existence (Agbenyegah, 2013). These challenges include but are not limited to: lack of training and education; lack of finance and negative attitudes (Chinomona & Mazirir, 2015). There is a need to look at the extent of growth of government-supported businesses as well as the role of the policies.

2.3.1. Factors affecting the growth of small informal businesses beyond seed funding

Many would agree that informal small businesses do not grow to a point where they can become sustainable and contribute to job creation and poverty alleviation. This premise is supported by the views held by (Ligthelm, 2013). Ligthelm (2013:57) points out one of the reasons informal small business do not grow is that informal small businesses are established by survivalist entrepreneurs who lack business insight and business mindset. Mwobobia (2012) also points out similar challenges; lack of finance; discrimination and problems with the aid 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 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.

2.3.2. Limited access to bank loans

According to the NCR (2012: 55), people in South Africa often borrow funds to set up their businesses. FinMarkTrust (2006, cited by Fatoki & Garwe, 2010) asserted that only two per cent of small business have access to funding facilities in South Africa. One of the reasons why commercial banks choose to neglect informal and small business is the inconsistency in their incomes and lack of creditability. Several authors (Rath, 2011; Mukwarami & Tengeh, 2017) believe that informal business with limited funds and resources are more likely to fail. Rogerson (2010) adds that the primary impediments facing informal businesses are their inability to secure funds and generate 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 a persistent challenge to informal businesses. The GEM (Global Entrepreneurship Monitor) report motivated that new enabling funding models be developed to informal firms (GEM, 2013).

Choto, Tengeh and Iwu (2014) concur 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 for new entrepreneurial ventures growth and sustainability.

2.3.3. Limited Business Space

Limited access to business space was one of the significant challenges of rural entrepreneurship (Mugobo & Ukpere 2012). Highlighting the importance of access to space Fatoki and Garwe (2010) notes the negative impact that the lack thereof has on the success of a new venture. This aside, Chikamhi (2011) recounts how difficult it is to successfully place a business in the correct market owing to limited space.

The tendency has often been for policymakers to set policies that favour small businesses. Walker and Preuss (2008) also note that it is crucial for policymakers to align their policies with small businesses, and to encourage buying from small businesses to increase their sustainability. Policymakers should establish policies that foster growth in the small business sector as means to improve sustainability within the industry, availability of business space and warehouses that are accessible to the market is crucial for any business growth.

2.4. The need for small business (informal) in South Africa

The unemployment rate in South Africa is at a staggering twenty-six per cent (Statistics South Africa, 2016). In many parts of the world, small businesses are the leading creator of new jobs both in developed and developing societies (Agupusi, 2007; Fatoki & Garwe, 2010; Fatoki & Odeyemi, 2010). This explains why the South African government has found the informal sector as having prospects of ameliorating poverty and unemployment (CIGS, 1998). The rapid growth of this sector needs to support a standard with the growth of the labour force (Nieman & Nieuwenhuizen (2009).

2.4.1. Growth

There is no universal criterion to measure growth, as many authors use multiple determinants to do so. Naman and Slevin (1993, cited in Altinay & Altinay, 2008) opine that the barometer of growth varies from author to author, clouded with complexities.

Consistent components used to measure growth consist of changes in sales, employment, assets, productivity, and net profit (Fatoki & Garwe, 2010:730). According to Crijns and Ooghe (1997:53), growth occurs when enterprises exceed customer expectations and generate more sales. Basu and Goswami (1999:26) concur with Crijns and Ooghe (1997), and state that growth has a lot to do with a business's profit levels. Conversely, Birley and Westhead (1990) considered specific characteristics of growth, including turnover amount, total workforce, and the business's sustainability. According to Altinay and Altinay (2008), growth consists of actual seed capital and the difference thereof to the current sales turnover.

Von Broembsen *et al.* (2005) argue that the establishment of an entity is a two-phase process, consisting of the start-up and new firm phases. On the one hand, the start-up phase usually takes 3 months to identify an idea to execute. Conversely, the new firm phase takes place after a period of between three and four months, when the new venture starts to trade. Von Broembsen *et al.* (2005) further state that an established enterprise is one that pays its workforce through a salary or wage system for more than 3 months.

In the context of this research, growth is conceptualised as informal businesses that have been operating for three years, and have consequently transcended from a survivalist and micro-phase to a small business phase.

2.5. 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 of their sector (Mkubukeli & Tengeh, 2015). However, the failure rate of small businesses continues to increase rapidly. In this regard, Berger and Udell (2002) believe that the vast majority of small businesses fail to receive financial support due to their lack of access to public capital markets. Most small businesses receive support from government entities more than they do from private institutions.

There are available support structures in SA (South Africa), but the question is the access thereof. The support structures include but are not limited to the National Youth Development Agency (NYDA) National Empowerment Fund (NEF) and the Industrial Development Corporation (IDC). According to Shen and Gunson (2006), some states do offer business owners with support. However, it seems that the support that governments offer is still inadequate.

Rogerson (2010) argues that the main impediments that informal businesses face are their inability to secure funds and to generate sufficient cash. The essence of generating 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 to informal firms (GEM, 2013).

2.6. The impact of seed funding policy on the growth of small businesses

The 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 the enterprise, but in this case, the money was granted by the government. Francis (2018), believes seed funding as the fuel on which businesses 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 reach into millions of Rands.

Government and partner organisations introduce schemes to increase the flow of financial assistance to SMEs. Mensah (2004) claims that such programs and schemes have the potential to improve access of SMEs to additional credit. This aside the same report argues that when you bring investors in your business, you open for them to have control over the business. For instance, the business is expected to abide by the restrictions of grant funds utilization, no matter how impertinent and challenging they are. Government grants come 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 the government aims at addressing small business challenges. Abdulaziz and Worthington (2013) declare governments recognise the financial constraints faced by SMEs and lack of access to financial aid in the developed and emerging countries and how these negatively undermines their contributions national goals.

Vera and Onji (2010), reveal that much of the literature has recorded that banks are the leading source of external capital for SMEs in both the advanced and developing countries.

The economy of the country also depends on the growth of the SMEs, as it is mentioned by Fatoki and Odeyemi (2010) 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.

Financing of SMEs has been a significant issue across the continent. Gbandi and Amissah (2014) concede that the government of Nigeria made use of a variety of

financing schemes and programs in an attempt to overcome the financial constraints faced by the SMEs over the years. Fatai (2009) also agreed that one of the significant 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 significant problems in South Africa. Rogerson (2008) highlights the resemblance of ability to access funding, skills and business management skills and training, accommodative rules and regulations as vital strategic elements in supporting the three pillars of promoting entrepreneurship, strengthening the facilitating environment; and enhanced enterprise-level capacity and competitiveness. The investigation in this section is linked to the analysis offered above, while it ties with the arguments by exploring the challenges and disadvantages of receiving a seed fund. Sherman (2017) argues that landing a government grant is a good deal as you do not have to pay the money back and government sometimes helps grant recipients network with each other. Still, some government regulations and requirements are excessive 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. Elsewhere, the governments have introduced loan guarantee schemes to address the deficiency in the availability of loan finance (Chatzouz, Gereben, Lang, & and Torfs, 2017).

3. Methodology

This study utilised the quantitative research methods. The quantitative research method was deemed to be the most convenient for the study because it enumerates the problem by way of generating data that can be transformed into useful statistics. According to Brynard and Hanekom (2006), a quantitative method is more statistically orientated and therefore assigns numbers to observation whereas, a qualitative approach seeks a detailed understanding of an incident.

3.1 Population, sampling frame and sample size

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

3.1.1 Sample frame

According to Bryman and Hanekom (2006), 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.

3.1.2 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 firms on the database was 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.

3.1.3 Sampling technique

This study adopted a simple random sampling. According to Alvi (2016), probability techniques can be used only for the finite population. So, probability random sampling was suitable in this case for every entrepreneur that participated was drawn from a database and had 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.

4. Discussion of findings

4.1 Profile and the characteristics of the entrepreneurs

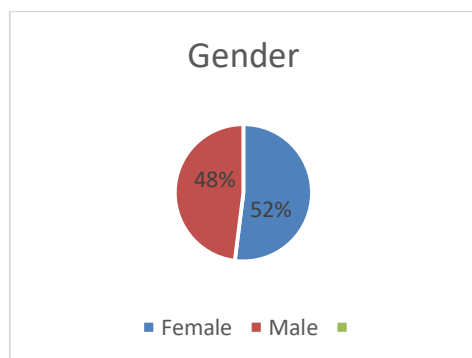


Figure 1. Respondent's gender

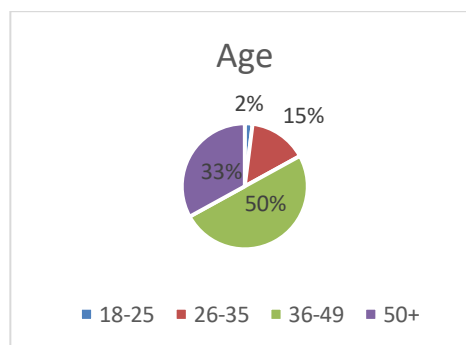


Figure 2. Respondent's age

The majority (52%) of respondents were females. It is interesting to note that this result shows that women are economically empowered and active despite 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.

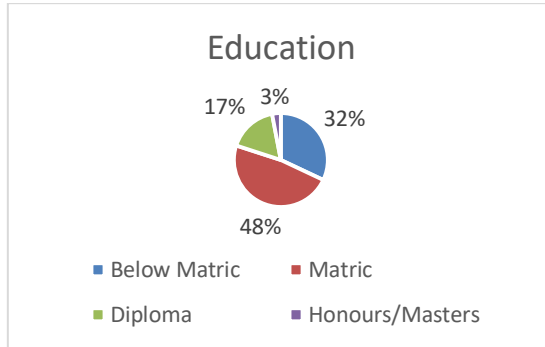


Figure 3. Respondent’s level of education

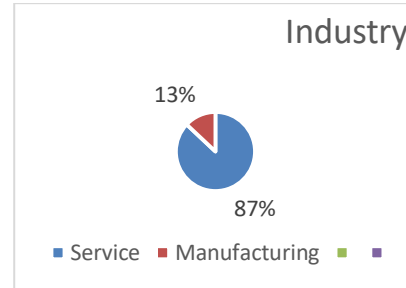


Figure 4. Business Industry

In terms of education, the findings indicated that most of the respondents were educated, as only 32% had achieved matric. Going by this result, one would expect that the level of education reached should enhance their decision-making skills, but their businesses still struggling to grow.

Turning to the industry from which the businesses were drawn, the results note that many respondents classified companies as being in the service industry. Because they struggle with finances, and it is difficult for them to obtain the necessary capital to engage in big industrial businesses, while seed funding amounts are also minimal.

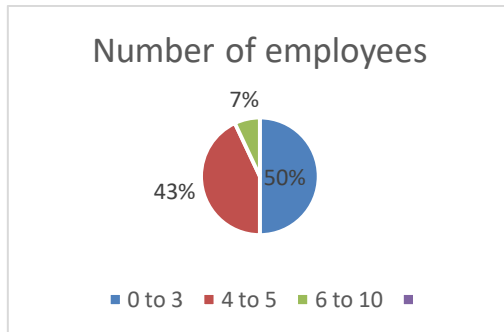


Figure 5. Number of employees

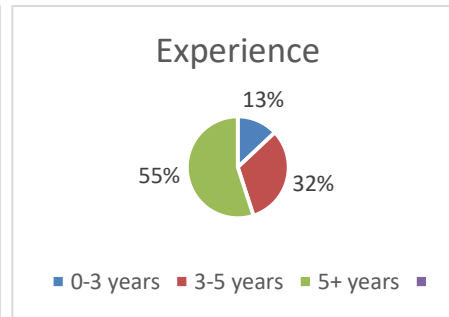


Figure 6. Number of years in business

The results revealed that most of the entrepreneurs manage their businesses, a majority of fifty percent (50%) of the respondents indicated that they had between 0 - 3 employees, while forty-three percent (43%) had 4 - 5 employees and seven percent (7%) had 6 – 10 employees. Most of these entrepreneurs meet Venter, Urban and Rwigema’s (2008:) criteria of a sole proprietorship, who is an individualistic person that exercises full control, makes all the decisions, and benefits from all the profits and/or loses. 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.

Many of the respondents had been running the businesses for more than five years. Going by the literature, one would expect the length of operation and experience will translate into growth or success, but this is not often the case.

4.2 Seed funding policy effect

Table 1 shows that the majority of forty-eight percent (48%) of businesses that had received a seed fund from the government strongly concurred that restrictions on accessing financial aid affect business growth. In contrast, 32% felt that the impact of the limitations on the growth of businesses was very minimal. Twenty percent (20%) did not see any adverse effects of restrictions on accessing financial help that caused their firms not to grow. In agreement, Ngoroa and Mago (2013) concur that rural entrepreneurs will succeed when government regulatory systems improve to provide flexible policies which may create better business growth chances. He further recommended that 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. Drawing from the responses, one would argue that the government should adjust some laws and regulations such as (but not limited to) licensing, permits and surety bonds that place severe restrictions on the ability of entrepreneurs to run their businesses.

Table 1. Impact of seed funding policy on business growth

	Frequency	Percent	Valid Percent	Cumulative Percent
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	

4.3 Government financial assistance

The study conducted by Kay (2018) concludes that business proposals are typically more involved and challenging to coordinate. Reporting requirements are precise and can be time-consuming.

Table 2 reveals that forty-seven percent (47%) agree to the statement that the blueprint on government grants offered to informal businesses affect the growth of the company as it is not easy to access the financial assistance there are so many processes and procedure to follow to qualify and mentoring is not available as they wish, twenty-five percent (25%) is not affected at all, while seventeen percent (17%) is a little bit affected. Eleven percent (11%) were uncertain.

In agreement, Choto, Tengeh and Iwu (2014) believe 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. It has been shown by the International evidence that the regulatory environment has a greater motivation for the new entrepreneurial venture's growth and sustainability. Choto et al. (2014) emphasized on the allocation of sufficient funding by the national government towards business support programs.

Table 2. 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	

4.4 Sufficiency of seed funds

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 adequate or not, twenty-three percent (23%) little bit believes that it covers basic needs. 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 even pay staff. According to Rath (2011:18) with limited funds and resources, the informal business ends 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
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	

4.5 Government business development policies

Based on the feedback in Table 4, sixty-one percent (61%) of respondents strongly agreed that government development policies are aligned with informal businesses. In comparison, 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. Walker and Preuss (2008) also insist that policymakers should align policies to small businesses needs and to encourage buying from small businesses to increase their sustainability.

The Minister of Business Development even encouraged non-South Africans to share their success strategies with their South African counterparts (Mbata, 2015). Ngorora and Mago (2013) believe that information networks and communication infrastructure are also deficient 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
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	

4.6 Provision of business management skills

Based on the feedback in Table 5, thirty percent (30%) of respondents stated that government support is actively available after seed funding is released, twenty-seven percent (27%) believes that a little assistance is given to seed fund beneficiaries. In contrast, twenty-two percent (22%) is uncertain about it, then twenty-one percent (21%) does not see any support given to informal businesses at all. Small informal business owners must be equipped with business and financial management skills for their businesses to grow and be sustainable. About 70% of the respondents are not convinced that they have been provided with sufficient business management skills and believe that the stagnation in business performance could be strongly associated with this.

Several researchers have advanced the need for business management skills to be provided to informal entrepreneurs by the government and its support partners. For instance, Ngorora and Mago (2013) suggest that entrepreneurship education should be prioritized 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. For existing entrepreneurs, the new skills address pressing needs in their business operations. The

training of aspiring entrepreneurs provides them with the confidence and knowledge that they need to start sustainable businesses. In agreement, Chinomona and Mazirir (2015) also stated that informal business challenges include but are not to lack of training and education; lack of finance and negative attitudes.

Table 5. Business Management skills received after the seed funding

		Frequency	Percent	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	

4.7 Mentoring and coaching

It has been shown on Table 6, 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. Most respondents stated that there is no sufficient mentoring offered to them, according to the literature that can result in a lack of business growth. Ngorora and Mago (2013) suggested that rural lack business management skills, coaching and guidance, information, and advice. 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 Lose and Tengeh (2015) believe 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
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	

4.8 Involvement of government officials

The results in Table 7 show that fifty-five percent (55%) of the respondents strongly believe that government officials are visible and involved in informal businesses; eighteen percent (18%) is uncertain. In comparison, seventeen percent (17%) feels that they are a little bit visible not to their satisfaction, and ten (10%) thinks that they are not visible at all. If government officials can be professionally trained and be readily available to informal businesses that can make a stark difference.

Drawing from Mwobobia (2012) it seems that some of the challenges that informal small businesses face are a consequence of the inefficiency of government officials, and their unwillingness to support informal small businesses. It must be noted that this is contrary to the findings of this study.

Table 7. Visibility of government officials in informal business for site visits and advice

	Frequency	Percent	Valid Percent	Cumulative Percent
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	

4.9 The actual seed fund received

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

The amount of seed funding was provided to the informal businesses between the 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
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	

4.10 Seed funding usage

As indicated in Table 9, eighty-three percent (83%) of respondents spent their seed funding on business equipment, while eight percent (8%) spent it in the maintenance

of their business infrastructure, seven percent (7%) bought inventory, and two percent (2%) was spent in other business functions.

Ngorora and Mago (2013) recommended that the government should focus on supplying equipment and develop infrastructure to support profitable businesses. If the government can do as the literature suggests that would boost informal business growth, they can use the seed funding money for the business operations not to start from nothing with the equipment and maintenance.

Table 9. The business function in which the money was used

	Frequency	Percent	Valid Percent	Cumulative Percent
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	

4.11. Other challenges that affect the growth of the businesses (open-ended questions).

In an attempt not to be too prescriptive, an open question was posed concerning the other challenges that the respondents faced that were not captured in the other parts of the questionnaire. This section reports on the results.

- From the response of 16 (27%) respondents, mentioned that financial aid is one of the major challenges to the growth of their businesses;
- Several respondents (27%) indicated that they needed space to run their businesses, as most of them operated from their garages at home, and they did not have enough space to put equipment and for storage;
- Crime is one of the challenges that the respondents faced. Two of them (3%) mentioned that they experienced break-ins, robbery, and burglary in their businesses;
- Three of respondents (5%) believe that the lack of mentoring and coaching has an impact on business failure;
- Business and financial management training was named as a challenge by 9 (15%) respondents;
- A lack of infrastructure in terms of building, storeroom, computers, machinery more advanced equipment, more material, access to marketing was identified as a major challenge by 6 of respondents (10%);
- One (1.7%) respondent mentioned that he lacks marketing skills; he wished that there could be training on marketing only;

- One (1.7%) respondent said politics between officials within the municipality affects the support that they are waiting for;
- Competition was named as another challenge by 6 (10%) respondents. They noted that competition exerted too much pressure on them, and influenced their pricing strategy. The consequence is that they earn lower profits by charging the lowest amount in tenders;
- Seven (12%) of the respondents considered transportation to be a challenge. They pay a lot of money to hire transport to reach their market and for delivery;
- To save or invest money is a challenge to one (1.7%) of the respondents as the profits made from the business is also used in taking care of the family;
- Government coaching processes take too long. That is what three (5%) of the respondents saw as a challenge or cause of business failure;
- Two (3%) of respondents wished that the seed funds can be more than what they got to buy enough equipment and material to start the business;
- Retaining loyal customers was identified as a challenge by 3 (5%) respondents. They wish to have a contract with big companies or factories for them to have commitment and stability in their businesses;
- There is limited access to financial facilities, according to 2 (3%) of the respondents. They blamed lack of collateral for this;
- One (1.7%) of the respondents does not have any other challenges that he feels he need to explain other than what he has ticked on the questionnaire;
- Rental cost is a challenge to 3 (5%) of the respondents. They felt that a sizable part of their profits went to monthly rental;
- Two (3%) of the respondents felt that stagnant growth was a challenge as they could not set any targets or goals for their businesses;
- Water restriction was mentioned by 6(10%) of respondents. They believed it negatively affected their business operations in that they spent +- R1 000 daily for water;
- Weather condition was considered to have a negative impact on the daily operation of their businesses. Two (3%) of the respondents said that shelter was needed for display and production purposes.

4.11.1 Summary of open-ended questions

Most respondents confirmed that their business performance is constantly poor due to the following issues:

The major hurdles noted by most of the respondents included 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.

Coincidentally, the preceding challenges have been echoed by other researchers as noted in the literature (Bear, Tladi & Pedro, 2004; Mukwarami & Tengeh, 2017). For instance, Ngoroa and Mago (2013) noted the following concerns to the growth and success of rural entrepreneurship in the Nkonkobe Municipal area: small and distant markets, corruption, lack of marketing initiatives, scarcity of equipment.

5. Conclusion, Recommendations and Future Research

One would think that seed funding is the missing link between the startup and growth of small businesses in less developed financial markets. However, this is not always the case, at least for the informal small businesses investigated in this paper. Focusing on financial support as one of the many ways in which governments promote the development of small businesses, this study investigated the impact of seed funding on the growth of informal small enterprises in the Wineland District in the Western Cape, South Africa. Also, the study sought to ascertain the ensuing challenges. The results show that a considerable proportion (48%) of the businesses that have received seed funding in Cape Winelands strongly believe that restriction on accessing further financial assistance affected business growth. In comparison, 32% felt slightly the same. On the other hand, 20% did not see any adverse effect of restrictions on accessing financial assistance that causes their businesses not to grow.

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

Additionally, all the Informal small business owners stated that they did receive follow-up support from the government despite the associated red tapes that the informal small businesses must confront.

Government need to re-assess its strategies and systems, as it is empirically clear that informal small businesses can contribute towards economic development which may lead to job creation and poverty reduction. More resources need to be directed 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 the government is serious about improving assisting small businesses, then, they need to increase seed fund amounts to cover at

least the infrastructural development. The 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 collateral and business stability.

Besides finance, future research should examine the extent to which other government support initiatives and policies meet the needs of informal small businesses.

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