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**The contribution of rural entrepreneurship to poverty reduction in South Africa:  
The case of Amathole District Municipality (ADM) in the Eastern Cape Province**

**By**

**Gebregziabher Gebreyesus Fiseha**

**A Research Dissertation submitted to the University of Fort Hare in fulfilment of  
Master of Social Science in Development Studies**

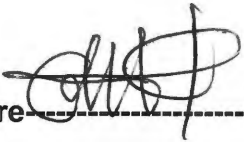

**Department of Development Studies**  
**University of Fort Hare**  
*Together in Excellence*  
**Faculty of Management and Commerce**

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**2015**

## DECLARATION

I, Gebregizabher Gebreyesus Fiseha, hereby declare that this dissertation is my own original work, and all the sources I have used or quoted have been acknowledged by means of complete references. This dissertation has not been and will not be submitted to any other university or institution for the purpose of obtaining a similar degree.

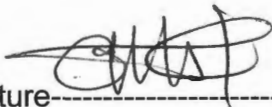

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## DECLARATION ON RESEARCH ETHICS CLEARANCE

I, Gebregizabher Gebreyesus Fiseha, student number 201105862 hereby declare that I am fully aware of the University of Fort Hare's policy on research ethics, and I have taken every precaution to comply with the regulations. I have obtained an ethical clearance certificate from the University of Fort Hare's research ethics committee and my reference number is KAC061SFIS01.

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## ACKNOWLEDGEMENTS

First and foremost, I would like to give thanks to Almighty God for giving me good health, strength and patience to accomplish this research.

I would like to give my deepest gratitude to my supervisor Dr.W. Kachere, for her assistance, guidance and coaching me from the beginning until the end of the project. Her support has been immense, and her suggestions played a crucial role in shaping my project.

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Many thanks go to all the respondents for their time and valuable contribution; without them, it would have been impossible to see my project to its completion.

Last, but not least, I would like to thank the University of Fort Hare as well as the Department of Development Studies for allowing me to do this research.

## DEDICATION

I dedicate this project to my mother, Roman Tsehaye and my father, Gebreyesus Fiseha.



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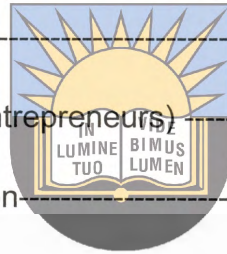
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## ABSTRACT

Today, the main challenge of the Eastern Cape Province is unemployment. According to the report release by Statistics of South Africa in 2015 the unemployment rate among the youth in the Eastern Cape is forty one percent (41%).

The prime objective of the study was to investigate whether rural entrepreneurship contributes to poverty reduction in Amatole District Municipality (ADM). The study employed mixed research methodology. Face-to-face interview was utilized to collect the primary data from the research participants. The participants in this study were entrepreneurs, entrepreneur employees, customers (people who purchase goods and services from the entrepreneurs) and government officials. The purposive sampling technique was employed to select the participants. Descriptive statistics such as tables, charts and graphs were used to analyse the research findings.

The findings of the study revealed that rural entrepreneurship plays a crucial role in poverty reduction in the ADM through job creation, skills transfer, and engagement in social responsibility and availability of goods and services. However, rural entrepreneurs face numerous challenges such as inadequate capital, lack of markets, poor infrastructure, high tax rate and crime. These challenges affected the role of rural entrepreneurship in reduction of poverty in ADM.

Finally, the researcher recommends that the government should create a conducive environment for entrepreneurship development in rural areas. Entrepreneurship cannot develop independently and needs support from government.



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## LIST OF ACRONYMS

|        |   |
|--------|---|
| ADM    | Amathole District Municipality                      |
| AIDS   | Acquired Immune Deficiency Syndrome                 |
| DRA    | Development Research Africa                         |
| DTI    | Department of Trade and Industry                    |
| ECDC   | Eastern Cape Development Cooperation                |
| ECSECC | Eastern Cape Socio-economic Consultative Council    |
| FHISER | Fort Hare Institute of Social and Economic Research |
| GDP    | Gross Domestic Product                              |
| GEM    | Global Entrepreneurship Monitor                     |
| HIV    | Human Immunodeficiency Virus                        |
| IDP    | Integrated Development Plan                         |
| IFAD   | International Fund for Agricultural Development     |
| IWFSA  | International Women's Forum South Africa            |
| ILO    | International Labour Organization                   |
| NGOs   | Non-Governmental Organizations                      |
| SAPSCS | South African Police Service Crime Statistics       |
| SARB   | South African Reserve Bank                          |
| SEDA   | Small Enterprise Development Agency                 |
| SPSS   | Statistical Package for Social Sciences             |
| SSA    | Statistics South Africa                             |



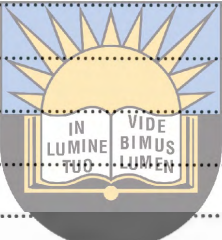
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|       |  |
|-------|--|
| TEA   | Total Entrepreneurship Activity                    |
| UNDP  | United Nation Development Organization             |
| UNIDO | United Nation Industrial Development Organization  |
| UK    | United Kingdom                                     |
| USA   | United States of America                           |
| WBCSD | World Business Council for Sustainable Development |

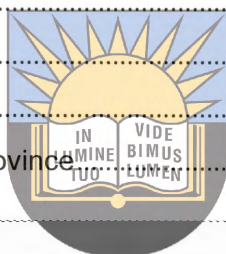


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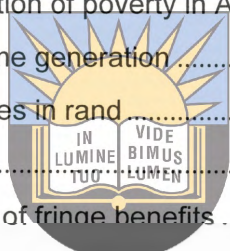
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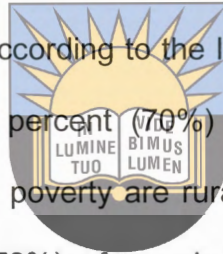
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## CHAPTER ONE

### INTRODUCTION OF THE STUDY

#### 1.1. Introduction

Poverty is one of the major problems of the world, particularly developing countries. Most of the poor are rural dwellers. According to the International Fund for Agricultural Development (IFAD, 2011), seventy percent (70%) or 1.4 billion of the people in developing countries living in extreme poverty are rural dwellers. In the case of South Africa, more than seventy percent (70%) of people living in poverty are also rural dwellers (Mbuli, 2008). Poverty means lack of income to secure basic necessities of life, such as health, education, food and shelter (Todaro and Smith, 2003).



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Many countries have introduced numerous strategies for poverty alleviation in rural areas. Numerous scholars and policy makers have provided their opinions and argue that rural entrepreneurship is a key intervention strategy for poverty alleviation in rural areas (Petrin, 1994). Therefore, entrepreneurship is an important tool to address the problems of rural poverty.

According to Ahmed, Khan and Ali (2012), "entrepreneurship development is the best mechanism to address the problem of poverty, unemployment, inequality, migration, poor utilization of resources and improving the living conditions of poor people". In the same vein, Petrin (1994) and Singer (2006) point out that the development of

entrepreneurship in a sustainable way has the potential to reduce poverty, increase economic productivity, investment, innovation, accumulative capital and the community's income.

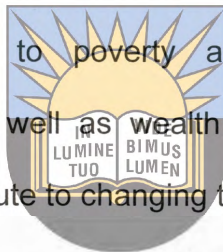
Petrin (1994) believes that rural development nowadays, more than ever before, is linked to entrepreneurship. Different organizations such as Non-Governmental Organisations (NGOs), civil societies, development agencies, government agencies and individuals promoting rural development agree that entrepreneurship is a strategic development intervention to accelerate rural development progress (Saxena, 2012). Development agencies see rural entrepreneurship as a tool for employment opportunities; politicians see it as the solution to prevent rural unrest; farmers see it as a tool for improving farm earnings; and women see it as an enormous employment possibility near to their homes, thus giving them autonomy and a reduced need for social support (Petrin, 1994). To all these different actors, however entrepreneurship stands as a vehicle to enhance the quality of life for individuals, families and communities and to sustain a healthy economy and environment.

In countries such as China, Malaysia, India and Thailand, rural entrepreneurship has been recognized as a key intervention strategy for poverty alleviation (Ahmed *et al.*, 2012). In these countries, rural entrepreneurship has played a crucial role in creating jobs, increased household income, reducing poverty and improving the overall standard of living. Rural entrepreneurship activities have had a massive impact on the reduction of rural poverty. This is because it allows poor communities to enhance their income, accumulate assets, as well as enter into mainstream society. Rural entrepreneurship also provides goods and services at affordable costs to rural communities, and it also

improves the rural economy by bringing growth and innovation to the community. According to the United Nations Industrial Development Organization (UNIDO, 2007) rural entrepreneurship is crucial for rural economic growth, and its success can assist decrease poverty, unemployment, crime and inequality and improve the living standard of the communities.

Petrin (1994) argues that rural entrepreneurship is the foundation of rural economic development because it creates new markets, new industries and new technology.

Rural entrepreneurship contributes to poverty alleviation, revenue generation, sustainable employment creation as well as wealth creation. According to Saxena (2012), entrepreneurship is the only route to changing the living conditions of rural areas



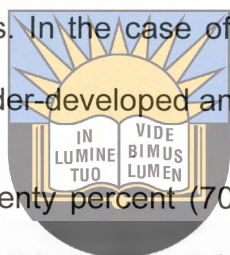
by solving the problems of poverty, unemployment, inequality, low economic activity, and poor utilization of local resources as well as low level standards of living.

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Poverty alleviation is possible through establishment of entrepreneurship. Nwachukwu and Ezeh (2007) argue that entrepreneurship is a major tool for combating poverty, hunger, unemployment, inequality, crime and achieving economic prosperity at the grassroots level. Observably, there is a positive relationship between entrepreneurship activity and decline in poverty rates (Slivinski, 2012). Once again, Slivinski argues that a one percent (1%) increase in the rate of entrepreneurship causes a two percent (2%) decline in the poverty rate. Additionally, entrepreneurship activity helps to diversify economic activities, avoid reliance on mono-production as well as improving the quality of living (Bryden and Hart, 2005). The reason for these changes is because

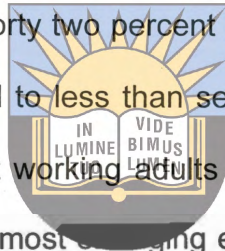
entrepreneurship engages in different activities such as agro-food, leisure, carpentry, health, education and tourism.

Due to the high level of poverty and unemployment in South Africa, the promotion of entrepreneurship remains an important priority strategy for the government of South Africa. According to Aguero and May (2007), more than half of the population in South Africa live below the poverty line, thereby surviving on less than US\$ 2 per day; with most of the poor being rural dwellers. In the case of South Africa, many rural areas always remain poor, impoverished, under-developed and less inhabited.



Mbuli (2008) believes that about seventy percent (70%) of people in rural areas are living in poverty, compared to about thirty percent (30%) of people in urban areas. Poverty among female-headed households is rife, and it is estimated that three quarters of children in the rural areas live in households with incomes below the minimum subsistence level. They are characterised by low levels of literacy and education, lack of access to water and sanitation, health care and few employment opportunities, and this results in high levels of under-malnutrition and mortality. This is the reality of Ciskei and Transkei, which are former homelands where this study is based. According to Fort Hare Institute of Social and Economic Research (FHISER and Development Research Africa (DRA), 2006), two thirds of rural households Ciskei and Transkei do not have access to water and sanitation because nearly half of them use dam river or spring water, and another fifteen percent (15%) have to walk more than two hundred (200) metres to communal stand-pipes.

There are numerous reasons behind the high level of poverty in South Africa, and one of them is the high unemployment rate. According to the Department of Trade and Industry (DTI, 2013), the official unemployment rate in South Africa stands at twenty five percent (25%) and is mainly responsible for poverty, crime and Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome (HIV/AIDS). The unemployment rate in South Africa is high among the youth and constitutes seventy three percent (73%) of the total unemployment figure in the country. The ratio of youth-to-adult unemployment is 1:3. About forty two percent (42%) of young people under the age of 30 are unemployed, compared to less than seventeen percent (17%) of adults over the age of 30. Only one in eight working adults under the age of 25 has a job, compared with forty percent (40%) in most emerging economies similar to South Africa (DTI, 2013). The nature of unemployment is also race and gender-biased. For instance, more females than males and more blacks than White, Indians and Coloured are unemployed.



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The implication of the above statistics is that poverty reduction and job creation remains the greatest challenge facing the South African government. Since the advent of democracy in South Africa in 1994, the government has recognized entrepreneurship development as the key intervention strategy for poverty alleviation in the country. Entrepreneurship plays a crucial role in absorbing the growth of unemployment in rural areas. Van Vuuren and Groenewald (2007) confirm that the promotion of entrepreneurship in South Africa has huge role to solve the problems of poverty, inequality, low economic growth and unemployment.

Entrepreneurship plays a significant role in people's efforts to meet basic needs and helps marginalized groups like female heads of households, disabled people and rural families. Ndabeni (2005) argues that entrepreneurship is a major sphere for employment-creation and fostering sustainable livelihoods in rural areas. It is the only terrain in which the rural poor are able to create their livelihoods and support their families.

However, compared to other developing countries, South Africa has the lowest entrepreneurship activity despite the existence of high levels of poverty and unemployment (Turton and Herrington, 2012). This makes South Africa's economy to perform poorly and unable to reduce the level of poverty and unemployment among rural communities. Van Aardt and Bezuidenhout (2000) argue that South Africans are neither educated nor socialized to become entrepreneurs. The segregation policy of apartheid has dampened the entrepreneurial spirit of black South Africans and their motivation towards self-employment and innovation because they were denied access to business ownership, employment and skills development (Ngcamu, 2002). This has exacerbated the current lack of entrepreneurial spirit among the youths. The Global Entrepreneurship Monitor (GEM) report indicates that it is only six percent (6%) of the South African youths who are involved in entrepreneurial activities despite the fact that forty one point two percent (41.2%) of the entire population are youths (Herrington, Kew and Kew, 2010).

The entrepreneurial activity distribution among the provinces in South Africa is unequal. The Gauteng Province has the highest entrepreneurial activity compared to the rest of provinces in South Africa (Turton and Herrington, 2012). Gauteng, KwaZulu-Natal and

the Eastern Cape are the three provinces with the highest entrepreneurial activity and combined, they account for almost half of the early-stage entrepreneurial activity in South Africa (Turton and Herrington, 2012).

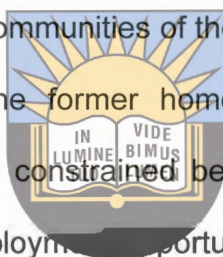
The Eastern Cape Province has relatively better entrepreneurial activity compared to Northern Cape, Limpopo, Free State and Mpumalanga Provinces. Small businesses play a crucial role in the provincial economy. According to Eastern Cape Development Cooperation (ECDC, 2010), sixty two percent (62%) of the new jobs created in the fourth quarter of 2009 were generated in the small business sector, and the major employers in this sector are wholesale and retail, tourism and construction activities.



ADM falls under the Eastern Cape Province. ADM is situated within the Eastern Cape Province, between Port Alfred and Port St Johns. It was established after the first transformed local elections in 2000. The district comprises the former larger parts of the Ciskei and Transkei homelands. ADM has better rural entrepreneurship activities in the province. According to Integrated Development Plan (IDP) review (2009-2010), ADM has the highest number of entrepreneurs within the Eastern Cape Province estimated at 67,000 entrepreneurs (small businesses). Therefore, this study intended to investigate whether rural entrepreneurship contributes to poverty reduction in ADM households through employment creation, income generation, access to basic goods and services and skills transfer. Rural entrepreneurship means economic activity which involves small businesses in rural areas by a group of people or individuals who introduce new products, services or a new market (Pettrin, 1994). The researcher targeted entrepreneurs who engaged in food items, clothing, shoes and salon trades.

## 1.2. Statement of the problem

Many rural areas within ADM in the Eastern Cape Province of South Africa experience high levels of poverty despite the existence of many entrepreneurs. Rural areas suffer high rates of poverty (lack of income, shortage of skills and lack of access to goods and services), food insecurity, unemployment, death, injury and illness. The poverty rate in rural areas of the Eastern Cape Province is higher than the National average and is estimated at more than seventy three percent (73%) (Westaway, 2012). The high incidence of poverty among the rural communities of the Eastern Cape Province may be attributed to economic neglect of the former homelands of Transkei and Ciskei (Westway, 2012). Their incomes are constrained because the rural economy is not sufficiently vibrant to provide them employment opportunities.



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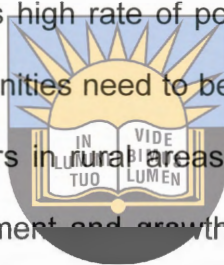
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Although entrepreneurship has been recognized as a key intervention strategy for rural poverty alleviation in South Africa, the rate of poverty is still high in the ADM. Many ADM communities do not have enough income to meet their basic needs such as health, education, electricity, water and sanitation. The percentage of people living below the poverty line in ADM is higher than the other districts of the Eastern Cape Province. According to the IDP review (2009-2010), seventy seven percent (77%) of the population in ADM are living below the poverty line, and fifty five point one (55.1%) of the population in the district are also unemployed, and this results in high dependency households on aid and social grants. A large number sixty six percent (66%) of the ADM households survive on pensions or grants from the government despite the existence of many entrepreneurs. The contributing factor to high level of

poverty in ADM can be attributed to low level of education, unemployment, lack of market opportunities and lack of access to infrastructure (IDP review, 2009-2010).

According to the IDP review (2009-2010), ADM has the highest number of entrepreneurs in the Eastern Cape Province estimated at more than 67, 000. The majority of the businesses are unregistered and operate as sole traders. These are *spaza* shops, hair salons, general traders, shoe repairers and caterers.

Therefore, the challenges causing this high rate of poverty in a district that has many entrepreneurs among the rural communities need to be investigated. Previous research on the challenges facing entrepreneurs in rural areas indicated that finance and non-finance services limited the establishment and growth of entrepreneurs in rural areas (Saxena, 2012). On the other hand, scholars such as Herington, Kew and Kew (2009) also suggest that lack of success of entrepreneurship can also be influenced by lack of entrepreneurship culture. This study, therefore, intends to investigate the extent to which rural entrepreneurship has helped to reduce rural poverty in ADM.



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### 1.3. Research questions

- How does rural entrepreneurship contribute to reduction of poverty in ADM?
- Does the rural entrepreneurship in ADM create employment and income generation?
- What is the role of rural entrepreneurship in skills transfer and availability of cheaper goods in ADM?
- What are the main challenges of rural entrepreneurship development in ADM?

#### 1.4. Objectives of the study

The overall objective of this study is to investigate whether rural entrepreneurship contributes to poverty reduction in ADM. The sub- objectives of this study are to:

- Examine the employment creation and income generation in ADM by rural entrepreneurship.
- Examine the skill transfer and availability of cheaper goods in ADM by rural entrepreneurship.
- Establish the challenges faced by rural entrepreneurship in running their businesses.
- Suggest strategies to improve rural entrepreneurship development in reducing poverty in ADM.



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#### 1.5. Significance of the study

Rural poverty has become the greatest issues in many countries around the world, particularly in developing countries. A large number of world populations live under the poverty line without access to basic needs such as education, health, food and shelter. Policy makers and development practitioners have come out with many strategies for poverty alleviation in rural areas. Entrepreneurship development has been recognized as one of the key intervention strategies for poverty alleviation in rural areas (Petrin, 1994). Entrepreneurship development is an important tool to ending poverty and bringing income opportunities for the majority of the poor. Entrepreneurship is an effective instrument in solving numerous economic and social challenges such as poverty, unemployment, inequality, crime and migration. The International Labour

Organization (ILO, 2006) argues that entrepreneurship plays a significant role in poverty reduction through employment creation as well as income generation for the poor people to purchase goods and services.

According to Singer (2006), entrepreneurship is the best mechanism for poverty alleviation in all parts of the world. Entrepreneurship activity aids economic growth, job creation, investment, wealth creation and trade. Ahmed *et al.*, (2012) argue that entrepreneurship is the only solution to the problems of poverty, unemployment, inequality, migration and low economic growth in rural areas. The development of entrepreneurship in South Africa has a great impact in fighting against poverty, unemployment and inequality (VanVuuren and Groenewald, 2007).



Therefore, the findings of this study will assist development planners, policy makers, decision makers and various other stakeholders to understand the significance of rural entrepreneurship in reducing poverty. Government agencies and business development agencies are expected to benefit from the findings of this study to come up with new strategies and policies to promote entrepreneurship in rural areas. In addition to this, it will contribute to knowledge about entrepreneurship as a path for development in Sub-Saharan countries, particularly in South Africa, as a developing country that seeks to develop socially and economically.

The outcome of this study will also assist towards an understanding of how sustainable rural entrepreneurship development can promote socio-economic transformation in South Africa. Socio-economic transformation is all about seeking to bring about improvement in the living conditions of the mass population (farmers, artisans, tenants

and landless). It is also expected that the findings of this study will come up with recommendations that might be helpful in reducing poverty in ADM. Finally, the results of this study will serve as a source of information for researchers who intend to carry out further research.

## 1.6. Organisation of chapters

This study consists five chapters:

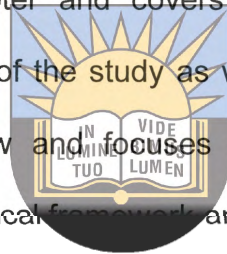
**Chapter 1** is the introductory chapter and covers the background of the study, statement of the problem, objectives of the study as well as significance of the study.

**Chapter 2** presents literature review and focuses on conceptual issues (poverty, entrepreneurship and rurality), theoretical framework and empirical evidence. **Chapter 3**

deals with the research methodology and gives a detailed explanation of the research procedures and techniques adopted by the study. Moreover, this chapter discusses the

various methods of collecting and analysing data adopted by the study and also highlights the reason for using and choosing these research methods. **Chapter 4**

presents interpretation, analysis as well as findings of data. **Chapter 5** provides the conclusion as well as recommendations.



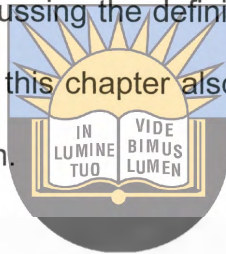
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## CHAPTER TWO

### LITERATURE REVIEW

#### 2.1. Introduction

The previous chapter presented the introduction and background of the study, statement of the problem, and objective of the study as well as significance of the study. This chapter, therefore, discusses the concepts and theoretical issues that are used in the study. This chapter begins by discussing the definition of concepts such as rurality, entrepreneurship and poverty. Finally, this chapter also presents empirical literature on entrepreneurship and poverty reduction.



#### 2.2. The concept of rurality

Rural areas, throughout the world, compared to urban areas, are economically disadvantaged. Rural areas have less access to social services such as education, health and water and sanitation. Rural areas share some common characteristics such as populations that are spatially dispersed, limited infrastructure and opportunities for resource mobilization. Organizations, individuals and countries use different variables to define rural areas. Population size, type of economic activities and population density are mostly used to distinguish rural from urban areas. However, the definition of the term *rural* has been disputed for many years among various institutions and individuals.

Frasier (2009) has argued that rural places are those that are sparsely settled away from the influence of large cities and towns where people live in villages, on farms, in isolated places and are mainly characterised by primary economic activities. Similarly, Atchoarena and Gasperini (2003) define rural areas as areas where human settlement

and infrastructure occupy only a small share of the landscape, where the environment is dominated by pastures, forests, mountains, deserts, as well as low population density with most people engaged in farm activities.

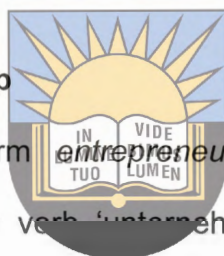
For the purpose of this study, *rural* is defined as an area which is highly exploited and marginalised as well as where the oppressed live, whether they are in towns such as Soweto or in villages such as the Valley of a Thousand Hills (Porteus and Nabudere, 2006).

### 2.3. The concept of entrepreneurship

Anderson (2002:2) claims that the term *entrepreneurship* originated from the French word 'entreprendre' and the German verb 'unternehmen', both of which mean 'to undertake'. The term "entrepreneur" seems to have been introduced into economic theory by Cantillon (1755), but Say (1803) first accorded the term *entrepreneur* prominence.

In the early 17<sup>th</sup> century, the term *entrepreneur* was applied to other types of areas, mainly civil engineering, for example, construction of roads, bridges, and buildings. Priests were typical entrepreneurs in the 17<sup>th</sup> century. Priests were in charge of great architectural works such as castles and fortifications, public buildings, abbeys and cathedrals (Hoselitz, 1960).

The Industrial Revolution during the 18<sup>th</sup> century popularized entrepreneurship development due to favourable business climate. The term *entrepreneur* was applied to business and merchants, farmers and craftsmen. Many of the inventions developed



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during this period and a number of innovators such as Edison and Whitney were seen as potential entrepreneurs (Hisrich, Michael and Shepherd, 2005).

The 19<sup>th</sup> and 20<sup>th</sup> century entrepreneur was viewed as an innovator. Joseph Schumpeter was an important economist who developed the theory of entrepreneurship in 1912s and Schumpeter saw entrepreneur as an individual who introduces new innovation to the economy (a new product, services or a new market).

Entrepreneurship is a complex and controversial concept, and its definition has been debated among scholars, policy makers and researchers since the concept emerged in the early 1700s. To some, entrepreneurship means primarily innovation; to others, it means risk-taking; to others, it means a market stabilizing force; and to others, it means starting, owning and managing a small business (Tyson, Petrin and Rogers, 1994).



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Similarly, Petrin (1994) defines an entrepreneur as a person who either creates new combinations of production factors such as new method of production, new products, new markets, finds new sources of supply and new organizational forms; or as a person who is willing to take risks; or a person who, by exploiting market opportunities, eliminates disequilibrium between aggregate supply and aggregate demand, or as one who owns and operates a business.

Coulter (2001) defines entrepreneurship as the process whereby an individual or a group of individuals use organised efforts and means to pursue opportunities to create value and growth by fulfilling wants and needs through innovation and uniqueness, no matter what resources are currently controlled.

In this study, entrepreneurship is defined as an attempt to create a new business enterprise by an individual or group of people that introduces a new product, services or creates a new market (Petrin, 1994). Therefore, the concept of rural entrepreneurship arises as a result of the linkages between the concept of entrepreneurship and rurality. Rural entrepreneurship implies entrepreneurship emerging in rural areas. Rural entrepreneurship can be defined as creation of a new business in rural areas by an individual or group of people who introduce a new product, services or market. Therefore, rural entrepreneur means someone is operate small business in the rural areas to contribute to the local wealth creation thorough job creation and innovation.



#### **2.4. The concept of poverty**

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There are a number of debates concerning the definition of poverty. Unfortunately, no consensus has been reached. Poverty is a multi-dimensional phenomenon that has different meanings for different people. As stated by Meier (1989), poverty is a multi-dimensional concept, and there is no general accepted definition of what constitutes poverty. Its definition is varies among development practitioners, researchers, governments, multi-national corporations and non-governmental organisations due to the nature, magnitude and causes of poverty which differ across regions and nations of the world.

To some groups, poverty means lack of income; to others, it means lack of basic needs; to others, it means lack of human development (UNDP, 2006). Similarly, Sen (1999) defines poverty as the failure to achieve basic capabilities such as being adequately

nourished, living a healthy life, possession of skills to participate in economic and social life and permission to take part in community activities.

Todaro and Smith (2003) define poverty as having insufficient income to secure basic necessities of life such as food, clean water, education, health, clothing and shelter. The ILO (2006) also defines poverty as lack of material deprivation (food, water, health and education) and non-material deprivation such as lack of rights, insecurity, powerlessness, indignity and lack of participation.



In general, poverty is categorized as absolute and relative poverty. Absolute poverty can be seen as poverty when people do not meet their basic needs, such as education, health, food, pure water and electricity whereas relative poverty can be poverty that exists when people are poor compared to others around them, but still may have enough money to meet their basic needs.

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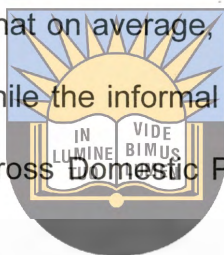
For the purpose of this study, poverty is defined as lack of income to secure basic necessities of life (education, health, shelter and food) as well as lack of skills.

## **2.5. The role of entrepreneurship in poverty reduction**

Poverty is among the biggest challenges in the world today. According to the World Business Council for Sustainable Development (WBCSD, 2011), nearly half of the world population live on less than US\$ 2 per day and the majority of the poor live in rural areas.

Policy makers and development planners have introduced many strategies for poverty alleviation. Rural entrepreneurship has received significant attention as a key

intervention strategy for poverty alleviation. Entrepreneurship development, at all levels of the population, is crucial to alleviate poverty, unemployment and improving economic growth. Peterson (1998) sees entrepreneurship as the best mechanism to all kinds of economic and social ailments in both developed and developing countries. Van Praag and Versloot (2007), in their analysis of fifty seven studies, conclude that entrepreneurs play a crucial role in the economy through employment creation, improvement of market activity and innovation. Similarly, Ayyagari, Beck and Demirguc-Kunt (2007:429), in a study of seventy six countries, found that on average, small businesses constitute sixty four percent (64%) of the economy while the informal economy, on average, accounts for twenty six percent (26%) of the Gross Domestic Product (GDP) in their sample of developed and developing countries.



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Entrepreneurship is a key to economic growth, and its success helps to reduce poverty and improve living standards as well as educational levels. Saxena (2012) attempted to examine the role of rural entrepreneurship in reducing rural poverty in India. The results revealed that rural entrepreneurship solved the problems of rural poverty, unemployment, lack of economic diversity, low economic growth and low levels of living standard. It also drives innovation, income redistribution, knowledge and technological advancement. Petrin (1994) argues that rural entrepreneurship is, more than ever before, linked to rural development. It is a vehicle to improve the quality of life for individuals, families, and communities in order to sustain a healthy economy and environment.

Research conducted by Ahmed *et al.* (2011) found that rural entrepreneurship has reduced poverty, unemployment and has improved economic growth. Entrepreneurship

activities in rural areas provide a number of benefits such as labour intensity, urban-migration reduction, and enhancement of living standards. Rural non-farm economy (mostly entrepreneurship) plays a significant role in wealth creation, income generation, poverty reduction, job creation and well-being. Many rural households earn their income from non-farm sources. Currently, non-farm activities (which are mostly small businesses) contribute forty two percent (42%), forty percent (40%) and thirty two percent (32%) of rural household incomes in Africa, Latin America and Asia respectively (UNIDO, 2006). This can assist rural households to meet their basic needs such as health, food, education, electricity and water and sanitation.



Vyakarnam (1990), in his study, concludes that entrepreneurship development in rural areas is an important factor for poverty reduction, job creation, wealth creation, market creation as well as local economy diversification. Vyakarnam further argues that one of the possible ways to improve living standards of the poor people in rural areas is by encouraging them to become entrepreneurs. Entrepreneurship plays an eminent role in creating employment for rural communities as well as enhances the economic status of the rural sector. Entrepreneurship ensures the utilization of local resources, market competition and expansion of economic activity. Adenutsi (2009) concludes that entrepreneurship plays a critical role in the growth and development of local industries through the processing of local raw materials into finished and semi-finished goods for the domestic and foreign markets. It also improves rural economic productivity through the utilization of improved and cost-effective technology.

A study conducted by Turton and Herrington (2012) indicates that entrepreneurship plays a vital role in economic development because entrepreneurs create new

businesses; new businesses create jobs, provide people with a variety of products and services, intensify competition and increase productivity through technological change. Entrepreneurship development is the most important factor for boosting employment and income opportunities for the poor as well as for ensuring the provision of basic services and social protection. As observed by UNIDO (2006), the development of entrepreneurship is an important source of employment, especially for disadvantaged groups of people that encounter difficulties in securing employment in the formal labour market such as women, children, the elderly and handicapped.



Adenutsi (2009) argues that countries with vibrant private sector participation and large capitalist classes such as the United States of America (USA), Canada, the United Kingdom (UK), Germany, France and Japan are more developed than those from Latin America, South East Asia and Sun-Saharan Africa because of high entrepreneurship activity. Adenutsi (2009) further argues that the world economy is now driven by market processes and entrepreneurial activities than ever before.

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The relationship between entrepreneurship and poverty reduction is positive. Various studies in many countries around the globe have indicated that countries with a large share of entrepreneurs have bigger declines in poverty rate. A survey carried out in many rural areas in the United State of America indicated that a number of people had escaped poverty by starting small business (Sliviski, 2012) and their living standard had improved due to generation of income from entrepreneurial activities, therefore, many rural people were able to meet their basic needs such as food, health, education and shelter.

In developing countries, entrepreneurship has immense potential to economic growth and sustainable development. Entrepreneurship is the key intervention strategy to ending poverty, unemployment, inequality and brings income opportunities for the majority of the poor. A survey was carried out by the World Bank (2006) with 600 000 people in over 50 developing countries to examine the role of entrepreneurship in poverty reduction. From the survey, most participants indicated that they had improved their living standards due to engagement in entrepreneurship activities.

Similarly, Smith (2005) concludes that entrepreneurship is a promising way to alleviate poverty and job creation in developing countries. According to Smith (2005), China, India, Uganda, Vietnam and Latica are among the most successful countries in the world in reducing poverty due to entrepreneurship activity. Entrepreneurship activity does not only create jobs but also reduces the prices of goods in community, including goods consumed by poor people. Entrepreneurs are the main source of taxes from which governments can use to empower the poor through investments in health, education and other public goods as well as through direct income transfers (Smith, 2005).

Singer (2006) believes that entrepreneurship is the best mechanism for poverty alleviation. Entrepreneurship contributes to poverty reduction, job creation and also creates new markets, new industries and new technology. Empirical evidence indicates that entrepreneurship development is a key intervention strategy for poverty alleviation in countries such as China, Malaysia, India and Thailand (Ahmed *et al.*, 2011).



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Hussain, Bhuiyan and Bakar (2014) found that small businesses consist of ninety one to ninety three percent (91-93%) of the total industrial establishments in countries such as Singapore, Taiwan, Thailand and South Korea and contribute sixty one percent (61%) to the employment sector. Similarly, in developed countries, small businesses consist of ninety nine percent (99%) of the total private businesses and employ approximately fifty three percent (53%) of the workforce (Reijonen and Komppula, 2007:689). In Australia, small businesses account for seventy three percent (73%) of the total private business of the country, and the sector contributes about forty six percent (46%) to the total GDP of the country. In addition, in 2004 and 2006, small businesses added an amount of \$23.8 billion to the GDP figure of the Australian economy (Ergas and Orr, 2007).

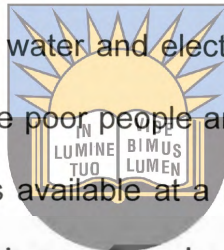


In Bangladesh, rural entrepreneurship has been recognized as a key intervention strategy for poverty alleviation (Tushar and Akter, 2010). Rural entrepreneurship contributes a crucial role in the socio-economic development of the country. In Bangladesh, small enterprises contribute twenty to twenty five percent (20-25%) of the total GDP of the country. Entrepreneurship not only reduces rural poverty but also creates employment and income for youths, enhances investment and improves the quality life of the poor people.

Entrepreneurial activity alleviates poverty, empowers rural women and mobilizes local resources. It also allows poor people to increase their income, assets and savings. Studies report that more than fifty percent (50%) of households in Sub-Saharan African countries (Ethiopia, Malawi, Tanzania and Uganda) are generating their income from non-farm enterprises (Davis, Winters and Carletto, 2010). Entrepreneurship contributes to job creation and providing employment, training, skills and experience for young

people. It has been reported that entrepreneurs in Africa are the most important apprenticeship providers to the poor people and provide the most important learning experience than schooling and other forms of education. Approximately seventy percent (70%) of all workers in Africa in the urban informal sector have been trained through traditional apprenticeships (UNIDO, 2006).

Entrepreneurship aids innovation, investment, market competition and revenue generation (ILO, 2006). In turn, taxation allows governments to fund pro-poor service such as education, health care, clean water and electricity. Entrepreneurs are the key providers of goods and services for the poor people and can also contribute to poverty reduction by making household goods available at a low cost. They are the agent for flow of goods and services between urban and rural areas. The poor can benefit when entrepreneurs operating in competitive markets produce basic goods such as food and clothing at a low cost, thereby keeping down the cost of living.



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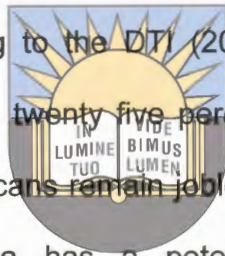
In conclusion, previous studies in both developed and developing countries have shown that rural entrepreneurship is an important tool for poverty alleviation, economic growth, job creation, increasing trade activity, providing goods and services to the poor and generating tax revenue to fund basic public services such as education, health and electricity.

## **2. 6. The role of entrepreneurship in the South African economy**

The challenges facing South Africa are immense. The growing poverty and unemployment have remained the biggest challenge for the country. According to the

Statistics South Africa (SSA, 2014), more than half of the population of South Africa are living in poverty, and the number of people living below the food line increased to 15.8 million in 2009 from 12.6 million in 2006.

Poverty in South Africa is rural based. Poverty remains extremely high in rural areas compared to urban areas. According to Mbuli (2008), seventy percent (70%) of the people living in rural areas are living in poverty compared to about thirty percent (30%) of people in urban areas. This high rate of poverty in South Africa is attributed to lack of employment opportunities. According to the DTI (2013), the unemployment rate in South Africa has remained more than twenty five percent (25%) for many years, and this means that one in four South Africans remain jobless. Therefore, the development of entrepreneurship in South Africa has a potential to address the growing unemployment in the country (Ndabeni, 2005).



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Small businesses play a major role in the South Africa economy through employment creation and income generation. Agupusi (2007) argues that the high level of poverty in South Africa is attributed partly to the jobless growth of the economy, and has led to an emphasis on small business development as a catalyst for job creation and poverty alleviation. Small businesses create job opportunities, innovations, marketing activities and sustainable economic development. Ngcamu (2002) believes that the socio-economic challenges in South Africa can be addressed through entrepreneurship development.

Historically, the economy of South Africa has been dominated by large corporations and public sectors. The apartheid government has not given attention to the development of

small business in South Africa. During the apartheid era, black South Africans were largely prevented from owning property (Herrington *et al.*, 2009). Following the advent of democracy in 1994, the development and support of entrepreneurship in South Africa has received a significant attention. The government of South Africa has acknowledged that the development of entrepreneurship is a good intervention strategy for poverty alleviation. The current entrepreneurship policy includes all South Africans regardless of race, colour, and religion to initiate and develop enterprises throughout South Africa in order to bring economic growth and development. The development of entrepreneurship has moved from a few selected individuals to a broad strategy that incorporates every local community of the country.



Entrepreneurship plays a crucial role in the South African economy. Entrepreneurship activity improves the rural economy by creating jobs, industries, innovations, markets as well as wealth. Rural entrepreneurship encourages diversification of rural livelihood activities and improves local living standards. Von Broembsen, (2008) argues that small businesses provide employment to rural communities, especially disadvantaged groups such as women and youth who are unable to secure employment in the formal sector due to lack of skills and education. The entrepreneurship activity in South Africa has a potential to take many people from the street into the main economy. It provides more jobs and improves the livelihood of families, marketing activities and economic competitiveness. A study of a rural economy in KwaZulu-Natal (conducted in five areas: Skhonyana, Mcambini, Amahlubi, Amanyuswa and Umzumbe) focused on rural micro-enterprises showed that rural micro-enterprises employed 175 000 adults (Mbhele and Aliber's, 2005).

Entrepreneurship plays a significant role in fighting poverty, joblessness and inequality, particularly among vulnerable groups such as youth, female heads of households, disabled people and rural families (Ngcamu, 2002). A survey undertaken by Rwelamira and Mthethwa (1999) in rural villages in the former homeland areas of the North West Province indicated that a large number of entrepreneurs were engaged in various entrepreneurship activities such as small-scale agriculture, manufacturing, construction and transport. They were able to produce different kinds of products (food and non-food items) which are mainly used by people in the rural areas, thus enabling them to meet their basic needs.



Entrepreneurship is a source of new jobs that are needed to halt the escalation of joblessness and to alleviate poverty in rural areas of South Africa. Undeniably, entrepreneurship is the vehicle for creating new jobs, thus generating revenue, advancing innovation and enhancing productivity (Turton and Herrington, 2012). Further, Botha, Nieman and Van Vuuren (2007) add that entrepreneurship is the critical path to the problems of poverty, unemployment and low economic growth. Entrepreneurs create new markets, investment and business and leads to poverty alleviation. Similarly, scholars such as Minniti (2008), Carree and Thurik (2002), in their studies, concluded that entrepreneurship helps to combat poverty, offer employment, foster economic growth and development. Entrepreneurial activities allow poor households to earn an income through the supply of individual labour. Small businesses make up about ninety five percent (95%) of all businesses in South Africa (DTI, 2004). The small business sector in South Africa contributes about forty five percent (45%) to fifty percent (50%) to the GDP. The other half is contributed by large enterprises and the

public sector. On the employment side, small businesses absorb between fifty percent (50%) and sixty percent (60%) of the labour force.

## 2.7. The present entrepreneurship environment in South Africa

The current global business environment is characterized by changes due to technological innovation and improved communication tools. As a result of this, the entrepreneurship activity in many countries across the world has increased. Since the advent of democracy in South Africa in 1994, entrepreneurship activity has grown due to effective support provided by the government (DTI, 2004). The small business sector grew by twenty seven percent (27%) between 2004 and 2007.



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The role of small businesses in poverty alleviation, job creation and economic empowerment is highly recognized, regardless of whether they are operated in urban or rural areas or owned by women and men (DTI, 2004). In 1995, the government adopted the White Paper on the National Strategy for the Development and Promotion of Small Business in South Africa. The White Paper created an enabling environment for the growth of entrepreneurship throughout the country. Since the adoption of the White Paper, a number of institutions such as Small Enterprise Development Agency (SEDA), Khula Enterprise Finance and Ntsika Enterprise Promotion were established to provide financial and non-financial support for entrepreneurs.

However, South Africa is still lagging behind developing countries in terms of entrepreneurship activities. Luiz and Mariotti (2011) confirm that entrepreneurship

activity in South Africa is the lowest compared to developing countries. This statement is supported by Bosma and Levie (2009) who argue that the total early stage of entrepreneurial rates in South Africa has only reached approximately half of the rates in other developing countries. Small businesses in Asia make up ninety five percent (95%) of all the businesses and employ eighty percent (80%) of the labour force while in South Africa, they employ only forty seven percent (47%) of the economically active population (Luiz and Mariotti, 2011).

A very small section of young South Africans is involved in entrepreneurial activities despite forty one point two percent (41.2%) of the country's population being youth. The Global Entrepreneurship Monitor report in South Africa indicates that the number of young people in South Africa engaged in entrepreneurial activities or self-employed is significantly low at about six percent (6%) of the total youth population in the country (Herrington *et al.*, 2010). Table 2.1 below shows the involvement in early-stage entrepreneurial activity by age.



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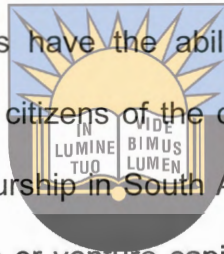
**Table 2.1: Involvement in early-stage entrepreneurial activity by age**

| Age category | 2005 | 2006 | 2007 | 2008 | 2009 |
|--------------|------|------|------|------|------|
| 18-24 years  | 16%  | 22%  | 17%  | 17%  | 20%  |
| 25-34 years  | 30%  | 31%  | 27%  | 26%  | 36%  |
| 35-44 years  | 25%  | 24%  | 23%  | 28%  | 24%  |
| 45-54 years  | 14%  | 13%  | 24%  | 21%  | 14%  |
| 55-64 years  | 15%  | 10%  | 9%   | 8%   | 6%   |

**Source: GEM 2010**

The above table 2.1 shows that South Africans between 25 and 34 years of age are successful entrepreneurially and in 2010, accounted for thirty six percent (36%) of all early-stage entrepreneurial activity. In contrast, young entrepreneurs aged between 18 and 24 have low entrepreneurial activities and accounted for twenty percent (20%) entrepreneurial activity.

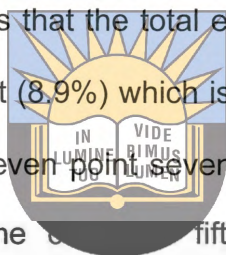
The rate of entrepreneurship activities among countries can be influenced by culture and social aspects. Each country is characterized by certain cultural beliefs, social norms and values, and these factors have the ability to encourage or discourage entrepreneurship activities among the citizens of the country. Herrington *et al.*, (2009) argue that the low level of entrepreneurship in South Africa might not be as a result of the lack of opportunities, infrastructure or venture capital that characterizes other Sub-Saharan African countries but might be from socio-cultural issues.



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Most black South Africans are not socialized or educated to become entrepreneurs. A recent survey indicates that about sixty six point six percent (66.6%) of the formal sector employers and self-employed in South Africa are white, compared to twenty one point three percent (21.3%) African, five point two percent (5.2%) Coloured and six point nine percent (6.9%) Asian (DTI, 2004). According Ngcamu (2002), the apartheid government did not invest in education among black South Africans. They were prohibited access to employment, skills development, business ownership as well as to basic social and physical infrastructure. This has created a black culture of dependency throughout South Africa which implies that job creation is viewed as the government's responsibility.

During the colonial and apartheid eras a number of legislation were passed to restrict black South Africans who wanted to become entrepreneurs. The Mine and Works Act (1911), Native's Land Act (1913), Native Urban Areas Act (1923), Natives Resettlement Act (1945) and Regulations Governing Black Business in Urban Areas Act (1962) were some of the laws and regulations that were passed by the apartheid government to restrict black entrepreneurship development. As a result of this, entrepreneurship activity in South Africa is low compared to developing countries. The Global Entrepreneurship Monitor report shows that the total entrepreneurship activity (TEA) in South Africa is eight point nine percent (8.9%) which is significantly lower than average for all efficiency-driven economies (eleven point seven percent (11.7%) as well as the average for all middle to low-income countries (fifteen point six percent (15.6%) (Herrington *et al.*, 2010). However, the rate of entrepreneurship activity in South Africa has increased over the previous years. The country's TEA increased from five point nine percent (5.9%) in 2009 to eight point nine percent (8.9%) in 2010 and this improvement can be attributed to hosting the 2010 FIFA World Cup (Herrington *et al.*, 2010).



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Table 2.2 on the following page compares the entrepreneurial activity of South Africa with other Sub-Saharan countries.

**Table 2.2: Prevalence rates (%) of entrepreneurial activity across GEM countries**

| Country          | Nascent entrepreneurship rate | New business ownership rates | Total entrepreneurial activity (TEA) = Nascent + new rates | Established business ownership rates | Discontinuation of businesses |
|------------------|-------------------------------|------------------------------|--|--------------------------------------|-------------------------------|
| Angola           | 15%                           | 19%                          | 32%  | 9%                                   | 26%                           |
| Botswana         | 17%                           | 12%                          | 28%  | 6%                                   | 16%                           |
| Ethiopia         | 6%                            | 9%                           | 15%  | 10%                                  | 3%                            |
| Ghana            | 15%                           | 23%                          | 37%  | 38%                                  | 16%                           |
| Malawi           | 18%                           | 20%                          | 36%  | 11%                                  | 29%                           |
| Namibia          | 11%                           | 7%                           | 18%  | 3%                                   | 12%                           |
| Nigeria          | 22%                           | 14%                          | 35%  | 16%                                  | 8%                            |
| South Africa     | 4%                            | 3%                           | 7%   | 2%                                   | 4%                            |
| Uganda           | 10%                           | 28%                          | 36%  | 31%                                  | 26%                           |
| Zambia           | 28%                           | 15%                          | 41%  | 4%                                   | 20%                           |
| Average Weighted | 15%                           | 15%                          | 28%  | 13%                                  | 16%                           |

**Source: GEM Survey in 2012**

The above table 2.2 indicates entrepreneurship activities among Sub-Saharan countries. South Africa has the lowest entrepreneurship activity compared to other Sub-Saharan countries. The low entrepreneurial activity in South Africa can be attributed to

the policies of the previous and current government. During the apartheid government, policies were not favouring individuals to engage in business activities, and most of the black South Africans were prevented from owning and operating businesses (Ngcamu, 2002).

## 2.8. Challenges of rural entrepreneurship in South Africa

The economy of South Africa has experienced numerous economic and social challenges due to low levels of entrepreneurship activities. Unemployment, poverty and low economic growth are among the major challenges of the economy of South Africa today. Although there have been some improvement in economic growth due to entrepreneurship, the level of unemployment, together with the lack of entrepreneurial spirit among the South African population is extremely high in comparison to the rest of developing countries (Kingdon and Knight, 2004). Creativity and vision does not translate into successful business ventures because an environment is marked by poor physical infrastructure, lack of market, inadequate access to finance and lack of technology (Herrington *et al.*, 2009) and this is also a problem in ADM.



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Rural entrepreneurs face numerous challenges and constraints during start-up and expansion of their business. Lack of markets, inadequate finance, crime, distance markets, lack of information and advice and lack of business skills are the major obstacles for entrepreneurs' development in rural areas (Ngorora and Mago, 2013). Other challenges include: lack of suitable business premises, regulation and bureaucracy, under-developed transport and poor communications channels; these also

make it difficult for entrepreneurs to establish businesses in rural areas. As a result of this, rural people are less engaged in entrepreneurship activities than urban dwellers. Bosma and Levie (2009) argue that individuals located in urban areas are more likely to be involved in entrepreneurial activity than those in rural areas. In urban areas, nearly ten percent (10%) of adults are engaged in entrepreneurial activities compared to fewer than two percent (2%) in rural areas.

Location is also another big challenge for rural entrepreneurs. Rural entrepreneurs are located some distance from urban centres where customers, suppliers, banks, advisors and support organizations tend to be concentrated. Singh and Belwal (2008) carried out a survey to assess the challenges of women entrepreneurs in Ethiopia. They found that lack of securing finances, limited opportunities for promotion and participation, lack of markets, lack of government institutional support, corruption and lack of technology are major bottlenecks to entrepreneurship development.

Similarly, a study conducted in Mozambique by UNIDO (2003) has identified that bureaucratic procedure, costly and time-consuming custom procedures, delays and unnecessary financial requirements in obtaining business licenses are the major hindrances to the development of rural entrepreneurship. In Uganda, rural entrepreneurship plays a significant role in the economic and social life of the majority of citizens, and more than seventy percent (70%) of enterprises employ less than 20 people.

However, the growth and development of entrepreneurship in rural areas is hampered by lack of managerial and technical skills, poor infrastructure, and lack of access to



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finance and unnecessary regulations and rules (UNIDO, 2003). These factors create obstacles for entrepreneurs thus making it difficult to increase their contribution to poverty alleviation, job creation and economic growth in rural areas. In general, the challenges of rural entrepreneurship development can be categorized into three sections, and these are lack of finance, poor physical infrastructure and lack of market access.

### 2.8.1. Inadequate finance

According to Herrington *et al.*, (2009) lack of finance is one of the biggest challenges of all entrepreneurs. Gore and Fal (2010) stated that the South African financial and operating environment is not supportive of entrepreneurs in terms of policies, regulations and access to capital. Potential rural entrepreneurs could not be able to start business due to financial constraints. Lack of access to credit limits the expansions of firms, choice of technology, hiring suitable premises and the employment of skilled personnel. This hampers the potential to adequately meet the needs of the customers. Access to credit is crucial for initiating new business ventures, fulfilling working capital requirements as well as expanding existing businesses. Access to capital is an effective instrument for entrepreneurs' success (Agbenyegah, 2013). Entrepreneurs need access to capital to establish a business, stay competitive, to introduce new technologies and to grow.

Formal financial institutions such as commercial banks have not ventured to serve entrepreneurs in rural areas because travelling to banks is expensive for rural customers. As pointed out by Robinson, Dassie and Christy (2004), lack of adequate finance is one of the major impediments for rural people to create their own business.

Financial institutions are not willing to lend to rural entrepreneurs because the cost of administering the loan exceeds the benefit accrued from them.

A recent survey by Patel and Chavda (2013) revealed that most entrepreneurs in rural areas do not get financial assistance due to lack of collateral, thus leading entrepreneurs to be heavily reliant on their family and friends to source capital to start and run their businesses. It has been reported that ninety nine percent (99%) of entrepreneurs are dependent on their family, friends and informal institutions to start and expand their business.



### **2.8.2. Poor physical infrastructure**

Lack of business infrastructure is another major constraint for rural entrepreneurs. Business infrastructure includes transportation network, telecommunication, internet, banks, electricity, roads whilst social infrastructure such as education and health are limited or less developed in rural areas as compared to urban areas (Diochon, 2003). In many rural areas, internet service is very slow or expensive. Barkema and Drabescott (2000) suggested that the remoteness of many rural places presents transportation challenges to rural entrepreneurs because the population is widely dispersed and the distance is longer from and to national markets. In some rural areas, there is less attraction for entrepreneurs because the effect of bad terrains and harsh climate conditions.

Poor infrastructure is one of the greatest obstacles to the growth of entrepreneurial enterprises across Sub-Saharan Africa countries (Fal, 2012). In Tanzania, many

entrepreneurs reported that they had problems related to business premises such as increase in house rent, lack of basic services such as telephone lines, electricity supply, sewerage and water. Physical infrastructure facilities are not adequately developed to meet the growing demand of entrepreneurs in rural areas (Fal, 2012).

Information networks are also poor in rural areas. Ngorora and Mago (2013) indicate that rural areas have poor communication infrastructure, with few telephone lines, fewer computers with internet access being very sluggish and expensive. Rural people do not have the necessary skills and knowledge on how to use the internet, and this affects rural people access to important information and opportunities. Many entrepreneurs in South Africa are not aware of the support programmes offered by the government due to lack of skills and knowledge on how to use the information technology. A survey taken by Venter, Urban and Rigwema (2010) revealed that in Western Cape, seventy percent (70%) and fifty seven percent (57%) entrepreneurs in Gauteng, respectively, were not aware of support programmes available to them.



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### **2.8.3. Limited market access**

Market is another major problem for rural entrepreneurs. Lee and Suzanne (2000) state that communities in rural areas are economically stagnated, offer limited market opportunities whilst the level of capital accumulation is too small to enable entrepreneurs to take advantage of the limited opportunities that exist in rural areas.

This indicates that market for products is too low to encourage the expansion of entrepreneurial activities in rural areas, and the products are sold at very low prices to

accommodate the majority of the poor who reside in rural areas; this limits entrepreneurs from exploiting opportunities in rural areas. The high competition from large scale-enterprises also makes limited market opportunities for small entrepreneurs. Low population densities in rural areas, remote locations and high transportation costs make it difficult for rural entrepreneurs to access markets.

## **2.9. Theoretical framework**

Theory is a fundamental to research and provides a conceptual framework from which research emanates. Without theory, research would be meaningless. This study, for instance, is premised on the Schumpeter innovation theory and market-friendly approach. These theoretical concepts are discussed below.



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### **2.9. 1. Schumpeter innovation theory**

This theory was developed by Joseph Alois Schumpeter in 1911 in his book, “The Theory of Economic Development” (Juma, 2014). Joseph Schumpeter was one of the most prominent social scientists of the twentieth century who developed an original approach, focusing on the role of innovation in economic and social change. Schumpeter argues that socio-economic transformation comes from innovation. Entrepreneurship creates innovation (new product or new markets). Juma (2014) argues that economic development is driven by the creation of new products, new production methods or processes, new organizational forms, new markets and new sources of raw materials and inputs in combination. These combinations are carried out by entrepreneurs and are crucial for economic development.

Innovation creates new products or services that arise directly through entrepreneurship activities (Eggink, 2013). Entrepreneurship drives innovation and creation of large companies which have resources and capital to invest in research and development to create new products and services and deliver them to individuals affordably, thus raising their standard of living. Innovation does not only introduce new goods and services but also expands the availability and reduces the prices of goods in society, including goods consumed by poor people.

Innovation is a critical dimension of economic change in the society. The Schumpeter innovation theory argues that economic change and development revolves around innovation (Juma, 2014). Entrepreneurship thus brings creativity, newness, innovation, trade activity and market competition. Innovation leads to improved technology, new ways to do business, introduction of cheapest goods and services and enhancement of investment.



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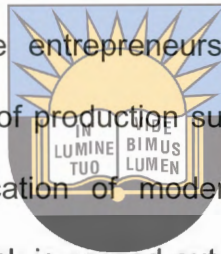
Innovation brings socio-economic transformation and generates enough capital to exploit opportunities for change by applying new ideas, methods, or combination of resources. Innovation reallocates resources into new products and services.

The Schumpeter innovation theory argues that development is the outcome of innovation. Innovation creates new products, new production process, opening of new markets, develops low costs, acquisition of new sources of inputs and implementing the new organization of an industry (Lazonick, 2013). These combinations are carried out by the entrepreneurs. The development and utilization of productive resources to generate higher quality, lower costs goods and services, depends on innovation

(Lazonick, 2013). Innovation does not only bring high quantity products and low prices, but also generates sufficient revenue to pay higher wages to employees and high returns to other stakeholders such as suppliers and shareholders.

Moreover, innovation introduces new management or new marketing strategies and adoption of new policies. This leads into improvement of the economic growth and development (Bula, 2012). Development requires shifts from low to high productivity, the creation and adoption of new goods and services, new skills and new knowledge.

These shifts are carried out by the entrepreneurship activity. The movement to development requires modern values of production such as mechanization, the use of computers, specialization and application of modern technology in production of economic goods and services. This task is carried out through innovation which comes directly from the entrepreneurship activity.



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The introduction of new products or services promotes domestic and international market activity. Therefore, this has positive effects on consumers, companies and nations through the creation and redistribution of economic welfare and expanding economic activity.

The Schumpeter innovation theory assumes that economic development and development arises as a result of innovation (Juma, 2014). The rate of technological progress, economic growth and development depends on the entrepreneurial activities. An entrepreneur is the creator of innovation who continuously seeks opportunities to minimize costs, to increase returns on an investment as well as to increase any other form of economic gain. Sledzik (2013) argues that an individual entrepreneur is a

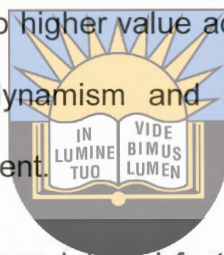
central role in the innovative process and can discover opportunities by introducing new products or new process of production.

The Schumpeter innovation theory assumes that poverty can be reduced through rising of economic productivity and investment. Innovation brings economic productivity and competitiveness. The rising of economic productivity can lead to increased wages, job creation and results into poverty reduction. The success of developed countries is caused primarily by the development of innovative production structure. The developed nations have been able to maintain strong economic competitiveness due the expansion and improvement of the existing production structures. Innovation transforms economic activities from static to dynamic.



The proponent of this theory argues that innovation is the centre of economic change causing gales of “creative destruction” (Siedzik, 2013). Innovation is a process of industrial mutation that ceaselessly revolutionizes the economic structure from within and ceaselessly destroying the old one, incessantly creating a new one. This process of creative destruction drives economic development, and the entrepreneur is responsible for the change of its creation. This implies that the entrepreneur destroys the existing economic structure in the process of creating new products and production methods. This entrepreneurial innovation, in turn, leads to economic growth and development (Eggink, 2013). The process of creative destruction is also crucial in socio-economic transformation of ADM. However, there is no such an innovation activities among rural entrepreneurs in ADM. It is difficult to distinguish their innovating activity from their ordinary business activity. The innovation activities among rural entrepreneurs in the ADM become a routine.

The Schumpeter innovation theory viewed innovative entrepreneurship as new product-market combinations destructing older, obsolete products and services and pushing the production frontiers forwards (Juma, 2014). Entrepreneurs generated new and more efficient ways of production and pushed under-performing firms out of the market, and this is known as a process of creative destruction. Entrepreneurs are a source of new innovation, investment, job creation, capital formation and market competition. Innovations tie up with changes in the structure of the economy, technological upgrading in production and moving to higher value added activities. Entrepreneurs, in turn, bring creativity, capabilities, dynamism and innovativeness. These are the characteristics of successful development.



According to this theory, innovation is an internal factor of change because of turning the existing factors of production to new uses (Eggink, 2013). Innovation transforms productive resources into goods and services to be sold in order to generate revenue. This theory argues that Innovation improves the utilization and the efficient allocation of production factors. Productive resources are redirected into providing new goods and services with a higher value than the old one. Innovation helps to turn scarce resources into productive investment. Higher output and low price of goods and services comes directly from innovation. Entrepreneurs transform technologies and access markets and thereby develop and utilize resources to generate products and services that the customers are willing to pay for. Innovation enhances investment, economic production and market activities and results to poverty reduction. However, the role of innovation in economic development is perceived differently among economists. Marshall, Keynes and Samuelson do not see innovation as a driver factor of production or economic

development (Eggink, 2013). Economic development of a country does not depend only on innovations but also many economic and social factors.

### 2.9.2. Market-friendly approach

The concept of the market-friendly approach, as strategy for development, was established by the World Bank in 1991 (Singh, 1995). According to this view, government intervention in some areas of the economy is crucial in the development process if the intervention is strictly limited to foster the smooth functioning of the market. Development requires the government to create an environment in which markets can operate efficiently and intervene selectively in the economy where the market is inefficient. If the market mechanism functions sufficiently, resources will be transferred to investment, hence the economy will grow through the optimum allocation of resources (Kenichi and Izumi, 1998).



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The market-friendly approach sees the government as the biggest player in encouraging, developing and preserving entrepreneurship. The creation of a favourable economic climate promotes entrepreneurship. This approach believes that the government must provide educational training, basic economic infrastructure and direct assistance to entrepreneurs through financial aid, favourable procurement policies, and effective business advocacy programmes.

This approach also argues that government intervention is crucial for entrepreneurship development. The role of government in development is regarded as important to providing the social, legal, economic infrastructure and creating a conducive

environment for entrepreneurs (Singh, 1995). Entrepreneurship cannot be promoted in isolation and needs government's policy support to mature. The creation of an economic environment encourages entrepreneurs to invest and innovate as well as to create new markets or new trade relationships. Entrepreneurs can promote better access to international technologies and foster new products or services. Access to domestic and international markets is very important for development.

Policies for increasing demand for entrepreneurship can significantly speed-up entrepreneurial activity at community levels. Incentives such as: provision of concession finance, technologies, markets, infrastructure facilities, creation of support institutions and technical and managerial guidance are crucial for entrepreneurship development (Awasthi, 2011). Additionally, tax relief, subsidies, investment allowance and other incentives may encourage entrepreneurial activities. Improved business regulations, tax regimes, licensing requirements, financial sector reform and bank supervision promotes better conditions for entrepreneurs' development (ILO, 2006). These incentives contribute to entrepreneurs' increased innovation, investment and marketing activity or trade relationship and, in turn, poverty reduction and economic growth.

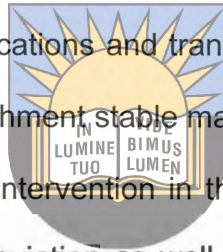
The market-friendly approach sees government intervention in the market economy as crucial to provide a functioning legal environment system and a stable macro-economy; to correct market failure; to provide tax incentives, and to subsidize infant industries (Singh, 1995). All these forms of subsidies and protective measures are crucial for market development which provides goods and services as efficiently as possible. This approach also assumes that free mobility of people, capital, goods, services, technology



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and free entry and exist of firms are crucial for development. Sapru (2008) argues that policies for openness to trade in goods and services and investment are crucial for rapid development. It encourages the domestic producers to cut costs by introducing new technologies and to develop new and better products or services.

The market-friendly approach believes that economic growth and poverty alleviation occur when the business climate is conducive to the emergence of entrepreneurs. To realize their potential or to grow and sustain in business, they need access to capital, labour, markets, technology, communications and transport infrastructure. The creation of such environments, with the establishment, stable macro-economic policies, is vital for entrepreneurs' success. Government intervention in the economic activity is crucial to achieve economic growth, poverty alleviation as well as rapid industrialization (Singh, 1995). Entrepreneurship development is significantly influenced by government policies (Awasthi, 2011).



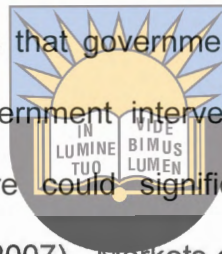
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This approach gives an example of East Asian countries such as South Korea, Taiwan, Hong Kong and Singapore who marvellously stimulated their economies through market mechanism (Singh, 1995). The government policy was simply stimulating the market. Extensive government intervention in markets encouraged entrepreneurs to enter in the market. This promoted high investment, innovation, capital formation and increased trade activity, resulting in high economic growth and development. The government in these countries has played a significant role in creating an environment in which markets operate efficiently (Singh, 1995) The government has established favourable financial, investment, trade and commercial policies in order to promote economic development through entrepreneurship activities (Amsden, 1989; Wade, 1990).

The role of government in the economy is crucial for developmental success. The market-friendly approach argues that to achieve economic growth as well as to alleviate poverty depends not only on entrepreneurs' ability and availability, but also on the economic environment that provides incentives and opportunities for entrepreneurs (Aoun, 2004). Poverty reducing strategies need to diminish policy and regulatory obstacles that discourage local entrepreneurial activities to improve access to skills development opportunities that strengthen entrepreneurial capabilities.

The market friendly approach argues that government intervention, in facilitating the operation of market, is crucial. Government intervention such as investment input markets and marketing infrastructure could significantly improve the climate for innovation (Leger and Swaminathan, 2007). Markets can function better when they are supported by public goods such as roads and electricity. Access to local, national and global markets is crucial for development. Transport and communication infrastructure allows entrepreneurs to access suppliers and customers. The creation of such environments promotes entrepreneurship activities that lead to successful economic growth and development.

The market-friendly approach argues that entrepreneurial activity does not exist within a vacuum; it needs factors that stimulate and support it. Services such as training, credit, consultancy, marketing assistance, business linkage promotion, advisory services, and information technology are crucial for entrepreneurship development and result poverty reduction and development (ILO, 2006). Policy and institutional framework needs to be conducive to the emergence of entrepreneurship in rural areas especially in the developing countries. The market-friendly approach argues that entrepreneurship can



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flourish when governments remove the barriers to business start-up and expansion. Regulatory and institutional reforms such as improved business registration requirements and procedures help to strengthen entrepreneurs' confidence. A simple rule of registration allows businesses to start-up quickly and provides goods and services. Government incentives through taxation and regulation promote entrepreneurship activities and, in turn, poverty reduction and economic growth. Without intervention, entrepreneurship is limited to survivalists rather than a more advanced level which includes job creation and sustainable development.



## 2.10. Conclusion


This chapter discussed the concepts entrepreneurship, poverty and rurality. Furthermore, it also addressed various empirical literatures on entrepreneurship and poverty reduction. Rural entrepreneurship plays a crucial role in poverty reduction worldwide through employment creation and income generation, innovation, skills transfer and engagement in social responsibility. However, despite this role rural entrepreneurship faces numerous challenges, such as lack of finance, poor market and lack of physical infrastructure. Theoretically, the chapter has highlighted that Schumpeter innovation theory and market friendly approach explains and supports the entrepreneurship development and transformation which is fitting in this particular study. The chapter that follows provides a detailed description of the study area as well as the research methodology used in this study.

## CHAPTER THREE

### RESEARCH METHODOLOGY

#### 3.1. Introduction

The last chapter presented the concepts, theoretical framework as well as empirical literature on entrepreneurship and poverty reduction. This chapter deals with the research methodology as well as the study area. Babbie (2008) defines research methodology as the blueprint for the collection, measurement, and analysis of data in order to achieve the objective of the study. The main objective of this study was to investigate whether rural entrepreneurship contributes to poverty reduction in ADM of the Eastern Cape of South Africa. To achieve this objective, the researcher collected data from the entrepreneurs, university of Port Harcourt students and government officials using face-to-face interviews.



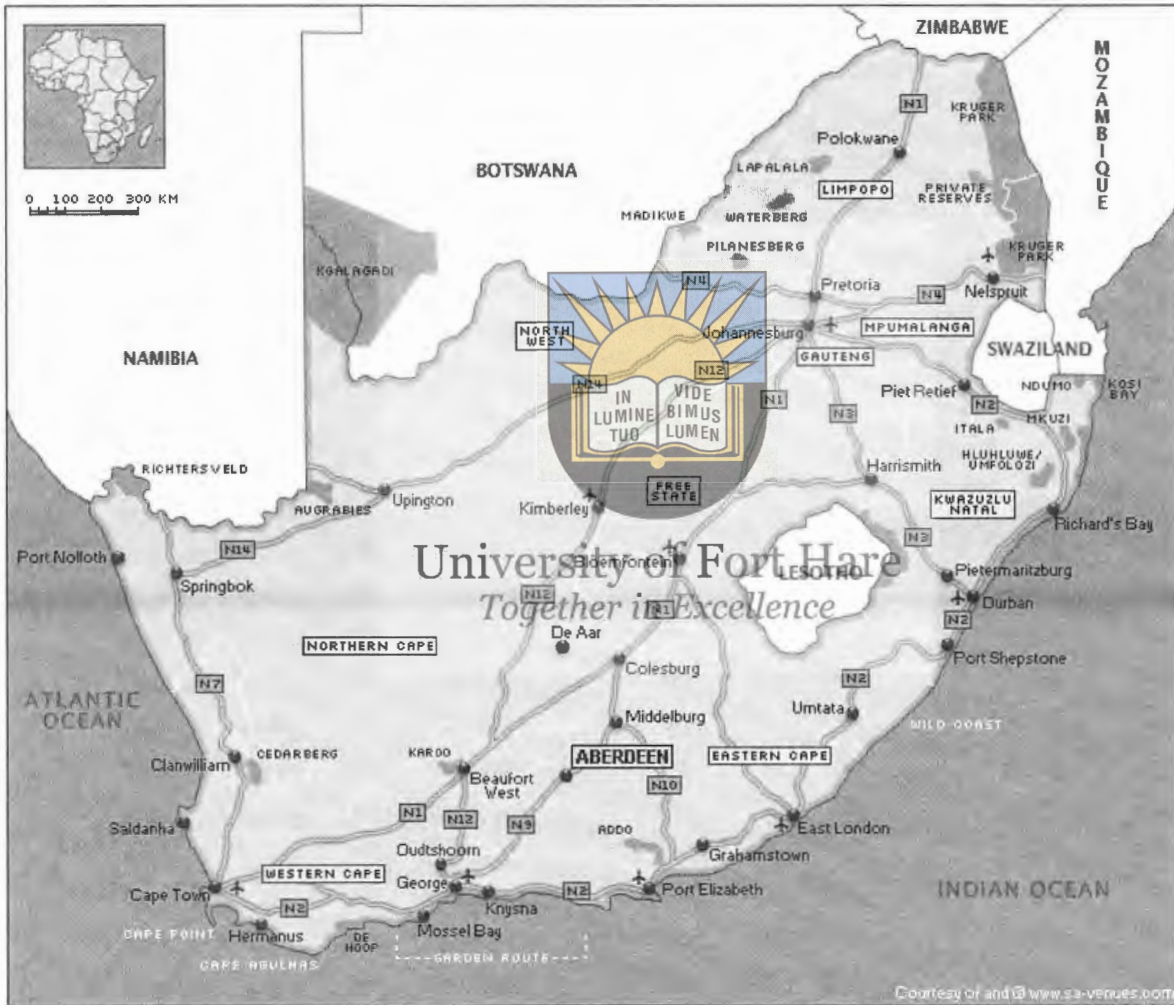
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A detailed description of the study area as well as the various techniques that were employed in this research to achieve the objective of the study will be presented in the following sub-sections.

#### 3.2. Description of the study area

South Africa occupies the Southern tip of Africa, stretching on latitude 22° to 35° south and on longitude 17° to 33° east. It has a long coastline that stretches along the South Atlantic and Indian oceans. South Africa is a medium-sized country, with a total land area of 1, 219, 090 square kilometres. The country shares boundaries with Namibia, Botswana and Zimbabwe, Mozambique and Swaziland. There is also the Republic of

Lesotho completely surrounded by South Africa. To the west, south and east, South Africa borders the Indian and Atlantic oceans. Figure 3.1 below shows the map of South Africa.

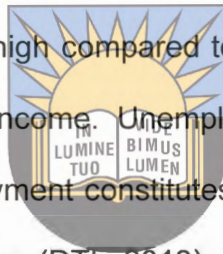


**Figure 3.1: Map of South Africa (Google Maps)**

South Africa further divides into nine provinces which are KwaZulu Natal, Northern Cape, Eastern Cape, Western Cape, Gauteng, North West, Free State, Limpopo and Mpumalanga as illustrated in figure 3.1. These provinces have their own legislature, executive councils and premiers. According to Jonas (2013:36), Gauteng is the biggest

economic province in South Africa and contributes thirty five percent (35%) of the national GDP, followed by KwaZulu-Natal (sixteen point four percent (16.4%) and the Western Cape (fourteen point eight percent (14.8%).

South Africa is a home to the largest economy in Africa (Jonas, 2013). Its economy depends on mining, agriculture, manufacturing and tourism. Mining is the main contributor to the South African economy. Unfortunately, the country's economy cannot create sufficient jobs to reduce the level of poverty. South Africa's poverty, unemployment and inequality remain high compared to international standards despite the country having high per capita income. Unemployment in South Africa is high among the youth, and youth unemployment constitutes seventy three percent (73%) of the total unemployment in the country (DTI, 2013). Entrepreneurship activity in the country is unable to absorb the growing of unemployment among the youth.



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South Africa's economic growth has improved in recent years and has grown, on average, by two point three percent (2.3%) per year (Jonas, 2013). However, this remains insufficient to reduce unemployment and poverty. Poverty, unemployment and inequality are still rife in the country. Perhaps this is because South Africa has the lowest rate of entrepreneurship activity. In 2012, the Global Entrepreneurship Monitor (GEM) reported that the percentage of youth in South Africa establishing businesses is lower than that in Sub-Saharan countries, despite the country's forty eight percent (48%) youth unemployment rate (Turton and Herrington, 2012). The report further indicates that it is only five percent (5%) of South African youths aged 18-24 who are involved in entrepreneurial activity. There is also a big difference of entrepreneurship spirit among different race groups in the country. Whites and Indians have more

entrepreneurial activity than Coloureds and Blacks. Businesses started by Whites and Indians are more likely to grow than those started by Blacks and Coloured (Herrington *et al.*, 2009).

Although South Africa is categorized as an upper middle-income country, many black South Africans still live in poverty. Many rural households in the former homelands (Ciskei and Transkei) do not have access to basic needs such as education, electricity, water and sanitation (Westaway, 2012). The incidence of poverty in South Africa is much higher in rural areas, and with the exception of two provinces, the majority of the population in other provinces of the country are living below the poverty line. The poverty rate is highest in the Eastern Cape, Limpopo and Kwa-Zulu Natal Provinces, where as Western Cape and Gauteng Provinces have less populations living in poverty (SSA, 2014).



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Most of the small businesses in South Africa are informal businesses. Gauteng is the leading province and contributes to both formal and informal businesses in the country. It accommodates forty eight percent (48%) of formal businesses and twenty five percent (25%) of informal businesses in South Africa (DTI, 2004). On the other hand, provinces with large rural populations such as KwaZulu-Natal (nineteen percent (19%)), Eastern Cape (thirteen percent (13%)) and Limpopo (Fourteen percent (14%)) accommodate higher proportions of informal businesses in the country. South Africa has recognized entrepreneurship development as a key intervention strategy for poverty alleviation as it plays an important role in solving problems of poverty and unemployment in the country.

Since the end of apartheid in 1994, the government of South Africa has taken a number of steps to develop entrepreneurship activities throughout the country. Numerous institutions were established to provide finance and non-finance assistance to entrepreneurs. However, the entrepreneurship activity in South Africa still remains poor to absorb the growing of unemployment among the youths. The country has the highest rate of unemployment in the provinces of Eastern Cape, Limpopo and Kwa-Zulu Natal. The recent world-wide economic crisis has had a dramatic impact on the economic development of South Africa. The effect on the country's economy has been significant, with over a million jobs lost (Westaway, 2012).



### 3.3. Description of the Eastern Cape Province

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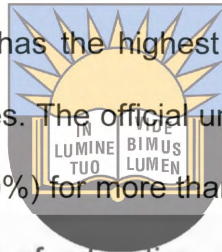
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The province of the Eastern Cape was created in 1994 and comprises the former homelands Transkei and Ciskei. The province is located in the South east of South Africa, and shares its borders with Free State and Lesotho in the north, Kwa- Zulu Natal in the north east, Indian Ocean in the south and South-Eastern border and Western and Northern Cape in the west. Bhisno is the capital administrative of the province. Eastern Cape is a home of two metros and six district municipalities. The Nelson Mandela municipal district (Port of Elizabeth) and East London are classified as Metropolitan areas. The remaining district municipalities are Alfred Nzo, Amathole, Cacadu, Chris Hani, UKhahlamba and O.R. Tambo.

Eastern Cape is the third populous province in the country after KwaZulu-Natal and Gauteng province. The province has 6.7 million people and makes up twelve point eight percent (12.8%) of the national population (Jonas, 2013). Sixty five percent (65%)

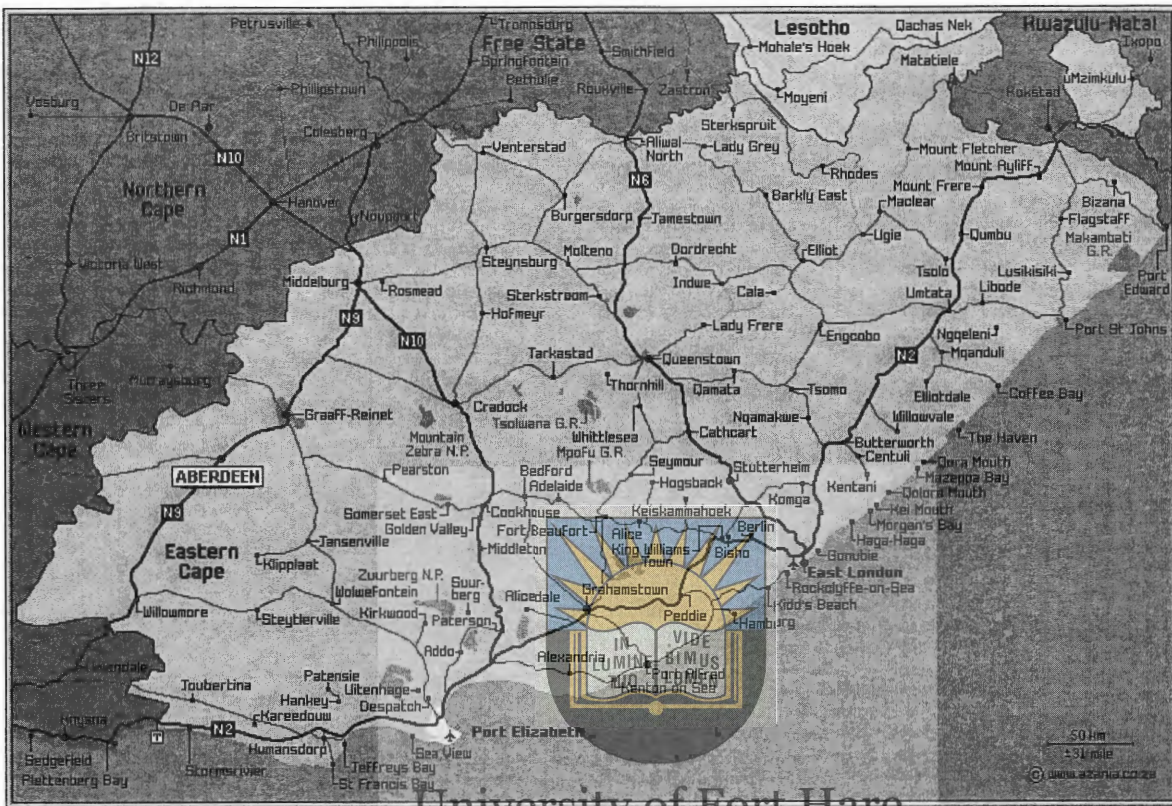
of the population of the province live in rural areas. In terms of land areas, Eastern Cape is the country's second largest province after the Northern Cape, taking up fourteen percent (14%) of South Africa's land areas and covers a land area of 169 580 square kilometres (Department of Agriculture, Forestry & Fisheries, 2011).

Eastern Cape is the poorest province in the country (Jonas, 2013). The province faces numerous socio-economic issues such as poverty, unemployment, and food insecurity. More than half of the population in the province are unemployed and live in extreme poverty. The Eastern Cape Province has the highest net out-migration in the country due to lack of employment opportunities. The official unemployment rate in the province has remained around thirty percent (30%) for more than 15 years (ECSECC, 2012). This aggravated high mortality, poor level of education and health in the Eastern Cape populace.



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The Eastern Cape Province map is presented in figure 3.2 on the following page.



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**Figure 3.2: Map of the Eastern Cape Province (Google Maps)**

The economy of the Eastern Cape is largely dominated by the tertiary sector. In 2011, the tertiary sector contributed seventy seven percent (77%) of the provincial economy (Jonas, 2013). The tertiary sector is made up of transport, communication, tourism, wholesale and retail trade, finance and real estate.

The manufacturing sector is also the key driver of the Eastern Cape economy. It contributes eighteen percent (18%) of the provincial GDP and eleven percent (11%) employment (Jonas, 2013). It is also one of the activities with a great potential to contribute further to economic growth. The manufacturing sector offers automotive, food processing, textiles and clothing, chemicals and machinery products. The manufacturing sector in the province grew to five percent (5%) in 2006 from four point

two percent (4.2%) in 2005. However, when the recent economic recession hit South Africa, the Eastern Cape Province was one of the most affected, thus losing an estimated 39 000 jobs, particularly in the automotive and textile manufacturing sectors (ECDC, 2010). This is attributed to the high unemployment rate in the province. The report further indicates that the provincial unemployment rate grew from twenty six percent (26%) in the third quarter of 2009 to thirty percent (30%) in the first quarter of 2010.

Eastern Cape has the fourth largest number of small businesses in South Africa. Small businesses play a crucial role in the provincial economy. The majority (sixty two percent (62%) of the new jobs created in the province were from the small businesses sector (ECDC, 2010). Most of these businesses are found in wholesale and retail trade, manufacturing, community, social and personal services. However, these sectors cannot create sufficient jobs to reduce the poverty level as poverty and unemployment remain high, especially in the former homelands of Transkei and Ciskei (IDP review, 2009-2010).



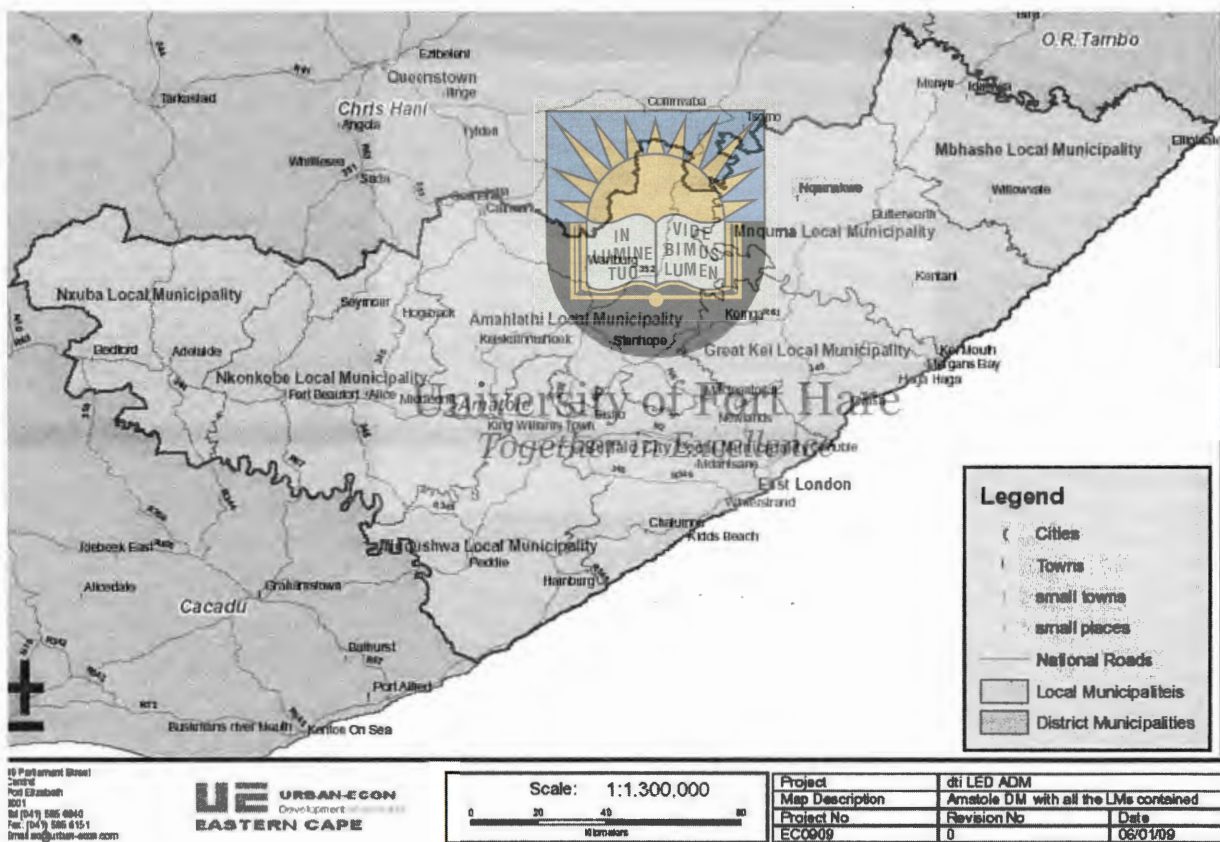
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### **3.4. Amathole District Municipality**

ADM came into existence after the first local government elections held in 2000. It lies at the heart of the Eastern Cape Province of South Africa between Port Alfred and Port Saint John's. The district shares boundaries to the South with Indian Ocean and to North with Amathole Mountain (IDP review, 2014-2015). It comprises the former Ciskei and Transkei homeland areas where limited or no development has taken place over a

number of years. This contributed to high levels of poverty and unemployment across the district.

The district is made up of 7 local municipalities, namely Amahlathi, Nxuba, Nkonkobe, Ngqushwa, Great Kei, Mquma and Mbashe. A map of ADM is illustrated in figure 3.3 below.



**Figure 3.3: Map of the Amathole District Municipality**

The district is made up fourteen point four percent (14.4%) of the population of the Eastern Cape Province and two percent (2%) of the population of South Africa. According to the 2011 Census of South Africa, the population of the ADM was estimated at 892 637 in 2010. The population is unevenly distributed among the local

municipalities. According to IDP review (2014-2015), the majority of the Amathole population reside in Mbashe local municipality (twenty eight point six percent (28.6%) followed by Mnquma local municipality (twenty eight point three percent (28.3%). The two local municipalities with the smallest percentages of the Amathole district population are the Great Kei local municipality (four point four percent (4.4%) and Nxuba local municipality (two point seven percent (2.7%). The population density of the district is 47 people per square kilometre compared to the rest of South Africa with 42 people per square kilometre and the Eastern Cape with 41 people per square kilo metre (ECSECC, 2014).



ADM is the 3<sup>rd</sup> largest economy in the province after the Nelson Mandela Metropolitan Municipality and Buffalo City Metropolitan Municipality, thus contributing twelve percent (12%) to the provincial economy (IDP review, 2014-2015). The economy of Amathole is dominated by the community services sector followed by the finance and business services sector and manufacturing. In 2011, these sectors contributed to forty four percent (44%), nineteen percent (19%) and fourteen percent (14%) of the district economy respectively (IDP review, 2009-2010).

The manufacturing sector is also a major employer in the district, and it contributed twenty three percent (23%) of the Amathole formal jobs in 2010. The manufacturing economy is made up of automotive, textile, pharmaceutical, electronics and food-processing industries. However, these economic sectors cannot create sufficient jobs to the growing Amathole population. Many households in the district are living in poverty without access to basic needs such as education, electricity, health, food, water and sanitation, especially in the former homelands of Transkei and Ciskei (IDP review,

2009-2010). In 2009, about seventy seven percent (77%) of the population of the district were living below poverty line. As a result of this, many people are forced to seek an alternative income for living. Many households of the district generated their income from informal business activities.

The small business sector remains a crucial role to the challenges job creation and poverty of the Amathole district. Most of small businesses are dominating in retail and service sector followed by manufacturing sector. Many businesses operate in urban areas as compared to rural areas, and there is inadequate infrastructure for business development in rural areas of the district (IDP review, 2009-2010). Lack of finance, poor infrastructure, lack of market and crime are the major hampers for entrepreneurship development in the district.



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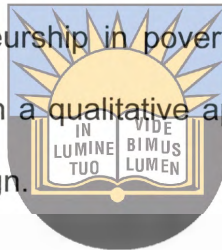
### **3.5. Research design**

Babbie and Mouton (2011) define research design as a plan or a blueprint of how one intends to carry out the research. It entails a detailed description of how the researcher intends to conduct the research. Research design refers to all the elements that are included in planning and executing a research. The selection of research design in a study depends on a number of factors such as purpose of the study, number of participants, time and budget. Research design consists of three elements, namely, quantitative research, qualitative research and mixed methods research. Each research approach has its strengths and weaknesses.

### 3.5.1. Mixed research design

This study employed mixed methods research design. The reason of using this approach in this study is that it permits the researcher to minimize the weakness inherent in one method. This technique also provides a diverse description of the research findings.

The quantitative approach cannot capture respondent opinions, perceptions and attitudes about the role of entrepreneurship in poverty reduction in ADM, and these qualities can only be captured through a qualitative approach. This is the reason why this study utilized mixed research design.

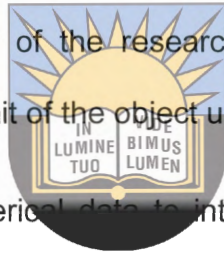


Mixed research enhances the validation of the research finding by employing various research techniques, such as interviews, questionnaires, observation and group discussions. Hart (2005), Hales (2010) and Tewksbury (2009) argue that to ensure the validation of the research, researchers should use more than one method. Mixed research allows for better understanding regarding whether rural entrepreneurship contributes to poverty reduction in ADM.

This type of approach is known as triangulation or combined methods. In other words, it is the combination of both quantitative and qualitative research. Mixed research refers to the use of more than one methods or different kinds of data on the same phenomenon. This approach is used in this study because the researcher planned to collect both numerical data and non-numerical data from the research participants. Qualitative research collects non-numerical (textual data) whereas quantitative research

collects numerical data. This research technique was helpful to gather numerical and non-numerical data in order to best understanding how entrepreneurship contributes to poverty reduction in ADM.

The triangulation approach allows the researcher to collect multiple data by using different strategies, approaches and methods in order to best understand the research problem (Creswell, 2003). In support of this notion, scholars such as Hart (2005), Hales (2010) and Tewksbury (2009) argued that the use of triangulation methodology in a research study enhances the validity of the research findings. It produces a more complete, holistic and contextual portrait of the object under study.



Quantitative research generates numerical data to interpret and explain the research finding. In quantitative research, data are collected through self-administrative questionnaires and structured interviews that yield statistical data (Creswell, 2003). It produces statistical methods for tabulating, analysing and presenting data. Quantitative research is also used to describe variables, to examine relationships between variables, and to determine causes and effect interactions between variables (Leedy and Ormrod, 2005:94).

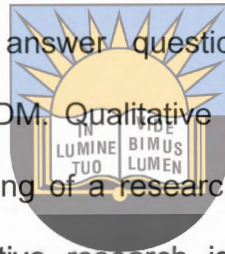
Quantitative research, unlike qualitative research, involves a greater number of subjects in a research study in order to enhance the generalisation of the research findings (Shepard, 2002). Besides this, quantitative research also ensures comparability over time by applying standard questions to the same or statistically comparable samples of entrepreneurs, entrepreneur employees and customers overtime. Quantitative research provides numerical description rather than detailed narrative as well as less elaborate

accounts of human perception. In addition to this, quantitative research cannot capture a respondent's opinion, feeling, perception and attitude. That is why mixed research was chosen as relevant in this study.

Qualitative research is a type of research design that collects and analyses textual data by using different data collection techniques such as interviews, focus group discussions and observation (Patton and Cochran, 2002). Qualitative research helps to interpret and better understand the social complexities of a given situation. This research technique is suitable to answer questions like how entrepreneurship contributes to poverty reduction in ADM. Qualitative research is holistic, flexible and more suited for a deeper understanding of a research question. According to Babbie (2010) and Creswell (2003), qualitative research is typically employed to answer research questions about the nature of different phenomena with the purpose of describing and understanding the phenomena from the participants' point of view. This research technique helped the study to come up with a better understanding the role of rural entrepreneurship in poverty reduction in ADM.

Qualitative research allows greater spontaneity and interaction between researcher and research participants. It provides more opportunity to participants to respond to questions more elaborately and in greater detail about how rural entrepreneurship contributes to poverty reduction in ADM.

Qualitative research offers advantages of flexibility in-depth analysis as well as the potential to observe a variety of aspects of a social situation (Babbie, 2010). It produces



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depth and breadth of understanding the role of rural entrepreneurship in poverty reduction in ADM.

Qualitative research allows better understanding of perspectives of the participants on the role of entrepreneurship in poverty reduction. The strength of qualitative research is that it has the ability to provide complex textual descriptions of how people experience a given research issue (Patton and Cochran, 2002). It solicits information about people's opinion, attitude and perception towards the role of rural entrepreneurship in poverty reduction in ADM. Qualitative research provides rich data and better understanding of a specific social context or phenomenon (Leedy and Ormrod, 2005).



### 3.5.2. Population and sample size

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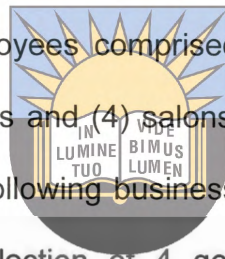
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In primary research, care should be taken in choosing respondents as well as in formulating the questions to be asked. A population consists of all the subjects that the researcher wants to study. According to Neuman (2011), a population is a group of people, objects and events that the researcher requires to draw conclusions whereas a sample is a portion of population which are selected to participate in a study. The population in this study were entrepreneurs, entrepreneur employees, customers (people who purchases goods and services from the entrepreneurs) and government officials in the AD. The government officials comprised Municipalities, Small business Support Institutions and Youth Centre Associations.

The targeted sample size for the study was 120 participants. However, 97 participants were interviewed in this study, and these were: 42 entrepreneurs, 31 entrepreneur

employees, 20 customers and 4 government officials. These were selected via purposive sampling. The selected 42 entrepreneurs comprised: 27 food item entrepreneurs, 10 clothing and shoes entrepreneurs and 5 salon entrepreneurs. The researcher considered entrepreneurs who employed a minimum of five persons in their businesses. The reason for choosing entrepreneurs who had a minimum of five employees in their business was that most of the rural entrepreneurs (small businesses) in the district employ five persons, on average, in their businesses.

The selected 31 entrepreneur's employees comprised those trading in the following: (18) food items, (9) clothing and shoes and (4) salons. The selection of 20 customers comprised those who supported the following businesses: (12) food items, (5) clothing and shoes and (3) salons. The selection of 4 government officials composed 2 municipality officials, 1 small business support institution and 1 Youth Centre Association. These research participants were selected through purposive sampling technique. This type of sampling technique is the most appropriate for selection of unit cases that are especially informative (Neuman, 2011).



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### **3.5.3. Sampling method and technique**

According to Greemstein (2001), sampling procedures are the techniques through which we determine which persons or families to observe and how many to observe. A sampling method can be categorized into probability sampling and non-probability sampling. Probability sampling is a sampling technique where every member of the population has an equal chance to be included in the sample whereas non-probability

sampling implies that not every element of the population has an opportunity of being included in the sample (Greenstein, 2001).

A purposive sampling technique was employed to select the participants for this research. The researcher selected the respondents who are relevant to the study. The respondents were selected based on their experience and knowledge about the research issue. The reason for choosing this technique is that it ensures the collection of data of high quality, reliability and competence. In addition, it is also helpful in obtaining rich data and deep understanding how rural entrepreneurship contributes to poverty reduction in ADM. A purposive sampling technique ensures the selection of participants with diverse experience and knowledge about the study. According to Macnee and McCabe (2004) a purposive sampling technique is a process that seeks in-depth understanding of the research phenomenon by including participants who have a particular type of experience and knowledge about the study phenomenon.



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This sampling technique assisted to save time and resources to carry out this study due to the selection of respondents with experience and knowledge of the research issue.

One of the good qualities of purposive sampling technique is that it assists to deal with people who can provide insight into the particular issues that the research intends to address (Macnee and McCabe, 2004). This sampling technique helped to enhance the validation of the research findings through selection of the respondents with experience and knowledge about the study issue.

### 3.6. Methods of data collection

This study was conducted by using primary and secondary data. Primary data is the data collected directly by the researcher whilst secondary data is collected from existing works of other researchers. Primary data was collected through personal interviews whilst in-depth interviews were conducted on the sample of entrepreneurs, entrepreneur's employees, customers and government representatives.

Interviews were carried out between the months of May and June 2015. Two research assistants were employed, and they were post graduate students from the University of Fort Hare.



In-depth interviews generated rich and detailed data from the participants towards the role of rural entrepreneurship in poverty reduction in ADM. According to Boyce and Neale (2006), an in-depth interview is a qualitative research technique that involves conducting intensive individual interviews with a small number of participants to explore their perspective on a particular idea, program or situation.

The reason of using this technique in this study was to obtain in-depth and rich data from the participants about the role of entrepreneurship in poverty reduction. This technique permitted the researcher to capture respondents' opinions, attitudes and perceptions towards the role of entrepreneurship in poverty reduction in the ADM. According to Boyce and Neale (2006), an in-depth interview is useful to obtain detailed information from specific groups about a particular research objective.

There were four interview schedules. Interview schedule 1 was conducted with entrepreneurs who operated their business in the towns of Alice, Fort Beaufort, Middle drift and Adelaide. A total of 42 entrepreneurs were interviewed, and they employed, on average, 5 employees in their businesses. The interviews took 20 to 30 minutes on average. Entrepreneurs were asked questions regarding how their business contributes to poverty reduction in their communities as well as the challenges faced during the start-up and operation of their businesses.

Interview schedule 2 was conducted on the employees who are working under the entrepreneurs. 31 employees were interviewed, and the interviews lasted less than 20 minutes. The employees were asked questions whether their salary was enough to meet basic needs such as food, electricity and water and sanitation. The employees were also asked questions on whether they had acquired any assets since their employment in the small businesses as well as if they do save some portion of their salary.

Interview schedule 3 was carried out with the customers (people who purchase goods and services from the small businesses). 20 customers were interviewed and the interviews took 10 to 15 minutes. The customers were asked questions related to entrepreneurship activities as well as poverty issues in their surrounding areas.

Interview schedule 4 was held with government officials. 4 government officials were interviewed, and they were from Nkonkobe Municipality Local Economic Development Officer, Nkonkobe Municipality Secretary, Nkonkobe Economic Development Agency Officer (Small Business Support Institution) and Nkonkobe Youth Centre Association

Leader. Respondents were asked questions on how small businesses contribute to poverty reduction in ADM. They were also asked questions regarding the criteria used by the District Municipality to provide assistance for the small businesses as well as the challenges they face in promoting small businesses in their area. On average, the interviews took 20 minutes.

The interview questions comprised both closed-ended and open-ended questions. This allows the attainment of qualitative and quantitative data. The open-ended questions allowed participants to provide answers in their own words while the closed-ended questions permitted participants to choose a response from a specific list provided by the researcher. Open-ended questions were used to capture participants' opinions and attitudes towards the role of entrepreneurship in poverty reduction. According to Sarantakos (2005) open-ended questions allow participants to express their feelings, opinions and thoughts freely about the research issue. Closed-ended questions were also able to generate numerical data.

In addition to primary data, secondary data from sources such as books, journals, articles, and magazines and newspapers were also used. The information obtained from both primary and secondary sources assisted the researcher to investigate whether rural entrepreneurship contributes to poverty reduction in ADM.

### **3.7. Data analysis**

When researchers have gathered data through interviews or questionnaires from the participants, their main task is to analyse data. Data analysis is the process of bringing

order, structuring and analysing of vast amounts of data into sensible and logical output for easy understanding. According to Mouton (2001), data analysis is the process of breaking up data into manageable themes, patterns, trends and relationships in order to understand the various constitutes of data that is collected from the respondents through various data collection techniques.

In this study, the data analysis was accomplished by use of SPSS (Statistical Package for Social Sciences). The process began by coding responses, then the data was entered into Microsoft excel and then imported into SPSS. The reason for using this package is that it is simple, easy to work with and it is also widely applicable in Social Science research. SPSS generated descriptive statistics such as percentages, tables, graphs and charts. These statistics were used to present and interpret the findings of the research.



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Analysis of qualitative data was done through the selection of concepts, categories and themes. It involved reading through interview responses then developing codes that draw connection between categories and themes. Coding data was done according to pre-set questions in the interview schedule which involved looking at their similarities and differences to be able to form themes and categories. Thereafter, the researcher summarized the key themes and transcribed them for suitable analysis.

### **3.8. Ethical considerations**

Ethics is very important in research because it defines what is and is not permissible to do when carrying out research. Social science researchers need to follow some

principles and guidelines in a conducting a research. According to Creswell (2003), ethics are the standard principles that must be followed and adhered to by the researcher when conducting a research.

The researcher abided by the ethical principles of the University of Fort Hare. Ethics clearance was obtained from the University of Fort Hare granting permission to conduct the study. In addition, the following ethical principles were followed in this study.

### **3.8.1. Informed consent**



Before the interviews were carried out, the research respondents were informed in advance about the reasons, aims and purpose of the research. Consent was obtained from individuals to participate in the study. The researcher also provided assurance to respondents to discontinue their participation at any time when they felt uncomfortable. Flick (2006) emphasised that the decision of the participant to participate in a research must be a decision to be made by the participant without any coercion from the researcher.

### **3.8.2. Confidentiality and anonymity**

The researcher employed the principle of confidentiality and anonymity. Anonymity refers to a situation where respondents' names are not linked to their response. The researcher ensured anonymity by not disclosing the respondents' name when analysing and interpreting the data. Confidentiality was also maintained in this study. The data gathered from the research participants was kept confidential, and no responses or results were exposed to outsiders.

### 3.8.3. Avoidance of harm to the participants

The researcher maintained the dignity and welfare of all participants. The researcher ensured that the protection of participants from harm, unnecessary risks and mental or physical discomfort that may be inherent during the data collection process. The participants were informed in advance to interrupt their participation when they felt uncomfortable at any stage during the data collection process.

### 3.8.4. Honesty



Finally, the researcher employed the principle of honesty to avoid biasness in the whole research process, such as research design, data analysis as well as data interpretation.

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### 3.9. Limitations of the study

This study was limited to non-probability sampling technique to select the sample of respondents. The researcher believes that this study would have produced slightly different findings if the random sampling technique was utilized to select the sample of respondents.

The main challenge of the study was scepticism among some of respondents. There was fear among the entrepreneurs to provide the exact information about the study as they thought that the information given by them will be reported to municipality officials, and the tax rate will increase against their business. There was also an expression of fear among the employees. Perhaps they thought that their responses will be checked by the boss, and they would lose their jobs if they responded negatively about the

employer. To overcome these challenges, the researcher explained in detail the aim and benefit of the research to the respondents.

Another limitation of the study was accessing the research participants. Appointments were not honoured and a lot of travelling was needed. Lack of willing participants was the key challenge for this study, and obtaining the required information from the respondents was not easy. Some respondents were not fully able to express their concerns in English language, and the researcher believes that if all the questions were answered by the respondents in the language they knew best, the findings might have been different. However, the researcher managed to collect relevant data through research assistance.



### **3.10. Conclusion**

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This chapter outlined the research methodology as well as the study area. It provides detailed information about the research design, sampling technique, population and sample size and data collection techniques. Furthermore, this chapter addressed the data analysis technique, ethical considerations and limitations of the study.

Analysis of the data collected from the field is presented in the chapters that follow.

## CHAPTER FOUR

### DATA PRESENTATION AND ANALYSIS

#### 4.1. Introduction

The previous chapter provided a detailed description of the study area as well as the research methodology. This chapter presents research findings, data analysis as well as data interpretation to achieve the objectives of the study. The prime objective of this study was to investigate whether rural entrepreneurship contributes to poverty reduction in ADM.



The following section presents the socio-economic characteristics of the respondents such as gender, age, marital status, and level of education, followed by presentation of findings and analysis on the contribution of rural entrepreneurship in poverty reduction in ADM as well as the challenges faced by the entrepreneurs.

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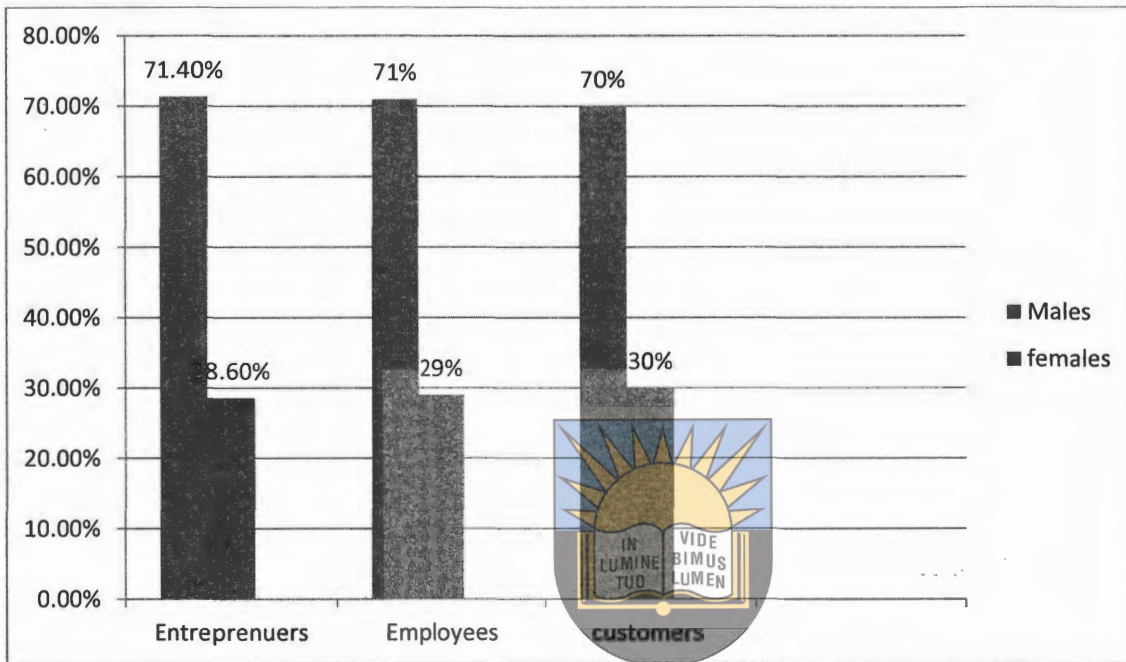
#### 4.2. Socio-economic characteristics of the respondents

This section presents the socio-economic characteristics of the respondents as well as some general business-related information.

##### 4.2.1. Gender of respondents

In South Africa, most of the people who are involved in entrepreneurial activities are men (Herrington *et al.*, 2010). The figure 4.1 on the following page shows the gender composition of the respondents.

**Figure 1.1: Gender of respondents**



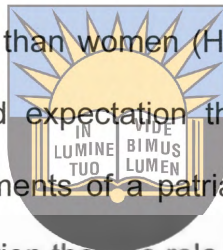
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Source: Field Survey, 2015 *Together in Excellence*

Figure 4.1 shows that seventy one point four percent (71.4 %) of the entrepreneurs were male while twenty eight point six percent (28.6%) of the entrepreneurs were females. In addition, seventy one percent (71%) of the employees were male and twenty nine percent (29%) of the rest were female while seventy percent (70%) of the customers were male and thirty percent (30%) were female. However, this finding on customers may be limited to the size of the sample chosen for this study. Therefore, it may not have been the case if a large sample were drawn. The above figure 4.1 indicates that there is high gender imbalance in entrepreneurship activities in ADM. Men are more involved in entrepreneurship activities in the district than women. This is in line with the finding of Simukoko (2006) in Zambia that indicated that most entrepreneurs who operate small businesses in rural areas are men. However, this may be the

opposite in some other countries. The 2009 GEM report indicates that in various Latin American countries, the gender gap in entrepreneurship activities is low compared to South Africa (Herrington *et al.*, 2009). For example, in Brazil, women are more involved in entrepreneurship activities than men (fifty two percent (52% compared to forty eight percent (48%) for men).

The percentage of men among the employees is also higher than women, probably as most women are expected to be domestic workers. In South Africa, men are more involved in entrepreneurship activities than women (Herrington *et al.*, 2009). Perhaps this is the patriarchal stereotype and expectation that women should be domestic workers. South Africa still carries elements of a patriarchal society into the economic development. There is still the expectation that the role of women should be restricted to child care, caring for the sick and fetching water and fuel, rather than being economically productive and employed in the broader economy (IWFS, 2011). This leads to further poverty among South African women.



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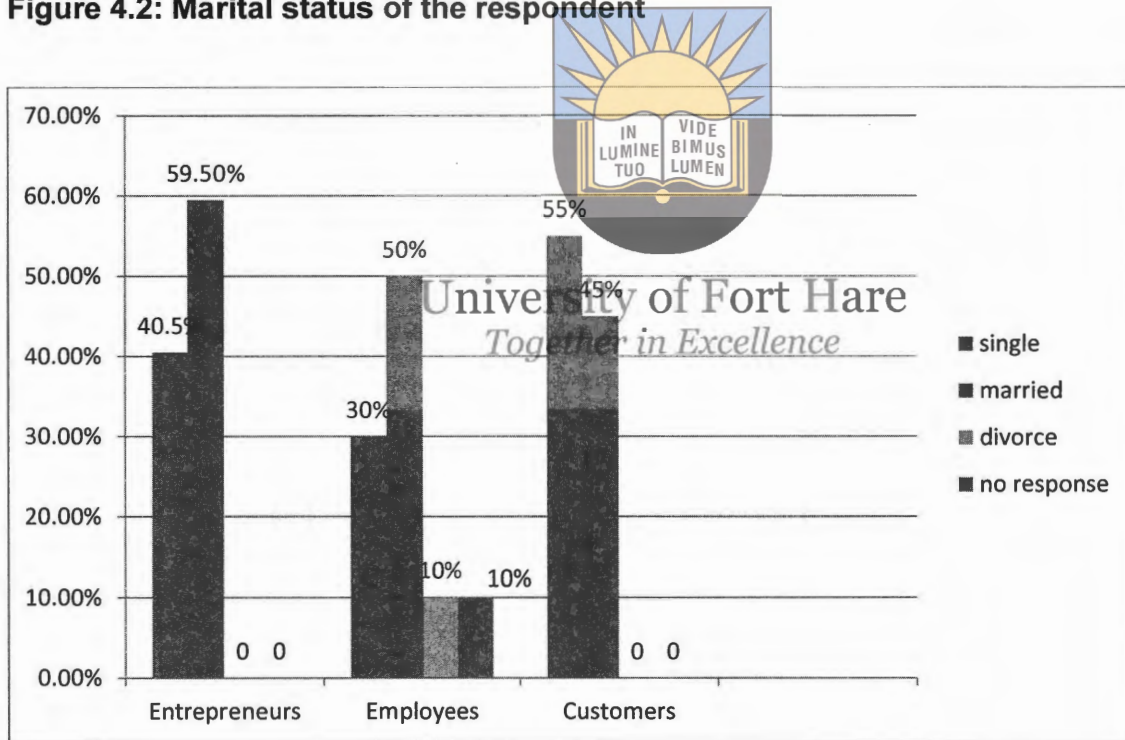
According to the ILO report (2006), women constitute the majority of the poor in the world. Lack of education and cultural barriers limits women's ability to engage in entrepreneurial activities. Women face numerous challenges in becoming entrepreneurs. These challenges include: high levels of domestic responsibility, lower levels of education, lack of communication and information and lack of capital and assets. These factors may prevent women from perceiving as well as acting on entrepreneurial opportunities (Herrington *et al.*, 2009). As a result of this, women are less involved in entrepreneurship activities than men. The GEM surveys revealed that

men in South Africa are 1.5 to 1.6 times more likely to be involved in entrepreneurship activities than women (Herrington *et al.*, 2010).

#### 4.2.2. Marital status of the respondents

Figure 4.2 below presents the marital status of the respondents. This enables to determine whether the respondents are married or single.

**Figure 4.2: Marital status of the respondent**



**Source: Field Survey, 2015**

The analysis in figure 4.2 indicates that the majority (fifty nine point five percent (59.5%) of entrepreneurs were married while forty point five percent (40.5%) of the entrepreneurs were single. Moreover, fifty percent (50%) of the employees were married while thirty percent (30%) of them were single, and fifty five percent (55%) of the customers were

single and forty five percent (45%) of the rest were married. This indicates that most of the people who are involved in entrepreneurship activities were married. This is related by the findings of Agbenyegah (2013) which revealed that the majority of entrepreneurs who are engaged in small businesses are married.

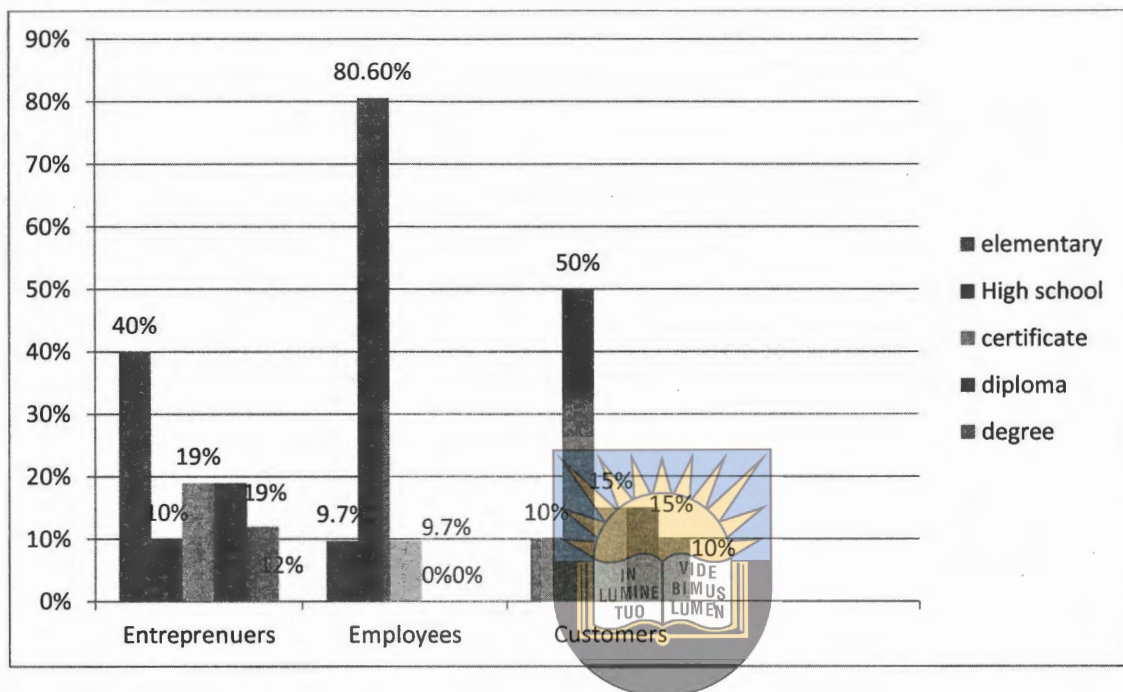
The percentage of married people was also higher for the employees, highlighting that family responsibilities would have pushed many people to seek jobs to fend for their families.

#### 4.2.3. Education level of respondents



This question was design to indicate the education level of the respondents. The education level of the respondents comprised elementary, high school, certificate, diploma and degree qualifications. Figure 4.3 on the following page presents the educational level of the respondents.

Figure 4.3: Education level respondents



Source: Field Survey, 2015

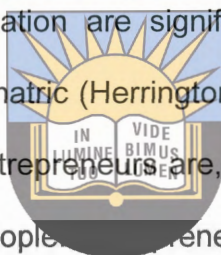
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The findings in figure 4.3 show that forty percent (40%) of the entrepreneurs had elementary education; nineteen percent (19%) had certificates and diplomas; twelve percent (12%) had degree qualifications, and ten percent (10%) of respondents had high school certificates. The majority (eighty percent (80%)) of the employees had high school certificates, and ten percent (10%) of the rest had elementary education and certificates respectively. This shows the low level of education among the entrepreneurs and employees.

Most owners' small businesses in ADM do not have high education qualifications like degrees and masters qualifications to manage their businesses effectively. Sarpong (2012) reported that most small businesses owners in Ghana do not have the necessary qualification to run their businesses effectively. The low level of education of

entrepreneurs limits their capacity to deal with plans that can lead to business growth like keeping proper book records, preparing business plans and also looking for more training programmes to improve their businesses. This could be a key factor for the cause of high failure of small businesses. Rogerson (2007) found that ninety percent (90%) of small businesses in South Africa fail during their first year of business operation.

Education is a key for entrepreneurship development. The GEM surveys revealed that people with matric and tertiary education are significantly more likely to own and manage business than those without matric (Herrington et al., 2009). The report further highlighted that the more educated entrepreneurs are, the more likely they are to start business as well as to employ more people. Entrepreneurs who had a tertiary education



displayed 2.5 times more potential to create employment than entrepreneurs who had not completed secondary education (Herrington et al., 2009).

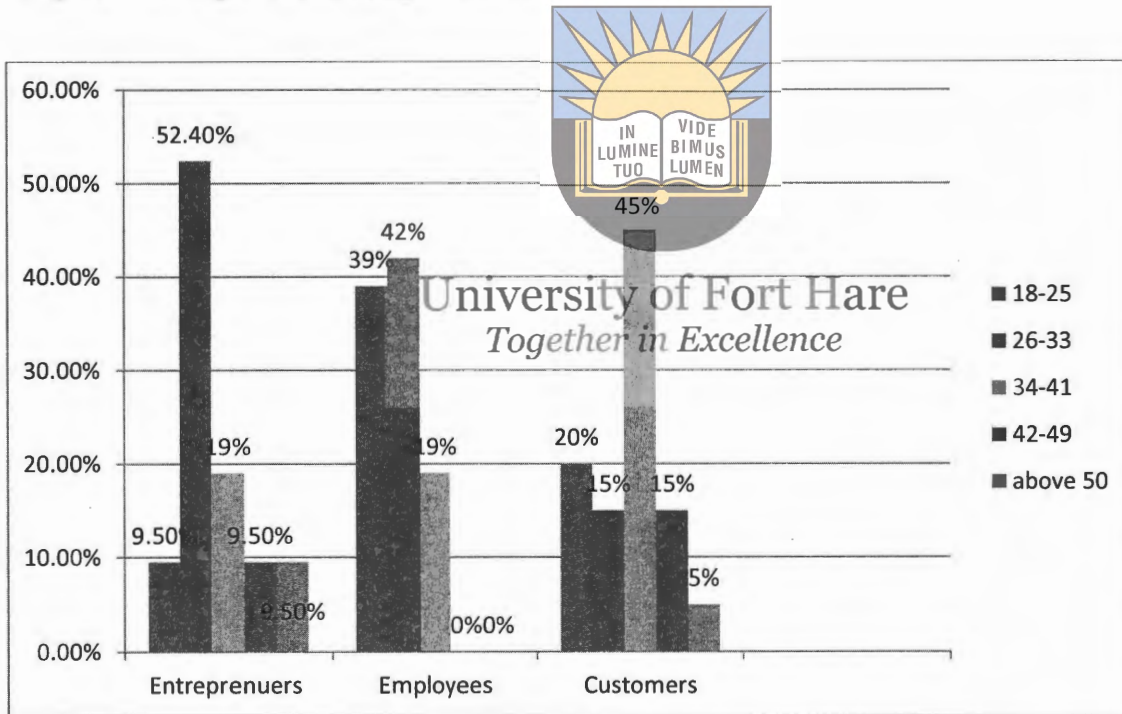
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Lack of education reduces people's confidence to engage in entrepreneurship activities. Rural communities in South Africa have low levels of education. In the apartheid era, many South Africans had no access to formal education (Herrington et al., 2009). Opportunities to get work experience as well as formal learning were restricted for black South Africans. This contributes to the lack of entrepreneurship activities in South Africa today. South Africa has the lowest entrepreneurship activities compared to developing countries despite the fact that the country has a good conducive environment for entrepreneurship development (Herrington et al., 2010). South Africa has better infrastructure facilities such as roads, water, electricity and communication infrastructure than other Sub-Saharan countries.

#### 4.2.4. Age of the respondents

The age of the respondents presented in figure 4.4 below. This enabled the study to determine whether the people who are involved in entrepreneurial activities are youth or the elderly. The age of the respondents was categorised between 18-25 years; 26-33 years; 34-41 years; 42-49 years and above 50 years.

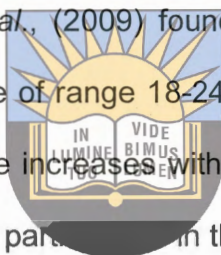
**Figure 4.4: Age of the respondents**



**Source: Field Survey, 2015**

The findings indicate that fifty two point four percent (52.4%) of the entrepreneurs' age ranged between 26-33 years; nineteen percent (19%) ranged between 34-41 years; nine point five percent (9.5%) were between 18-25 years; nine point five percent (9.5%) were between 42-49 years and nine point five percent (9.5%) were above 50 years. forty two percent (42%) of the employees were between the ages of 26-33 years; thirty

nine percent (39%) of were between 18-25 years, and nineteen percent (19%) of the rest were 34-41 years. The highest (forty five percent (45%) proportion of the customers were between the ages 34-41 years; twenty percent (20%) of were between 18-25 years, and five percent (5%) of the rest were above 50 years. This shows that most of the entrepreneurs who are involved in entrepreneurial activities in the district are youths. This is similar to a study conducted in Ghana by Sarpong (2012) which indicated that most of the youth between the ages of 20-35 years are involved in entrepreneurship activities. Furthermore, Herrington *et al.*, (2009) found that entrepreneurial activity in South Africa is relatively low in the age of range 18-24 years cohort, peaks among 25-34 year olds, and then declines as age increases with the sharpest decrease after the age of 54. Most of the employees who participated in this study were also youths. This, perhaps, is because some are family heads who need to fend for their families in terms of food, clothing as well as medical services. The issues of formal unemployment in the country would be a driving factor for many youths to seek alternative employment in these small rural businesses.

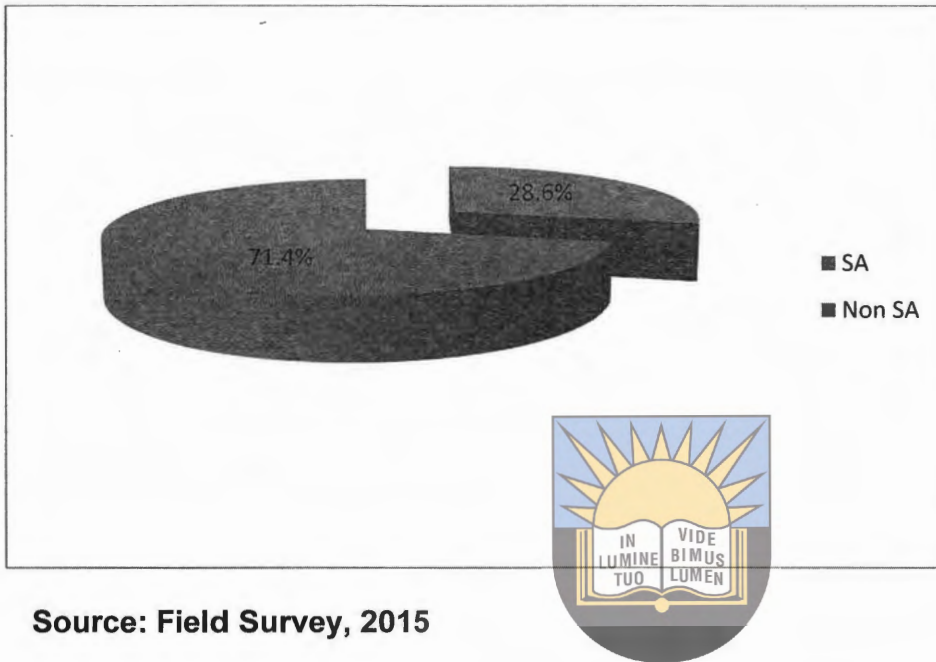


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#### **4.2.5. Nationality of respondents**

This question was designed to obtain information on whether the entrepreneurs who are engaged in entrepreneurial activities in ADM are South Africans or foreigners. The response to this question is presented in figure 4.5 on the following page.

**Figure 4.5: Nationality of respondents (entrepreneurs)**



**Source: Field Survey, 2015**

The results in figure 4.5 indicate that twenty eight point six percent (28.6 %) of the entrepreneurs were South Africans while seventy one point four percent (71.4%) of entrepreneurs were non-South Africans. This indicates low involvement in entrepreneurship activities among South Africans. This echoes research that has indicated entrepreneurship activities among South Africans being low compared to other developing countries (Herrington et al., 2010). Total entrepreneurship activity in South Africa is five point nine percent (5.9%) significantly lower than the average for all efficiency-driven economies eleven point two percent (11.2%) as well as the average for all middle to low income countries fourteen point eight percent (14.8%). Herrington et al., (2009) argue that the low levels of entrepreneurship activities in South Africa might not be only from of lack of a conducive environment, but might also be linked to socio-cultural issues. This is echoed by this finding, as many South Africans do not consider

entrepreneurship as career option; Ngcamu (2002) argues that the apartheid government influenced entrepreneurship under-development in South Africa. Apartheid did not allow black South Africans to form and manage their own businesses, and this created culture of dependency among South Africans.

The above figure 4.5 indicates that immigrant entrepreneurs in ADM are more entrepreneurial than South African citizens. According to Fatoki (2014), self-employment among immigrant entrepreneurs is higher than those who are native-born. In many countries, immigrant entrepreneurs are more likely to establish businesses than native-born ones. A study in the United State indicates that immigrant entrepreneurs are more likely to engage in entrepreneurship than native-born individuals (Killawi, 2013). Over the past two decades, immigrant entrepreneurs have been responsible for the thirty percent (30%) growth of small businesses in the United State of America. Immigrant entrepreneurs establish new businesses, create jobs and drive economic growth. In addition, immigrant entrepreneurs transfer skills to their employees as well as improve accessibility of goods and services to the local communities (Kalitanyi and Visser, 2010).

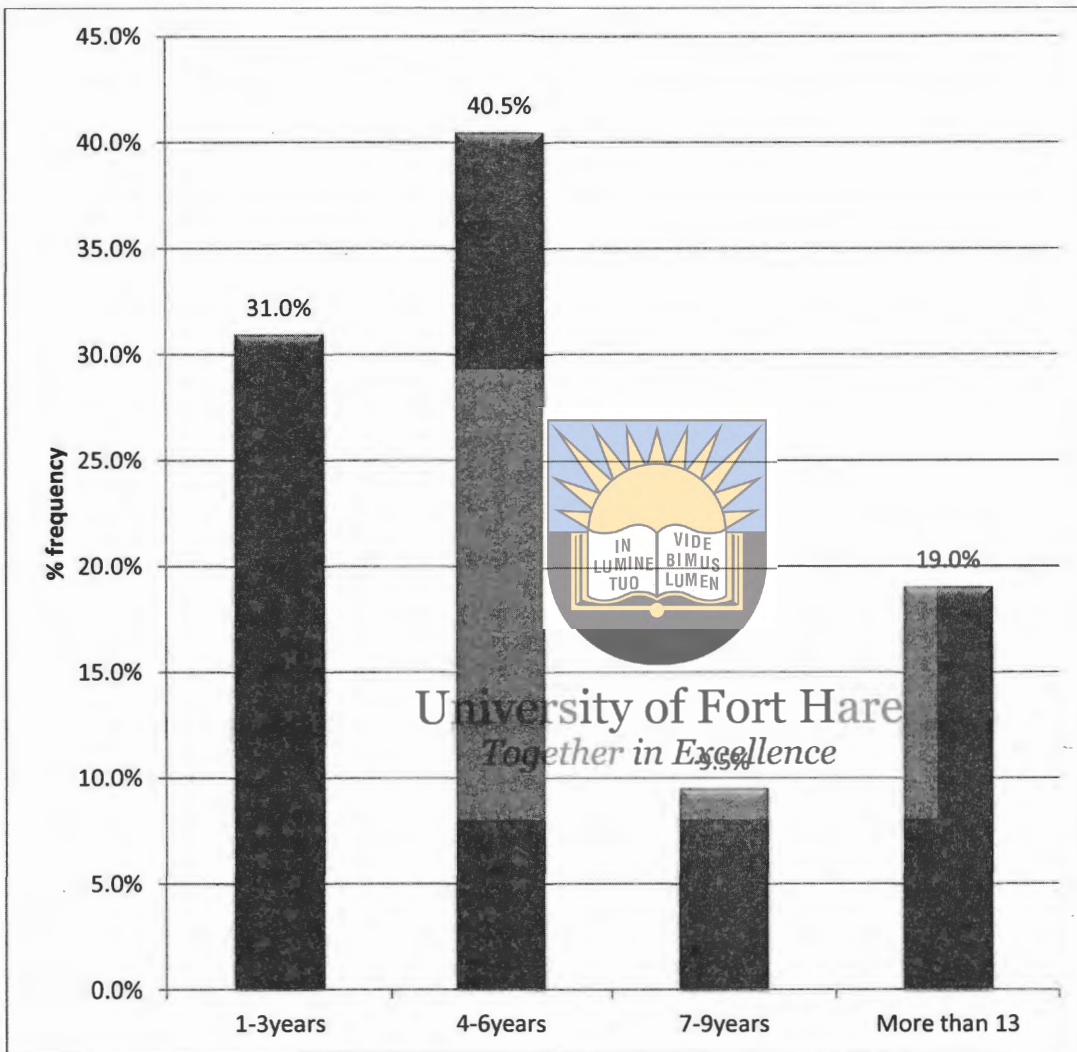


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#### **4.2.6. Period of business operation**

People who have experience in the business are more likely to own and manage their businesses. Figure 4.6 on the following page shows the number of years in the business by the entrepreneurs.

**Figure 4.6: Period of business operation**



**Source: Field Survey, 2015**

The analysis in figure 4.6 shows that forty point five percent (40.5%) of the entrepreneurs had been running businesses in the area for a period between 4-6 years; thirty one percent (31%) of entrepreneurs had been running business in the area for 1-3 years; nineteen percent (19%) of entrepreneurs had been running business in the area for more than 13 years, and the rest nine point five percent (9.5%) of entrepreneurs had been running business in the area for 7-9 years. This shows that the entrepreneurs had

good experience in the business. This can be linked to the findings of Sinxoto (2007) which revealed that the majority of entrepreneurs had been running their businesses for approximately 5 years. Experience is crucial for sustainable entrepreneurship development. The GEM report revealed that people with skills and experience are more likely to own or manage businesses than those without experience (Herrington *et al.*, 2009).

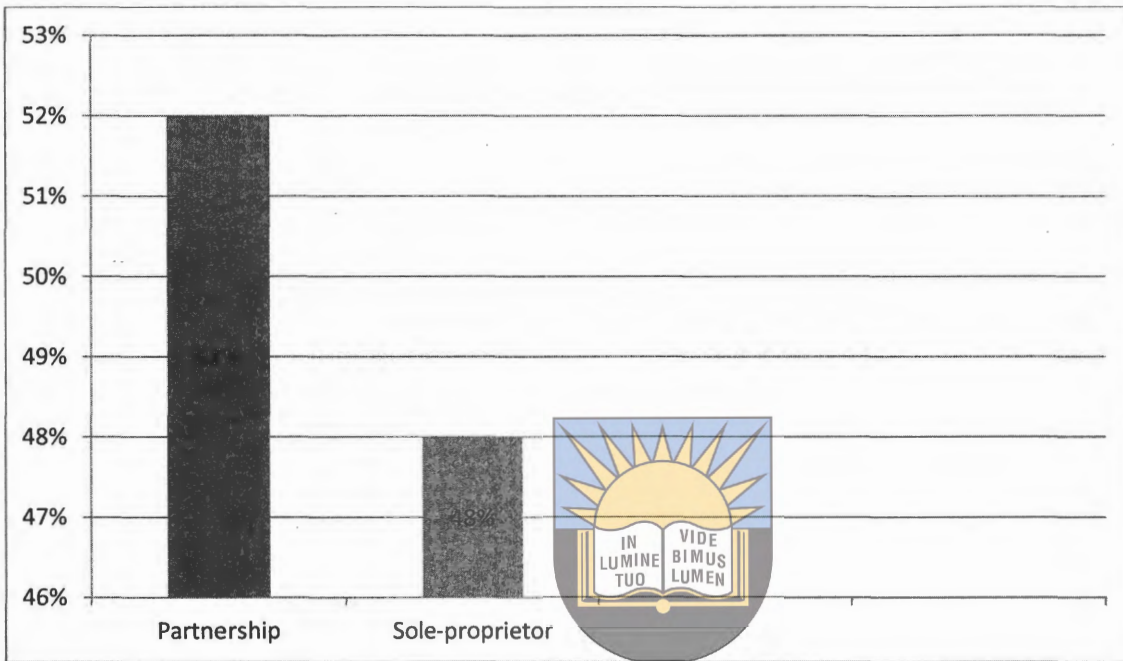
#### **4.2.7. Forms of businesses**



Business can be established in different forms of ownership such as partnership, sole-proprietors, and co-operatives and each of these have advantages and disadvantages. Figure 4.7 on the following page shows forms of businesses that participants were involved in.

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**Figure 4.7: Forms of business**



**Source: Field Survey, 2015** University of Fort Hare  
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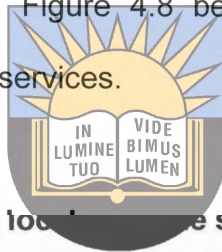
The results indicate that fifty two percent (52%) of the entrepreneurs were in a partnership form of business while forty eight percent (48%) were sole-proprietors. This shows that most of entrepreneurs in the district operated their business in partnership. Lack of capital is the major factor for entrepreneurs to establish their businesses in partnership form in the district.

However, in another study, researchers found that small businesses are dominated by sole-proprietors and close cooperatives. A study conducted in South Africa at the Buffalo Municipality by Sinxoto (2007) revealed that most small businesses are close cooperatives follow by sole-proprietors and partnerships. In Ghana as well, many scholars showed that small businesses are dominated by sole-proprietors. Sarpong

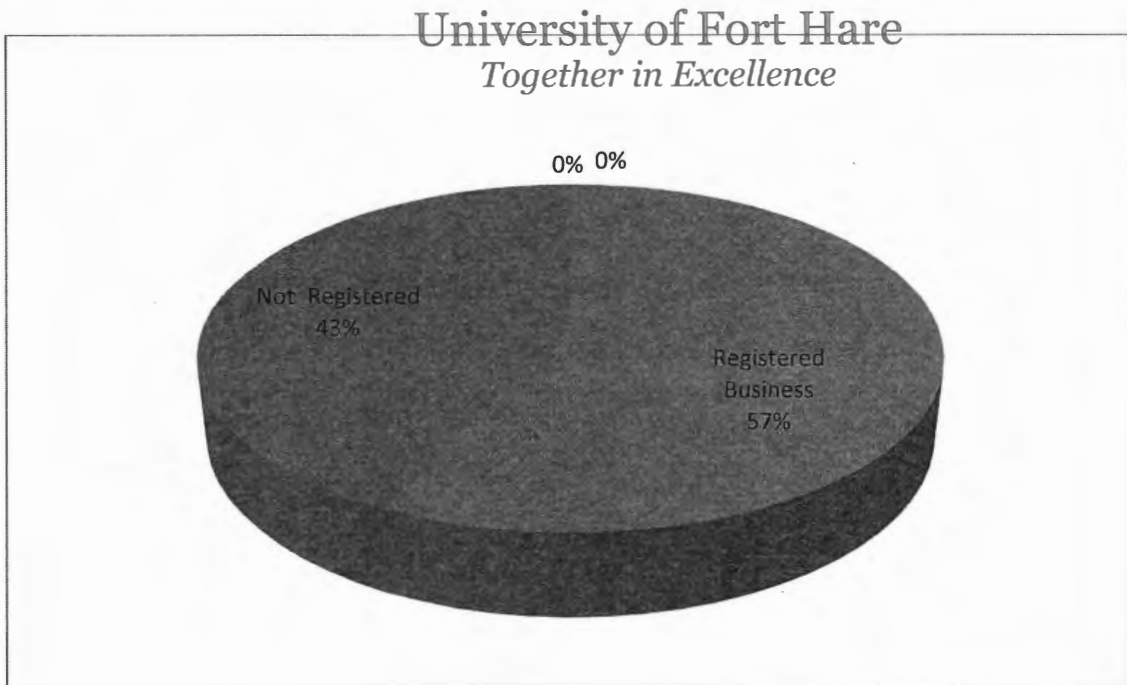
(2012), in his study, found that most small businesses in Ghana are dominated by sole-proprietors.

#### 4.2.8. Business registered at local revenue service

Small businesses are the main source of government revenue. Studies indicate that small businesses are the major source of government revenue in developed and developing countries (UNIDO, 2006). Figure 4.8 below shows the percentages of registered business with local revenue services.



**Figure 4.8: Business registered at local revenue service**



Source: Field Survey, 2015

Figure 4.8 shows that fifty seven percent (57%) of the businesses were registered with local revenue services and the rest forty three percent (43%) of businesses were not registered with local revenue services. This shows the importance of small businesses in generation of local revenue in the district. This helps government to empower the poor through investments in health, education and other public services as well as through direct income transfers. The UNIDO (2006) reported that small businesses are the major source of government revenue in both developed and developing countries.



Sinxoto (2007), in his study, found that small businesses are the main source of revenue in South Africa; this was supported by a study conducted in Ghana by Sarpong (2012) that revealed that small businesses are the major contributor to government revenue.

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#### **4.2.9. Motivation to start business**

Motivation to start a business can differ from one person to another person. The motivation to start a business can be financial independence, earning an income for living and seeking other employment opportunities. Figure 4.9 on the following page presents the motivation factors of entrepreneurs to start businesses in the district.

**Figure 4.9: Motivation to start business**



**Source: Field Survey, 2015** University of Fort Hare  
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The highest percentages (fifty nine point five percent (59.5%)) of respondents were motivated to start their businesses to earn an income; twenty one point four percent (21.4%) were motivated to start a business for seeking other employment, and nine point five percent (9.5%) were motivated to start a business to secure basic food needs. The indication is that the majority of the entrepreneurs were motivated to start a business to earn income for living. This is in line with the findings of Mitchell (2004) who argues that most of South Africans start their own businesses to survive, financial independence and security. However, this is the reverse in some developing countries like Brazil, Chile and Colombia have a significant favourable attitude towards entrepreneurship (Herrington *et al.*, 2009).

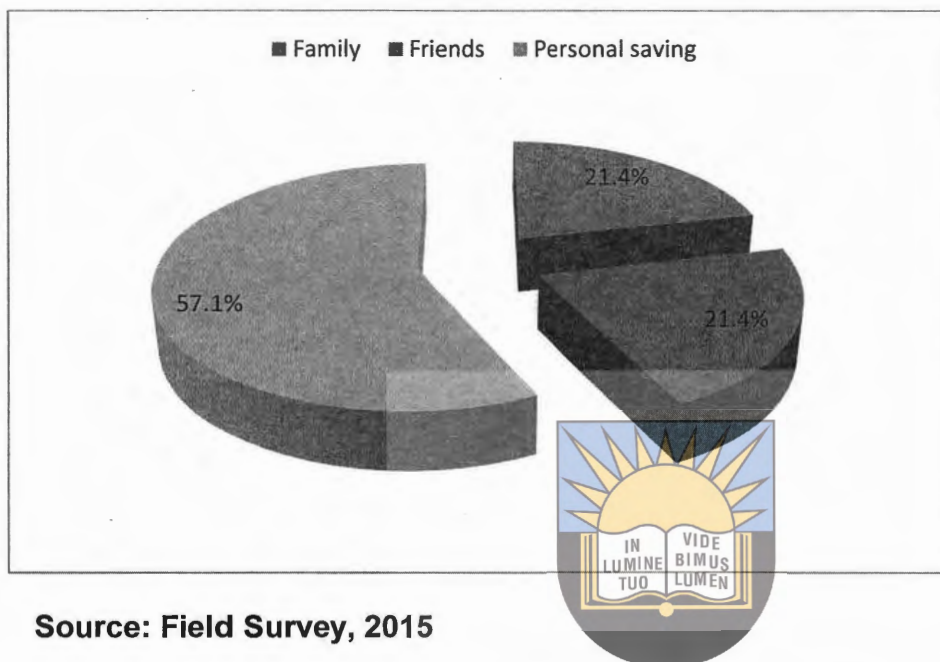
The motivation factor for immigrant entrepreneurs in the district is also the same as those of their South Africans counterparts. Limited job opportunities are the main push factor for immigrant entrepreneurs to engage in entrepreneurship activities in the district. Many studies on immigrant entrepreneurship in South Africa conducted on motivation by Tengeh, Ballard and Slabbert (2011) showed that limited job opportunities in South Africa becomes motivation for immigrant to be involved in entrepreneurship activities.

#### 4.2.10. Source capital to start a business



Entrepreneurs can use different sources of capital during the start-up as well as operation of their businesses. The entrepreneurs were asked this question to indicate their source of capital during the start of their businesses. The responses to this question are presented in figure 4.10 on the following page.

**Figure 4.10: Source of capital to start a business**

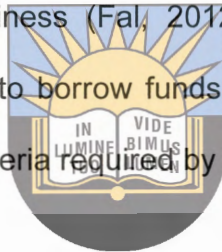


**Source: Field Survey, 2015**

The analysis in figure 4.10 indicates that the majority (fifty seven point one percent (57.1%) of the entrepreneurs used personal savings as a source of capital to start their businesses, while twenty one point four percent (21.4%) of entrepreneurs used loans from family and friends as sources of capital to start their businesses. This shows that most of the entrepreneurs in ADM used personal savings as a source of capital to start their businesses. This is in line with the findings of Sinxoto (2007) that showed that personal saving is the major source of finance for rural entrepreneurs during the start-up, as well as during the expansion of the business.

According to Dassie and Christy (2004), finance is the most common problem for rural people to engage in entrepreneurship activities. Most small businesses in the district do not get finance assistance from financial institutions during the start-up or expansion of

their businesses. Personal savings and loans from friends or families are the most common sources of funds for small businesses in the district. This is in line with the latest survey in South Africa which indicates that more than eighty two percent (82%) of small business owners claimed to have funded their business using their own resources without any assistance from financial institutions (DTI, 2013). This is not common only in South Africa but also in other parts of the world. A study conducted in many Sub-Saharan countries indicates that most small businesses use personal savings during the start-up or operation of the business (Fal, 2012). Financial institutions require security and formal business records to borrow funds for small businesses. However, most small businesses do not meet criteria required by financial institutions.



#### **4.2.11. Average gross monthly income and saved income in rand** *Together in Excellence*

Table 4.11 on the following page presents the gross monthly income earned by the entrepreneurs as well as the amount of saved.

**Table 4.11: Entrepreneurs' monthly income and saved income amount in rand**

| Income earned per Month in rand | Frequency | Percentage  | Income saved per Month in rand | Frequency | Percentage  |
|---------------------------------|-----------|-------------|--------------------------------|-----------|-------------|
| 5000-10000                      | 3         | 7.1%        | Less than 2000                 | 3         | 7.1%        |
| 10001-15000                     | 9         | 21.4%       | 20001 - 4000                   | 12        | 28.8%       |
| 15001-20000                     | 4         | 9.5%        | 4001 - 6000                    | 5         | 11.9%       |
| 20001-25000                     | 4         | 9.5%        | 6001 - 8000                    | 4         | 9.5%        |
| 25001-30000                     | 4         | 9.5%        | 8001 - 10000                   | 5         | 11.9%       |
| 30001-35000                     | 3         | 7.1%        | 10001 - 12000                  | 4         | 9.5%        |
| 35001-40000                     | 5         | 11.9%       | 12001 - 14000                  | 1         | 2.9%        |
| 40001-45000                     | 5         | 11.9%       | No response                    | 8         | 19.0%       |
| 450001-Above                    | 5         | 11.9%       | <b>Total</b>                   | <b>42</b> | <b>100%</b> |
| <b>Total</b>                    | <b>42</b> | <b>100%</b> |                                |           |             |



**Source: Field Survey, 2015**

The findings indicate that twenty one point four percent (21.4%) of the entrepreneurs earned an income of between 10001-15000 rand per month; eleven point nine percent (11.9%) of the entrepreneurs earned an income of between 35001- 40000 rand, 40001-45000 rand and above 450001 rand per month respectively; and seven point one percent (7.1%) of respondents earned between 5000 -10000 rand and 30001-35000 rand per month respectively. The implication could be that the small businesses in the district are making a meagre profit to largely extend the business or have a greater impact on poverty reduction in the area. This is because with a marginal profit of less than fifty thousand rand per month in the current economic crisis, much may not be achieved. There are many factors why small businesses are achieving less profit in the district. Inadequate capital, lack of market, poor infrastructure, inflation and unemployment are the key factors for the reduction of small businesses profit in the district. This is supported by Ngorora and Mago (2013) who state that small businesses

in rural areas face numerous challenges which include lack of capital, inadequate infrastructure and lack of access to market. Other challenges such as crime, lack of skilled labour and high tax rates are limiting factors for the reduction of small business profit in rural areas.

The above table 4.11 also shows that twenty eight point eight percent (28.8%) of entrepreneurs saved between 2 001-4 000 rand per month; two percent (2%) entrepreneurs saved between 12 001-14 000 rand per month, and nineteen percent (19%) of entrepreneurs did not disclose information about the amount money saved by them. This shows the importance of small businesses in generation of wealth. The continued creation of wealth by entrepreneurs (collectively) will help reduce the rate of poverty in the district. This helps entrepreneurs to expand their existing businesses as well as to open new businesses in the district, thus resulting in poverty reduction and job creation.



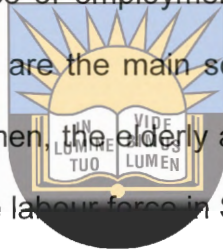
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### 4.3. Entrepreneurship activities in reduction of poverty in ADM

The following section provides an in-depth qualitative as well as quantitative analysis on how rural entrepreneurship contributes to poverty reduction in ADM.

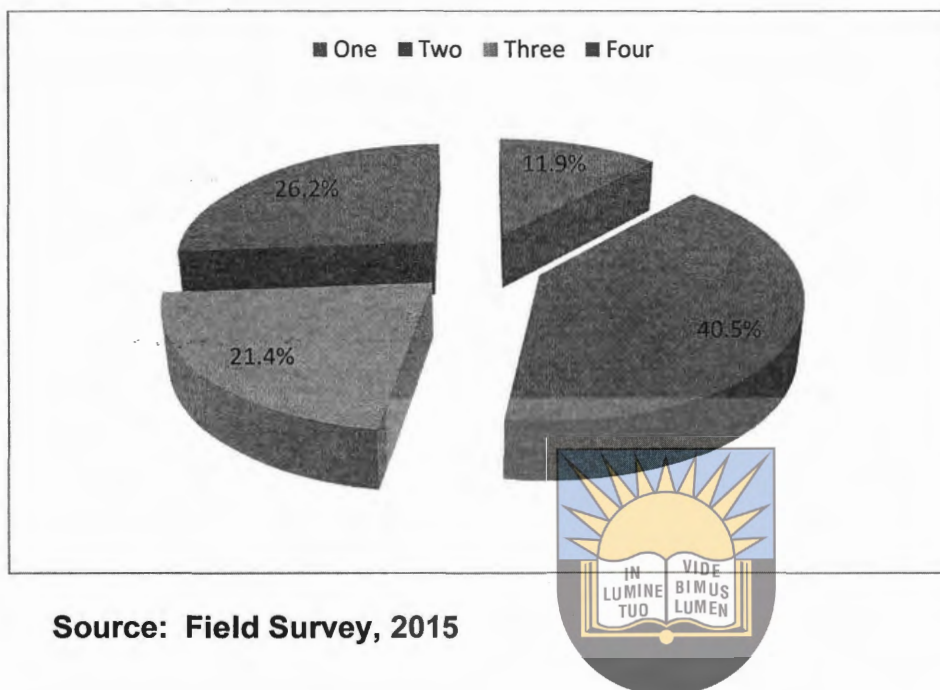
#### 4.3.1. Employment creation and income generation

Small businesses are the major source of employment for the local people. The ILO (2006) reported that small businesses are the main source of employment, especially for disadvantaged groups such as women, the elderly and those who are handicapped. Studies show that more than half of the labour force in South Africa are absorbed by the small businesses (DTI, 2004). Figure 4.12 on the following page shows the percentage of people employed in small businesses in the district.



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**Figure 4.12: Percentage of employees in the business**



**Source: Field Survey, 2015**

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The analysis in figure 4.12 indicates that the highest (forty point five percent (40.5%) proportion of the entrepreneurs had two employees; twenty six point two percent (26.2%) of entrepreneurs had four employees; twenty one point four percent (21.4%) of entrepreneurs had three employees, and eleven point nine percent (11.9%) of entrepreneurs had one employee. All the employees were fully employed. This indicates the importance of small businesses towards poverty reduction through job creation. The small businesses sector plays an important role in providing income and services to people who cannot get employment in the formal sector.

As indicated in figure 4.5, the majority of the entrepreneurs who operate small businesses in the district are immigrant entrepreneurs. This means that immigrant entrepreneurs contribute to poverty reduction in the district through job creation. In a

similar study, a survey carried out among 120 African immigrant entrepreneurs in the surroundings of Cape Town by Kalitanyi and Visser (2010) revealed that the majority ( eighty percent (80%) of entrepreneurs interviewed employ South Africans in their businesses, and this contributes to poverty reduction in South Africa. By creating employment, immigrant entrepreneurship can be one of the ways to reduce poverty, inequality and stimulate economic growth in South Africa (Kalitanyi and Visser, 2010).

However, despite the role of immigrant entrepreneurs in South Africa's economy, many South Africans have a negative perception towards immigrants (Kalitanyi and Visser, 2010). They believe that immigrants are job-takers. Timberg (2005) argues, " I don't think that immigrants are taking jobs that would otherwise go to South Africans; they are starting little businesses and employing South Africans more often".



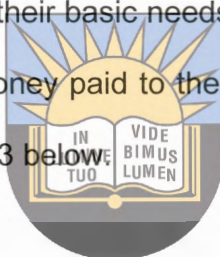
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Employment generation by small businesses is pro-poor because such businesses provide employment and income where most of the poor live and where few other employment opportunities exist (UNDP, 2006). Small businesses are important employment providers, especially for people who cannot find jobs in the formal sectors such as women, youth and handicap. The DTI (2004) indicates that small businesses in South Africa absorb fifty percent (50%) to sixty percent (60%) of the labour force of the country. Many studies find that small businesses are important sources of employment in most countries of the world (Luiz and Mariotti, 2011). They also confirmed that small businesses in Asia employed eighty percent (80%) of the labour force. Small businesses are also crucial to the American economy through job creation. Killawi

(2013) found that small businesses account for the majority of businesses in the USA, and they employ half of the United State private sectors. Two out of three new jobs are generated from small businesses. Further, Killawi reported that there are around sixty million Americans employed by the small businesses.

#### 4.3.2. Monthly salary paid to employees in rand

Small businesses pay salaries to their employees. The income generated from employment helps employees to meet their basic needs. The entrepreneurs were asked questions to indicate the amount of money paid to their employees. The responses to this question are presented in table 4.13 below



**Table 4.13: Monthly salary paid to employees in rand by the entrepreneurs**  
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| Amount of salary paid | Frequency | Percentage of employees |
|-----------------------|-----------|-------------------------|
| 500-1000              | 5         | 11.9%                   |
| 1001-1500             | 16        | 38.1%                   |
| 1501-2000             | 4         | 9.5%                    |
| 2001-2500             | 8         | 19%                     |
| 2501-3000             | 4         | 9.5%                    |
| 3001-3500             | 1         | 2.4%                    |
| 3501-Above            | 4         | 9.5%                    |
| <b>Total</b>          | <b>42</b> | <b>100%</b>             |

**Source: Field Survey, 2015**

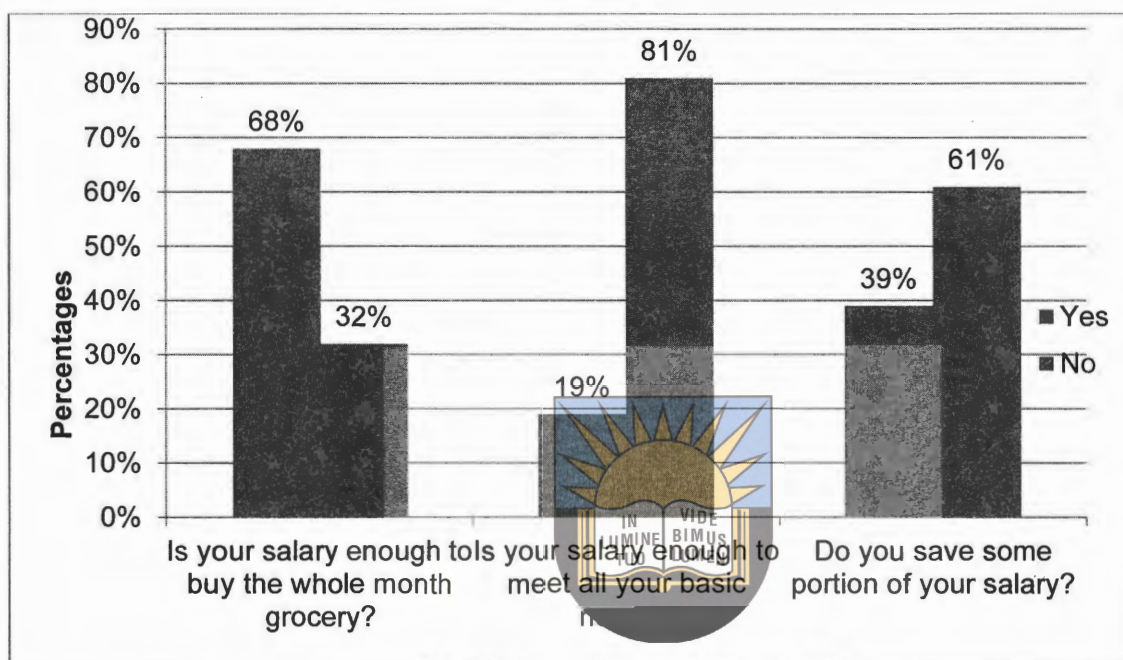
Table 4.13 shows that thirty eight point one percent (38.1%) of employees were paid salaries of between 1001 and 1 500 rand per month; nineteen percent (19%) of the respondents were paid salaries of between 2 001 and 2 500 rand per month, and two point four percent (2.4%) of the respondents were paid salaries of between 3 001 and 35 000 rand per month. This shows that the highest proportions of the respondents (employees) were paid salaries of between 1001-1500 rand per month. This concurs with the findings of Sinxoto (2007) in South Africa which revealed that most small businesses paid salaries of between 1 000 and 4 000 rand per month to their employees.

Small businesses are an important income generation source for rural households. Small businesses are the major source of livelihood for many rural households. Davis *et al.*, (2010) found that in Africa, between forty percent (40%) and fifty percent (50%) of rural households generate income from non-farm activities. The income generated from non-farm activities helps rural people to meet their basic needs such as education, health, food, water and sanitation and electricity.

#### **4.3.3. Access to basic necessities**

During the interview, the employees were asked whether the salary paid to them was enough to buy groceries for the whole month. The responses to this question are presented in figure 4.14 on the following page. The majority (sixty eight percent (68%) of them revealed that the salary they get is enough to buy groceries for whole month. However, eighty one percent (81%) of respondents said that the salary they get is not enough to meet all their basic needs such as education, electricity, water and sanitation and food.

**Figure 4.14: Respondents information about access to basic necessities**



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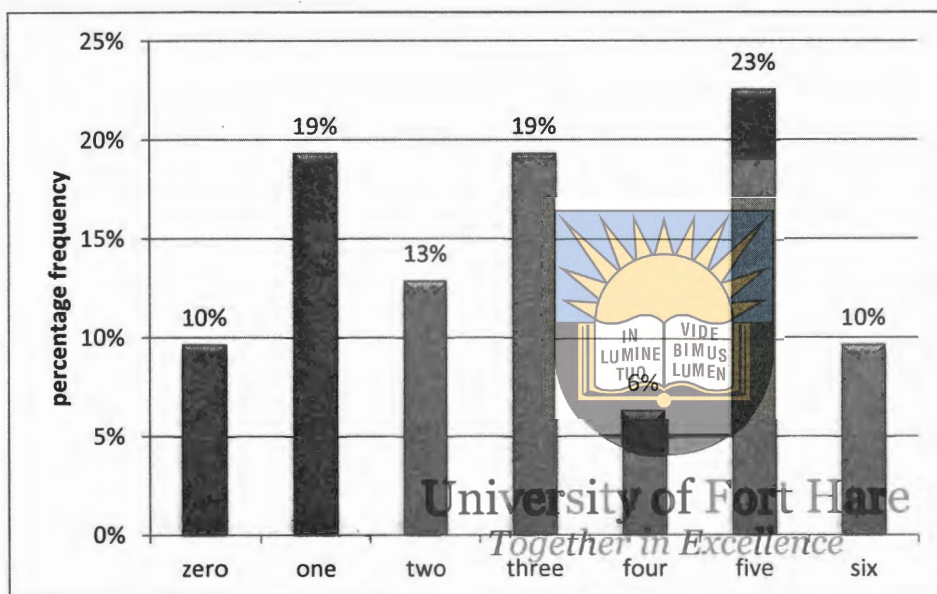
Source: Field Survey, 2015

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Saving is one of the indicators of poverty reduction. Findings presented in the above figure 4.14 show that the majority (sixty one percent (61%) of employees do not save any portion of their salary, and the rest thirty nine percent (39%) of employees save some portion of their salary. The employees were asked to give reasons why they do not save any portion of their salary and they indicated that the salary they get is lower than the cost of goods and services in the market. The other reason is due to large numbers of dependants in their households because 28 (ninety percent (90%) out of 31 respondents had households dependants. The employees reported that they support their families by buying groceries and paying electricity and water bills.

Figure 4.15 below shows the number of dependants in households of the employees in the district.

**Figure 4.15: number of dependants in employees' households**



**Source: Field Survey, 2015**

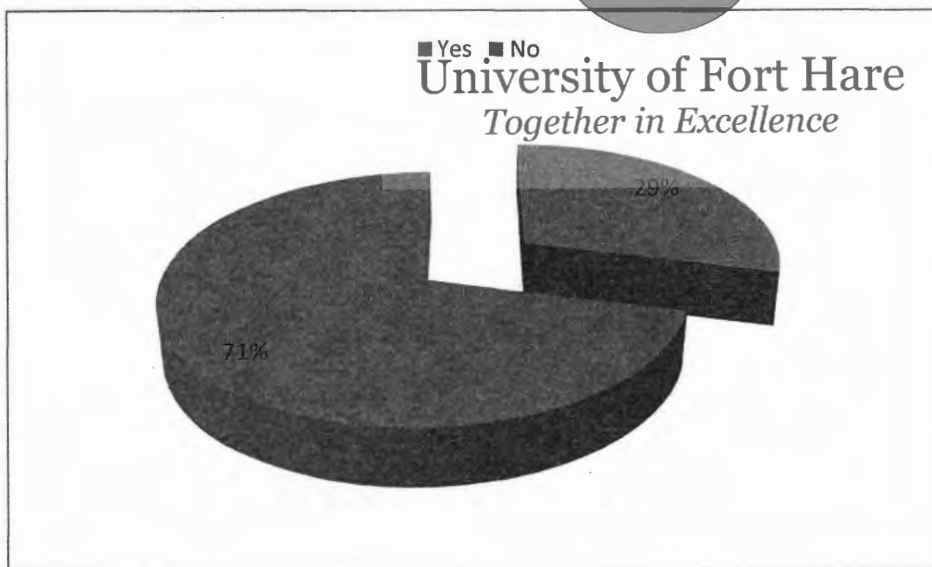
Figure 4.15 shows that twenty three percent (23%) respondents had five household dependants; nineteen percent (19%) of the respondents had one and three household dependants respectively. Thirteen percent (13%) of respondents had two household dependants while ten percent (10%) and six percent (6%) of respondents had six and four household dependants respectively. The implication could be that the high rate of unemployment in the district due to lack job opportunities has caused this situation.

#### 4.3.4. Asset acquisition and provision of fringe benefits

Asset acquisition can be an indicator of poverty reduction. The employees were asked whether they had acquired any assets since their employment in the small businesses. The findings presented in figure 4.14 below showed that seventy one percent (71%) of respondents have not acquired any assets, and twenty nine percent (29%) of the respondents had acquired some assets. The respondents indicated that they acquired assets like Televisions, Digital Video Decoder, furniture, shops and cars. The percentage of employees who acquired assets are presented in figure 4.16 below.



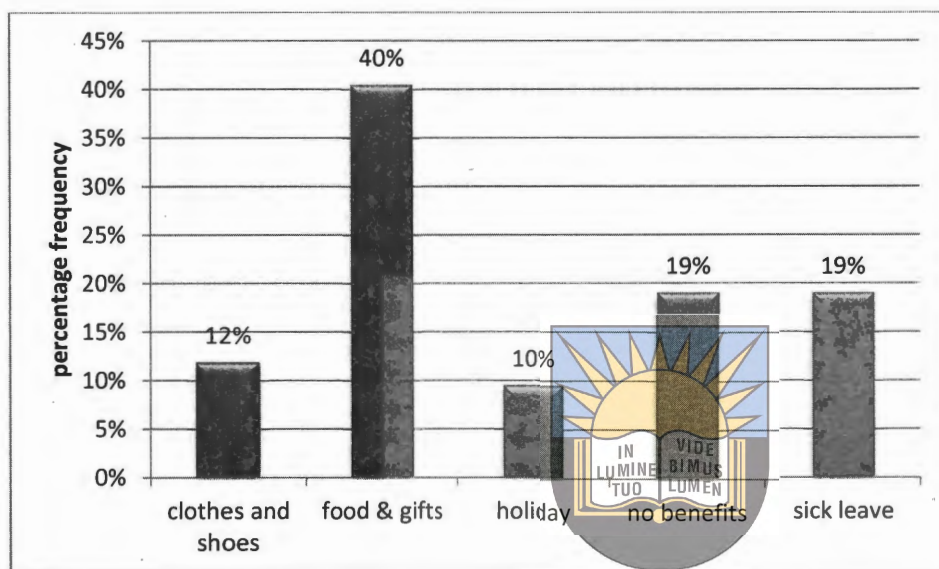
**Figure 4.16: Respondents' asset acquisition information**



**Source: Field Survey, 2015**

Entrepreneurs provide different fringe benefits to their employees. Figure 4.17 on the following page presents the fringe benefits offered by the entrepreneurs to the employees.

**Figure 4.17: List of fringe benefits offered by the business owners to the employees**



**Source: Field Survey, 2015** University of Fort Hare  
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The results above indicate that forty percent (40%) of entrepreneurs offered food and gifts to their employees; nineteen percent (19%) of the entrepreneurs offered sick leave; twelve percent (12%) of entrepreneurs offered clothes and shoes to their employees and nineteen percent (19%) of the entrepreneurs did not offer any gifts to their employees. This shows the importance of small businesses in reduction of poverty in the district. Apart from the employment creation, small businesses contribute to poverty reduction in the district through providing food, clothes and shoes to their employees. This is in line with the findings of Sinxoto (2007) that show that small businesses provide different fringe benefits to their employees such as allowances and bonus payouts. This contributes to poverty reduction among the employees as well as their families.

#### 4.3.5. Skills transfer

Shortage of skills is the greatest challenge against development in South Africa. Small businesses contribute to poverty reduction through transfer of skills to their employees. The findings in this study revealed that entrepreneurial skills are transferred from entrepreneurs to their employees. The majority (fifty seven percent (57%) of the entrepreneurs provide entrepreneurial skills to their employees, and the rest forty three percent (43%) of the entrepreneurs do not offer any kind of entrepreneurial skills to their employees. The respondents indicated that they transferred skills such as sewing clothes, making different type of hairstyles, making shoes and cooking various food stuffs to their employees. In addition to this, the entrepreneurs provide training like product knowledge training, hospitality training as well as how to plate hair to their employees. Some employees indicated that they acquired some skills from their employers or entrepreneurs, such as shoe repairs and fashion designing. The employees believe that the skills they acquire from the employers will help them to establish their own business in the future. The researcher also observed that many employees as well as local people started their own businesses, such as salons and *spaza* shops (small grocery shops) after they acquired some sort of skills from their employers.

The interviewed entrepreneurs indicated that the skills transmission is done through training, teaching and imitation. Other entrepreneurs also provide skills to their employees like customer care, entrepreneurship skills, experience and packing stock. Much of the skills transfer in Amathole has been done by immigrant entrepreneurs.

They come with different kinds of skills and experience to South Africa and transfer these to the employees who later use them to establish their own businesses. Kalitanyi and Visser (2010) and Fatoki (2014) found that entrepreneurial skills are transferred from immigrant entrepreneurs to their South African employees.

Entrepreneurial skills in South Africa remain low compared to other developing countries (DTI, 2013); however, small businesses play a crucial role in transferring skills to their employees as well as to their local communities. A study conducted in South Africa by Sinxoto (2007) revealed that small businesses provide skills to their employees like computer literacy, customer care, product knowledge and project management. The UNIDO (2006) report indicates that small businesses provide trainings, skills and experience for young people. Many workers in Africa in the urban informal sector have been trained through traditional apprenticeships.



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#### **4.3.6. Entrepreneurship and social responsibility**

Small businesses play a crucial role in poverty reduction through the engagement of social responsibility. Poverty cannot be reduced only through job creation but also through business people's involvement in social responsibility. The findings revealed that small businesses contribute to poverty reduction in the district through their engagement in social responsibility. The results indicate that the majority (sixty nine percent (69%) of the entrepreneurs were involved in social responsibility; twenty one point four percent (21.4%) are not involved in social responsibility, and the rest nine point five percent ( 9.5%) did not respond the question. The respondents indicated that they provided donations such as food and clothes to poor people, sponsored public

events (public meetings and soccer game) and offer free scholarships to poor children. The entrepreneurs also reported that they help poor communities during funerals as well as student graduations.

Furthermore, ten percent (10%) of the entrepreneurs indicated that they help their employees to pay bills, such as water bills, rent bills, electricity bills and medical bills. The entrepreneurs indicated that they help orphans and old people by donating some money every month to NGOs concerned. For instance, some entrepreneurs reported that they pay 1000 to 1200 rand to support orphans and old people every month. This was reiterated by government officials who mentioned that small rural entrepreneurs are socially responsible as they donate to the poor people. This helps poor people to buy food, pay electricity and water bills. This is related to the findings of Sinxoto (2007) which showed that small businesses are involved in social responsibility such as supporting schools, children's homes, electrifying community centres and providing food to homeless people.



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#### **4.3.7. Availability of goods and services**

One of the indicators of development is the availability of goods and services. Small businesses play a crucial role in promoting the availability of goods and services in many countries. Many rural areas are not fully integrated in the distribution networks of large enterprises due to low levels of demand and high transaction costs. The UNDP (2006) argues that small businesses play an important role in providing basic goods and services to the poor, especially in marginalized rural regions.

Small businesses improve access to goods and services in the district. All the respondents (entrepreneurs, employees, customers and government officials) indicated that small businesses promoted access to goods and services in the district. Responses from the customers indicated that people in ADM do not travel too far any more to buy goods and source services because their needs are catered for from the nearest point possible. One of the customers interviewed said: “we used to spend a lot of money travelling to big cities like East London and King William’s Town to buy goods and get services but now we can get these without travelling far”. As argued in the report of the United Nations Commission on the Private Sector and Development (2004), the private sector and small businesses located in marginalized rural areas have a crucial role to play in reaching the “bottom of the pyramid” consumers, or the over four billion people living on an income less than US\$1,000 per annum.



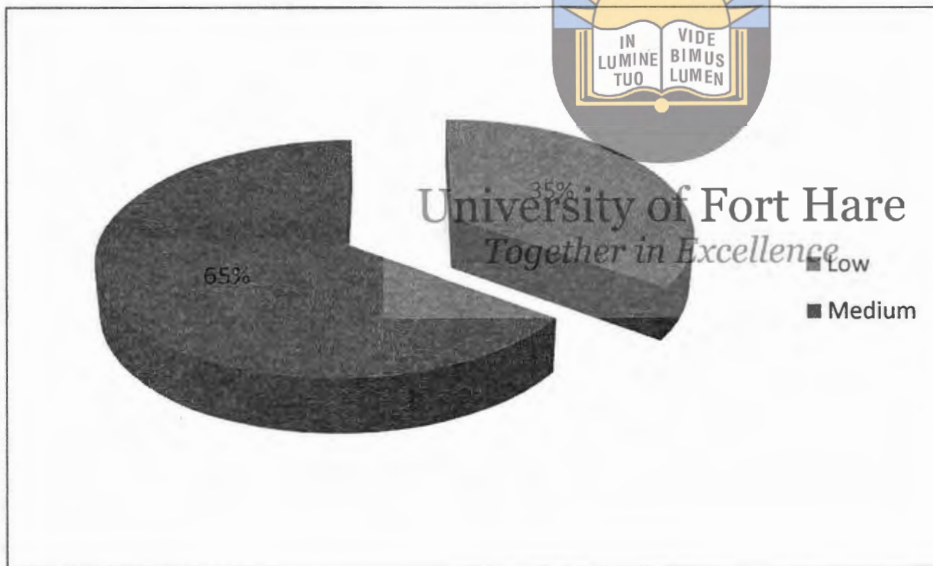
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Small businesses are contributing to poverty reduction in the district through offering goods and services at reasonable prices. Small businesses have brought an increase in the purchasing power of local people due to lower prices and increased access to cheaper goods. One of the customers said: “we cannot afford to buy all goods and services from large businesses because their prices are too expensive as well as they do not have all our needs”.

Small businesses give a chance to poor people to buy goods and services at reasonable prices. Most of the customers agreed that the prices of goods and services from small businesses in the district are reasonable. As indicated in figure 4.18 below,

thirty five percent (35%) of the customers who were interviewed in the study said that the prices of goods and services from the small businesses in the district are low while sixty five percent (65%) of the respondents said the prices are medium. The customers indicated that they are very satisfied with purchase prices charged by the small businesses in the district. The customers were asked to give reasons for their satisfaction, and they said it was because of affordability of their prices compared large businesses prices.

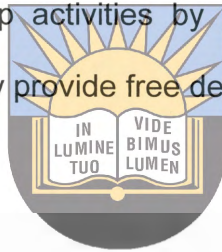
**Figure 4.18: Customers' information on prices of goods and services from small businesses**



**Source: Field Survey, 2015**

The district people buy goods from the small businesses for consumption and resell purposes. Findings show that sixty percent (60%) of the respondents buy goods for consumption purposes and the rest forty percent (40%) of the customers buy goods from small businesses for resell purpose. This indicates the role of small businesses in providing basic goods and services for the district people.

Small businesses contribute to poverty reduction in the district through offering goods and services on credit to the poor people. Some of the entrepreneurs indicated that they sell goods and services on credit to local communities without any interest rate. One of the customers interviewed mentioned said “we do not go to bed hungry now because small businesses provide us with goods on credit when we do not have money to buy goods on cash”. Small businesses are also encouraging local people to engage in entrepreneurship activities. Some of the entrepreneurs indicated that they support local people to engage in entrepreneurship activities by providing goods on credit. The entrepreneurs also responded that they provide free delivery for their customers or retail traders.



#### **4.4. Constraints of entrepreneurship development in ADM**

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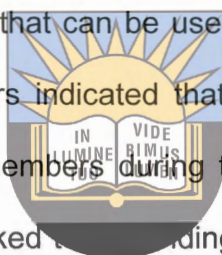
This section discusses the challenges of entrepreneurship development in ADM.

##### **4.4.1. Inadequate capital**

Finance is the lifeblood of any business. Without finance, business can neither grow nor survive. Small businesses need access to finance through various stages of their growth in order to become successful and profitable. Lack of finance is a major problem for small businesses growth in ADM. In this study, twenty eight percent (28%) of entrepreneurs indicated that lack of finance is a major obstacle for entrepreneurship development in ADM. This confirms the observation made by Robinson, Dassie and Christy (2004) and Saxena (2012) in a similar study that lack of finance is the most

prominent impediment for people to engage in entrepreneurship activities in rural areas. Many potential rural entrepreneurs do not involve in entrepreneurship activities due lack of availability of finance. Lack of finance limits the expansion of business, hiring suitable premises, employment of skilled personnel and choice of technology. As a result, small businesses experience prominent challenges towards poverty reduction in the district and the country at large.

Small businesses do not have assets that can be used as collateral to get loans from financial institutions. The entrepreneurs indicated that they use their own savings or borrow funds from friends or family members during the start-up or expansion of the business (figure 4.10). This can be linked to the findings of Niels and Livie (2009) in a similar study indicating that personal savings and loans from friends or relatives are the most common source of funding for small businesses in rural areas.



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Some of the respondents (local entrepreneurs) complained about the service of financial institutions. They mentioned that receiving assistance depended on the political affiliations one had with people in the government. In other words, this highlights the level of corruption regarding access to financial services in the district. This calls for government intervention to alleviate the situation for small business owners to grow their businesses. However, during the interview, government officials indicated that most of local entrepreneurs do not present viable business plans to qualify for finance assistance. Moreover, government officials said that there is lack of skills among local entrepreneurs. The question now is: how is the gap to be narrowed?

Indeed, there are many small businesses support institutions in South Africa, and most of them are concentrated in urban areas and have not ventured into rural areas to serve rural entrepreneurs. Financial institutions are not adequately equipped with the necessary skills to assist entrepreneurs and do not have sufficient resources to operate their services in rural areas. Government officials stated that there is lack of resources (finance and human power) to support small businesses in the district.

#### 4.4.2. Poor physical infrastructure

Infrastructure is vital for the operation of small businesses in rural areas. Infrastructure facilities include business incubations, roads, and communication and banking facilities.

Most rural areas, compared to urban areas, have poor infrastructure which does not attract entrepreneurs. Lack of infrastructure facilities makes it difficult to develop entrepreneurship in rural areas (Ngorora and Mago, 2013).



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The entrepreneurship development in the district is limited by water and electricity supply shortages and lack of businesses premises. In addition, thirty two percent (32%) of the total population of 42 entrepreneurs indicated that they had problems related to basic services such as electricity supply, business incubation, sewerage and water. Twelve percent (12%) of the entrepreneurs indicated that lack of water is one of the key problems to carry out their business in the district. Entrepreneurs from the salons reported that they fetch water every day from a far in order to continue offering their daily services to their customers. The respondents (salons) point out that they used their own transport or paid some amount of money to fetch water somewhere else. This

contributes to additional costs meant to be invested in the business to create additional jobs for the poor people in the district.

Access to reliable electricity supply is key to the operation of small businesses. It increases productivity and investment in the country. However, many countries, including developed countries, reported that lack of adequate electricity is a major constraint to small businesses growth (Scott, Darko and Lemma, 2014). The interruption of electricity affects small businesses in the district because most of the small businesses are dealing with perishable products. This reduces small business' profitability, turnover and investment. Moreover, ten percent (10%) of entrepreneurs argued that shortage of electricity supply is the main obstacle against their businesses growth in the district. The issue of power shortage has prompted entrepreneurs to generate power through expensive ways that have, in turn, increased their cost of production and made their products uncompetitive due to high prices. The increase of electricity tariffs and water affects many small businesses in the district. This is in line with the findings in many Sub-Saharan countries such as Ethiopia, Tanzania, Ghana, Kenya and Nigeria by Fal (2012) which revealed that cost of physical infrastructure is the major obstacle to the growth of entrepreneurship.

The availability of business suppliers is vital for entrepreneurship growth in rural areas. The remoteness of business suppliers presents major problems for small business growth in the district. Most of the business suppliers are concentrated in urban areas. The entrepreneurs indicated that they travel to Port of Elizabeth and East London to buy goods in bulk from the suppliers or producers. This contributes to additional business

costs that could be invested in the business. At the end, small businesses gain little or no profit, because no one will buy goods from the small businesses if the prices are up.

The growing business in rural areas is affected by lack of business premises. Lack of business premises is a limiting factor for small businesses growth in the district. The respondents indicated that there are no adequate business premises in the district. The cost of business premises remains high in the district. High rent for business premises from the landlords is reported as a big problem for entrepreneurship growth in the district.

#### 4.4.3. Insecurity



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South Africa was ranked 137<sup>th</sup> out of 139 countries in terms of cost of business due to crime and violence (Herrington *et al.*, 2010). Crime is a major constraint to business in the district. In this study, nineteen percent (19%) of the total population of 42 entrepreneurs cited crime as the greatest obstacle to their businesses in the district. Crime limits small business' operation in the district. The entrepreneurs (immigrant entrepreneurs) reported that daily harassment, extortion and bribery by government officials are costly in doing business in the district. The entrepreneurs indicated that government is not doing enough to protect them from criminals. This is in line with the finding of Brown (2001) that small businesses in South Africa are largely suffering from crime and violence. Studies in many countries have demonstrated the negative impact of crime on small business development. A 2002 study assessing the impact of crime on firm performance in Latin America found that sixty seven percent (67) % of small

businesses cited crime as an obstacle to doing business (McDonald, 2008). Crime was reported to: raise business costs, decreased productivity and motivation, creativity, ingenuity and resourcefulness, and this retards the contribution of small businesses towards job creation and poverty reduction.

Crime affects small businesses in the district directly through theft of property and money and indirectly reduces business confidence and investment. The entrepreneurs (immigrant entrepreneurs) reported that they do not own bank accounts to keep their money. Banks are making it too difficult for immigrant entrepreneurs to access bank accounts. The respondents (immigrant entrepreneurs) indicated that they keep their money at their homes or shops, and this exposes them to theft. Some immigrant entrepreneurs said, “due to lack of bank accounts, our money is burnt by fire in our houses or shops”. This money is supposed to be invested in the business to create jobs for Amathole communities.




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In South Africa, business related crime has increased in the last few years. According to the South African Police Service Crime Statistics (SAPSCS, 2009), crimes such as commercial crimes rose by four point eight percent (4.8%), burglary at non-residential premises went up by six point eight percent (6.8%) and shoplifting increased by one point three percent (1.3%). In general, the total number of robberies at business premises went up by a massive forty seven point four percent (47.4%) between 2006 and 2008. Most of these robberies were on small businesses premises. Therefore, this being the situation, much may not be achieved by small businesses towards poverty

reduction. The government should, therefore, make the necessary arrangements to curb such un-developmental behaviour in the district.

#### **4.4.4. Lack of access to market**

Small businesses will have little impact on poverty reduction if their goods and services do not find adequate markets. Lack of markets is one of the major problems for small businesses in the district. Small businesses in ADM have limited market opportunities due to high competition from large businesses, low population density, remote location, inflation and high unemployment. This is in line with the findings of Lee and Suzanne (2000) that showed that communities in rural areas are economically stagnated, thus offering limited market opportunities as well as the availability of capital accumulation being too small to enable entrepreneurs grow.



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The high competition from large businesses makes it difficult for small business' access to market in the district. This is confirmed by Saxena (2012) in a similar study in rural India indicating that rural entrepreneurs face severe competition from large businesses as well as urban businesses. Small businesses in rural areas have limited financial resources, technology and human resources to compete with large businesses in the market. Small businesses are forced to sell their products at low prices due to high competition among themselves as well as large businesses.

Location is an important tool for business access to market. Location refers to the distance from major markets and accessibility to customers/clients, suppliers, information sources and relevant institutions. The remoteness of location affects small

businesses in the district. Many small businesses in the district are not operated in a suitable location and are operated outside major markets and have limited accessibility to suppliers and institutions.

The market size of small businesses in the district is limited by the high level of unemployment. ADM consists of many poor people who do not have sufficient income to buy goods and services from the small businesses. The entrepreneurs indicated that the high rate of unemployment in the district creates a small market size for their businesses. It reduces purchasing power of the people from the small businesses.

Many people in the district are not employed despite the creation of a lot of jobs by the small businesses. According to IDP review (2009-2010), more than half of the population in ADM are not employed and survive on pensions, government grants and remittances. This causes a small market size for small businesses in the district.



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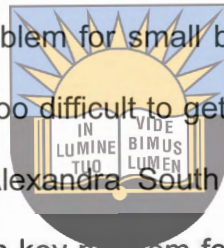
Inflation is also a major constraint for small business growth in the district. According to South African Reserve Bank (SARB, 2015), inflation is the increase of average price of goods and services in particular time. The increase of petrol price affects small businesses in the district since small businesses are highly dependent on the transportation of goods by road. Small businesses are dependent on hired transport to fetch items from wholesalers and/or manufacturers, and the cost of transportation increases as the petrol prices goes up.

The rise of price of goods reduces consumer expenditure on small businesses. On the other hand, inflation not only affects small businesses but also their consumers as it increases the cost of goods and decreases their disposable income. Inflation results in

an increase of expenses, which reduces the profits of small businesses and investment. This may hamper the growth and success of small businesses in the district.

#### **4.4.5. Shortage of skilled labour**

Most of rural areas are characterized by lack of skilled labour. One of the main challenges of entrepreneurs in rural areas is to get skilled labour. According to Sarpong (2012), lack of skilled labour is a common challenge for small businesses in Ghana. Lack of skilled labour is the major problem for small businesses growth in the district. The entrepreneurs indicated that it is too difficult to get skilled workers from the district. In similar study in the township of Alexandra South Africa by Agupusi (2007), it is indicated that lack of skilled labour is a key problem for small businesses. The workers in rural areas are not skilled enough and are characterized by low levels of educational attainment and formal skills.

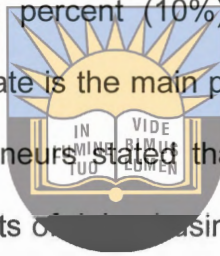


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Moreover, turnover is also a problem for small businesses in the district. Due to low wages, labour turnover is very high in small businesses. The more skilled workers often move from small businesses to large firms in search of better pay and employment security. As a result of this, small businesses are forced to rely on cheap casual workers. The entrepreneurs also reported that lack of good work ethics among workers is challenge for small businesses growth in the district. Most of the workers do not take work seriously and are mostly absent from work. Worker absenteeism is, therefore, a major problem for small businesses in the district.

#### 4.4.6. High tax rate

Governments impose tax on small businesses to deliver basic needs for their citizens, such as health, electricity, water and sanitation. High tax rate is one of the main obstacles for small business growth in rural areas. High business taxation reduces small business' engagement in entrepreneurial activities, investment, innovation and employment. The growth and success of small businesses in the district is hampered by high tax rates. In the study, ten percent (10%) of the total population of 42 entrepreneurs indicated that high tax rate is the main problem for their business growth in the district. Moreover, the entrepreneurs stated that water and electricity bills are high. This contributes to increased costs of doing business in the district. This is similar with the findings of Mahadeva and Pwazi (2008) who have revealed that the tax system and its compliance requirements are major stumbling blocks to the development of small businesses in South Africa.



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In a similar study, Brixiova (2009) indicates that high taxation is the most common constraint for small business development in Ethiopia. Small businesses in Ethiopia cited high tax rate as the highest constraint for their business. Taxation reduces cash available to the firm for reinvestment as well as job creation. It discourages the creation of sustainable development of small businesses in rural areas towards job creation and poverty reduction.

#### 4.5. Conclusion

This chapter presents data interpretation and analysis. Findings from this study revealed that rural entrepreneurship plays a crucial role in poverty reduction in ADM through employment creation and income-generation, skills transfer, social responsibility engagement and availability of goods and services. Despite the above role, rural entrepreneurship is also faced with numerous challenges such as inadequate finance, lack of market, poor infrastructure, lack of skilled labour, high taxation and insecurity.

The following chapter provides conclusion and recommendations based on the research findings.



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## CHAPTER FIVE

### SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

#### 5.1. Introduction

The previous chapter presented data analysis and interpretation. This chapter therefore, provides the conclusion and recommendations.

#### 5.2. Summary and conclusions

Poverty is the greatest challenge of the world today, particularly in developing countries. According to IFAD (2011), more than 1.4 billion people in the developing world live below the poverty line without access to basic needs such as food, health, education, water and sanitation. The majority (seventy five percent (75%)) of the poor are rural dwellers in the developing countries, South Africa notwithstanding. Like other developing countries, poverty is the main problem in South Africa. Many rural communities live under extreme poverty. Mbuli (2008) reported that seventy percent (70%) of the people in rural areas are living below poverty line without access to basic needs.

In the past few decades, many governments around the world have implemented several strategies and policies for alleviating poverty, and one of them is entrepreneurship development. Policy makers, decision-makers, researchers, development planners and scholars seem to agree that entrepreneurship is the key intervention strategy for poverty alleviation. Entrepreneurship is the best mechanism to

solve problems of poverty, unemployment, low economic growth and inequality. Entrepreneurship aids innovation, investment and marketing activities.

Since the dawn of democracy in South Africa in 1994, entrepreneurship has been recognized as an important priority strategy for job creation. Entrepreneurship plays a significant role in poverty reduction, job creation and economic growth. The main objective of this study was to investigate whether rural entrepreneurship contributes to poverty reduction in ADM. In order to achieve this objective, data was collected through personal interviews among various groups of respondents (entrepreneurs, entrepreneur employees, customers and government officials in the charge of municipality). The purposive sampling technique was employed to select the sample of respondents. Graphs, tables and charts were used to present and interpret the research findings.



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The findings revealed that rural entrepreneurship plays a crucial role in poverty reduction in ADM. Rural Entrepreneurship contributes to poverty reduction in ADM through employment-creation and income-generation, skill transfer, engagement in social responsibility and provisioning of goods and services. The creation of employment in the district by small businesses contributes to the reduction of poverty among the Amathole communities. The study found that all the entrepreneurs had employees in their businesses. The income generated from employment helps the employees to meet their basic needs, such as food, health, education, electricity, water and sanitation. Most of the employees indicated that the salary they earn is enough to buy groceries for the whole month.

Small businesses also contribute to poverty reduction in ADM through skill transfer. Small businesses transfer skills to their employees. The findings indicate that small businesses transfer skills to their employees. Some of the skills transferred are sewing clothes, hair styling, catering, and making and repairing shoes. In addition, skills such as customer service and packing and repacking of products were reported to have been acquired in the process. This helps employees to engage in entrepreneurship activities in the future.

Small businesses provide goods and services to the communities at affordable prices. The study revealed that the community has access to goods and services from the small businesses at affordable prices and at their disposal. In some cases, the local entrepreneurs make local arrangements on selling their goods and services to the people on account that they will pay on appropriate time. This does not only help the poor to access goods and services but also enhances social cohesion in the district. Moreover, the entrepreneurs play a significant role in social responsibility through donations to the NGOs which cater for orphanages and the elderly in the district. This is a pointer to the willingness and active participation of the small business owners in poverty reduction in ADM.

Despite the role of small businesses in the district, small businesses face numerous challenges. These challenges are: lack of capital, poor infrastructural facilities, lack of access to market, high tax rate, inflation, lack of skilled labour and high insecurity for their businesses. These factors are limiting the success of small businesses in the district.

### 5.3. RECOMMENDATIONS

Based on the findings of this study, the researcher would like to make the following recommendations.

#### 5.3.1. Improved access to finance

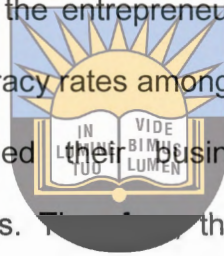
Finance has been identified by many researchers as one of the most critical aspects in entrepreneurship development. Entrepreneurs need finance for the start-up, expansion and sustainability of the business. Access to finance should be improved for small businesses in ADM. The contribution of small businesses in poverty reduction in the district is constrained by lack of finance. It is recommended that financial institutions should come up with new policy and strategies to provide financial assistance to small businesses. Financial institutions should make access to flexible credit to all small business owners. There should be flexible requirements to open bank accounts to secure funding and for small businesses to be more eligible for better loans. This would bolster their financial muscle towards business development.

#### 5.3.2. Access to physical infrastructure

Creation of a conducive environment is crucial for small businesses development in ADM. Rural areas, compared to urban areas, have poor infrastructure. There is a need to improve infrastructure facilities in ADM such as roads, water, electricity, communication channels, business suppliers and business premises in order for small businesses have a positive contribution in poverty reduction in the district.

### 5.3.3. Expansion of entrepreneurship education and skills

Entrepreneurship education and skills development is the most important tool for rural people to engage in for improved entrepreneurship activities. One of the main reasons for small businesses failure in South Africa is lack of business skills. Entrepreneurship training and education should be enhanced among the entrepreneurs. Education and training must focus on business skills, technical skills and entrepreneurial skills training. Business skills and education among the entrepreneurs in rural areas is lacking. For instance, the researcher found that literacy rates among the entrepreneurs are low. The majority of entrepreneurs established their businesses without having higher qualification like degrees and masters. Therefore, the level of education should be improved among the entrepreneurs in order to increase their contribution towards poverty reduction in ADM.



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### 5.3.4. Market accessibility

The sustainability of business depends on market access. Market is the key constraint factor for small businesses growth in ADM. High competition from large businesses, poor location, inflation and unemployment contribute to the reduction of market for small businesses in the district. Market accessibility should be improved for small businesses in order to increase their contribution in poverty reduction in the district. Government agencies and private sectors should assist small businesses in expanding markets for their products and services by organizing workshops.

### **5.3.5. Establish support institutions in rural areas**

Entrepreneurship cannot develop by itself; it needs support from the government. Apparently, there is limited support from support institutions in rural areas compared to urban areas. It is, therefore, recommended that the number of such institutions in ADM be increased. This is crucial to increase the contribution of rural entrepreneurship in poverty reduction in the district. Small business support institutions are key in promoting entrepreneurship by providing finance assistance as well as training and business skills for entrepreneurs.



### **5.3.6. Increase coordination among stakeholders**

For the success of entrepreneurship development in ADM, there is need for coordination of various stakeholders. The coordination between government and the public sector is curial for entrepreneurship development in ADM for poverty reduction. Sustainable entrepreneurship development requires concrete efforts among the various parties such as banks, consulting and training firms, internet providers and support institutions. Furthermore, it needs commitment from government, policy-makers, decision-makers, development agencies, private sectors as well as individuals to provide integrated support to the development of entrepreneurship activity in ADM.

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### **5.3.7. Enhanced security measures**

Crime is the major impediment to business in South Africa. Crime reduces the contribution of small businesses in poverty reduction in the district. The researcher

strongly recommends that the government must take strong action against criminals. The fight against crime needs the cooperation of various stakeholders. All stakeholders should be involved in the fight against crime in order for small businesses to have a positive contribution towards poverty reduction in ADM.

#### **5.4. Areas for further research**

The definition of small business needs further research in order for people to have better understanding of what small business means because this definition differs from country to country.



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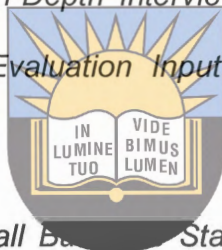
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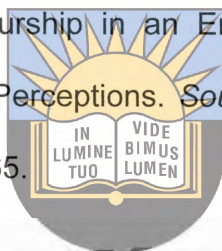
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## Appendices

### Appendix A: Interview guide for entrepreneurs

1. Gender. 1. Male ( ) 2. Female ( )
  
2. Marital Status. 1. Single ( ) 2. Married ( ) 3. Divorced ( ) 4. Widowed ( )
  
3. Education level. 1. Elementary ( ) 2. High school ( ) 3. Certificate ( )  
4. Diploma ( ) 5. Degree ( ) 6. Other ( ) -----
  
4. Age. 1. 18-25 ( ) 2. 26-33 ( ) 3. 34-41 ( ) 4. 42-49 ( ) 5. > 50 ( )
  
5. Nationality. 1. South African ( ) 2. Non-South African ( ) specify -----
  
6. For how many years have you been running business in this area?  
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1.1-3 ( ) 2. 4-6 ( ) 3. 7-9 ( ) 4. 10-12 ( ) 5. > 13 ( )
  
7. Which type of business do you run? 1. Sole proprietor ( ) 2. Partnership ( )  
3. Other ( )
  
- 7.1. State the reason for the choice in the above question 7 -----  
-----
  
8. Is your business registered at the South Africa (SARS)? 1. Yes ( ) 2. No ( )

9. What was your motivation of to start a business?

1. Earn income for living ( ) 2. Secure food ( ) 3. Seeking other employment ( )  
4. Other ( ) -----

10. What was your source of capital to start a business?

1. Family ( ) 2. Friends ( ) 3. Personal saving ( ) 4. Bank loan ( ) 5. Other ( )

11. What is the average gross monthly income in Rand? -----

1. 5000-10000 ( ) 2. 10001-15000 ( ) 3. 15001-20000 ( ) 4. 20001-25000 ( )  
4. 25001-30000 ( ) 5. 30001-35000 ( ) 6. 35001-40000 ( ) 7. 40001-45000 ( )  
8. Above 450001 ( )



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12. Do you generate any income from the business? 1. Yes ( ) 2. No ( )

12.1. If yes, what is the amount money you save every month in Rand? -----

13. Do you have workers in your business? 1. Yes ( ) 2. No ( )

13.1. If yes state the number of workers that you have-----

14. What is the monthly salary paid to your employees in Rand?

1. 500-1000 ( ) 2. 1001-1500 ( ) 3. 1501-2000 ( ) 4. 2001-2500 ( )  
5. 2501-3000 ( ) 6. 3001-3500 ( ) 7. Above 3501 ( )

15. Do you offer training programs to your employees? 1. Yes ( ) 2. No ( )

15.1. If yes specify these-----

-----  
-----

16. List the fringe benefits offered by the business to the employees-----

-----  
-----



17. Is your business engaged in social responsibility? 1. Yes ( ) 2. No ( )

17.1. If yes specify this-----

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-----  
-----

18. What are the current problems affecting your business? -----

-----  
-----  
-----

19. Do you think entrepreneurship development can be a solution to reduce the poverty rate in your local area? 1. Yes ( ) 2. No ( )

19.1. If yes, state your reason -----

-----  
-----

20. How does your business contribute to poverty reduction among the Amathole district communities? -----



-----  
-----  
-----

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**Appendix B: Interview guide for employees**

1. Gender. 1. Male ( ) 2. Female ( )

2. Marital Status. 1. Single ( ) 2. Married ( ) 3. Divorced ( ) 4. Widowed ( )

3. Age. 1. 18-25 ( ) 2. 26-33 ( ) 3. 34-41 ( ) 4. 42-49 ( ) 5. > 50 ( ) 6. >52

4. Education level. 1. Elementary ( ) 2. High school ( ) 3. Certificate ( )

4. Diploma ( ) 5. Degree ( ) 6. Other ( ) -----

5. What is the type of your employment? Full-time ( ) 2. Contract ( ) 3. Part-time ( )

6. What is your approximate monthly earnings in Rand -----?

1. 500-1000 ( ) 2. 1001-1500 ( ) 3. 1501-2000 ( ) 4. 2001-2500 ( )

5. 2501-3000 ( ) 6. 3001-3500 ( ) 7. Above 3501 ( )

7. Is your salary enough to buy the whole monthly grocery? 1. Yes ( ) 2. No ( )

8. Is your salary enough to meet all your basic needs (education, electricity and health, water and sanitation)? 1. Yes ( ) 2. No ( )

8.1. Give reasons for your choice -----

9. Do you save a portion of your salary? 1. Yes ( ) 2. No ( )

9.1. If yes, how much do you save per month in rands? -----



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10. Did you acquire assets since commencing work in small businesses?

1. Yes ( ) 2. No ( )

10. 1. If yes, what type of asset have you acquired? 1. Building ( ) 2. Vehicle ( )

3. Land ( ) D. Other ( ) -----

11. How many people live in your household -----?

12. How many dependants live in your household -----?

13. What kind of benefits do you receive from the employer -----?

-----



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14. Do you think entrepreneurship development can be a major contributor towards poverty reduction in your local area? 1. Yes ( ) 2. No ( )

14.1. State your reason -----

-----

-----

15. What is your view about the role of small businesses in reduction of poverty in Amathole district communities? -----

-----

-----

**Appendix C: Interview guide for customers**

1. Gender. 1. Male ( ) 2. Female ( )

2. Age. 1. 18-25 ( ) 2. 26-33 ( ) 3.34-41 ( ) 4.42-49( ) 5.> 50 ( )

3. Marital status. 1. Married ( ) 2. Single ( ) 3. Divorce ( ) 4. Widowed ( )

4. Education level: 1. Elementary ( ) 2. High school ( ) 3. Certificate ( )

4. Diploma ( ) 5. Degree ( ) 6. Other ( ) -----

5. Do you buy goods or services from small businesses?

1. Yes ( ) 2. No ( )



5.1. Give reasons for your choice in the question above-----

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6. Are you satisfied with prices of goods and services charged by small businesses in your area? 1. ( ) 2. No ( )

6.1. State the reason for your choice-----

-----  
-----

7. How are the prices of goods and services from the small businesses?

1. Low ( ) 2. Medium ( ) 3. High ( )

8. What is the main reason of purchasing goods from small businesses?

1. Consumption ( ) 2. Resell ( )

9. Do you buy goods or services on credit from the small businesses?

1. Yes ( ) 2. No ( )

10. Do you believe the existence of small businesses contribute to poverty reduction in your local area 1. Yes ( ) 2. No ( )

10.1. If yes or no state your reason-----



11. How the Amathole communities benefited from the existence of small businesses?

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12. What is your view of the role of small businesses in the reduction of poverty in Amathole district municipality? -----

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## Appendix D: Ethical Clearance Certificate



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### ETHICAL CLEARANCE CERTIFICATE REC-270710-028-RA Level 01

Certificate Reference Number: KAC061SEIS01

Project title: Rural entrepreneurship and poverty reduction in South Africa: A case of Amathole District Municipality in the Eastern Cape Province

Nature of Project: Masters

Principal Researcher: Gebregziabher Gebreyesus Fiseha

Supervisor: Dr W. Kachera

Co-supervisor:

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On behalf of the University of Fort Hare's Research Ethics Committee (UREC) I hereby give ethical approval in respect of the undertakings contained in the above-mentioned project and research instrument(s). Should any other instruments be used, these require separate authorization. The Researcher may therefore commence with the research as from the date of this certificate, using the reference number indicated above.

Please note that the UREC must be informed immediately of

- Any material change in the conditions or undertakings mentioned in the document
- Any material breaches of ethical undertakings or events that impact upon the ethical conduct of the research

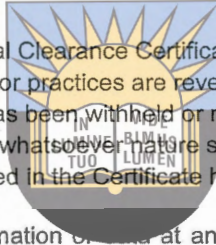
The Principal Researcher must report to the UREC in the prescribed format, where applicable, annually, and at the end of the project, in respect of ethical compliance.

**Special conditions:** Research that includes children as per the official regulations of the act must take the following into account:

Note: The UREC is aware of the provisions of s71 of the National Health Act 61 of 2003 and that matters pertaining to obtaining the Minister's consent are under discussion and remain unresolved. Nonetheless, as was decided at a meeting between the National Health Research Ethics Committee and stakeholders on 6 June 2013, university ethics committees may continue to grant ethical clearance for research involving children without the Minister's consent, provided that the prescripts of the previous rules have been met. This certificate is granted in terms of this agreement.

The UREC retains the right to

- Withdraw or amend this Ethical Clearance Certificate if
  - Any unethical principal or practices are revealed or suspected
  - Relevant information has been withheld or misrepresented
  - Regulatory changes of whatsoever nature so require
  - The conditions contained in the Certificate have not been adhered to
- Request access to any information of the project at any time during the course or after completion of the project.
- In addition to the need to uphold the highest ethical conduct principle investigators must report back annually as an evaluation and monitoring mechanism on the progress being made by the research. Such a report must be sent to the Dean of Research's office

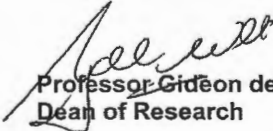


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The Ethics Committee wished you well in your research.

Yours sincerely

  
Professor Gideon de Wet  
Dean of Research

18 May 2015