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## **Small Business Development and Poverty Alleviation in Alexandra, South Africa**

**Paper prepared for the second meeting of the Society for the Study of Economic Inequality  
(ECINEQ Society, Berlin; July 12–14 2007)**

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### **Abstract**

*Give a man a fish and you feed him for a day; teach him to fish and you feed him forever* (Chinese proverb).

It is clear that since 1994 a turning point in the policy shaping the South African small business sector has seen the increased participation of the private sector and local communities. However, over the year the most significant development in the sector is the pivotal role allocated by both the government and the private sector to small, medium and micro enterprises (SMMEs) in poverty alleviation and transformation processes. The paper critically assesses the role of the small business sector in poverty alleviation in Alexandra and to examine both government and private sector initiatives for supporting small business development for poverty alleviation. It is observed that small businesses are not playing the expected role due to number of constraints including a lack of policy that deals adequately with the semi-formal and informal business sectors, the predominant sectors in Alexandra. There is also a shortage of small business development agencies that would help in developing a culture of entrepreneurship and business management skills. The overall finding indicates that with positive interaction between development agencies, and small businesses in Alexandra, predominantly informal and semi-formal SMMEs in Alexandra could not only alleviate poverty but could also contribute to the general transformation process.

## **Introduction**

The development of SMMEs is seen globally, and especially in developing countries, as a key strategy for economic growth, job generation and poverty reduction. Since 1994 South Africa has been promoting small businesses as an engine for economic growth and socio-economic integration. More recently, due to the growth of unemployment in South Africa there has been a renewed focus on the promotion of small businesses from both the government and the private sector, not simply as an engine for growth but more importantly as the key to job generation and poverty reduction, especially among historically disadvantaged groups.

Poverty reduction has been one of the key issues facing South Africa since the end of apartheid in 1994. Data from the poverty and inequality research undertaken by the Human Sciences Research Council (HSRC) in 2005 indicates that 57% of South Africans, of which over 95% are black, are living below the poverty line<sup>1</sup>. This persistently 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. In 1996 the White Paper for Small Business Development Act was introduced to redefine the role of small businesses in the new South Africa.

This paper aims at adding to the debate by looking at the synergies between SMMEs development and poverty alleviation and their potential contribution to Alexandra's transformation programme.

The choice of Alexandra for the study was made due to its history of neglect during the apartheid era which has made it one of the most impoverished towns in South Africa, notwithstanding that it borders the most affluent part of Johannesburg. The core objective of the paper is to investigate the relationship between small business development and poverty alleviation in Alexandra. It will also examine the development and impact of government programmes and private sector initiatives on poverty alleviation through SMMEs in Alexandra.

Providing the poor with access to productive income opportunities is critical to poverty reduction in Alexandra. There are several South African poverty alleviation programmes such as welfare provision through social security and pensions. However, the country cannot afford to support the more than 50% of the population living below the poverty level with welfare payments. Hence there has been an increase in the promotion of wealth creation rather than unsustainable wealth redistribution. One key

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<sup>1</sup> The poverty income line in South Africa is R1,290 per month (for detail of the data see Leibbrandt et al, 2004).

strategy is an emphasis on wealth creation, especially among the black population, through entrepreneurship development with the popular slogan ‘Entrepreneurship, the life-blood of the nation’. In addition, the non-sustainability of equity transfer and several loopholes in the Black Economic Empowerment Programme have pushed the need for multidimensional strategies for poverty reduction. This is what has led to the renewed commitment of the government and the private sector to small business development as a pivotal tool for poverty alleviation through skills training and job creation.

The key question is whether the poverty can be reduced through SMME development, particularly in the context of Alexandra, South Africa. To address these questions, the paper examines the SMME framework as it relates to poverty alleviation. It provides the socio-economic background of Alexandra and the challenges of SMME development in poverty alleviation. It identifies the roles of the private sector and the government and the challenges faced by entrepreneurs. Finally, the paper examines how the different initiatives created by the government and the private sector to provide financial support, training and mentoring will translate into more sustainable businesses that create jobs and skills transfers which will contribute to poverty reduction in Alexandra.

The central argument is that SMME promotion has the potential to contribute to poverty alleviation and the transformation process in Alexandra. The recent Strategy Paper on Small Business Development<sup>2</sup> also recognises micro enterprises and survivalists as the key to poverty alleviation through income generation, particularly in rural and impoverished towns such as Alexandra.

The research applies critical analysis of secondary material complemented with primary data obtained through semi-structured interviews with key informants and actors, entrepreneurs and potential entrepreneurs.

### **General Overview of Small Business in South Africa**

Globally, the concept of small business is diverse and depends on the level of each country’s economic development. The lack of a clear and homogeneous definition of small business can affect research findings and the understanding of its contribution to socio-economic development. There are different characteristics of small business such as entrepreneurship, ownership and management, labour status, the formal and informal economy and the size of the entity (Annual Review of Small Business in South Africa, 2004). Internationally, size of entity is the criteria adopted most in small business

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<sup>2</sup> Unlocking the Potential for South Africa Entrepreneurs (The DTI 2006)

studies. Meanwhile, what constitutes the size of a small business varies from one economy to another. In developed countries such as the US, businesses with fewer than 500 employees are considered small, while in developing countries such as South Africa the number employed may be considerably smaller.

According to South Africa’s 1996 National Small Business Act, an SMME is seen as ‘a separate and distinct business entity, including co-operative enterprises and non-governmental organisations, managed by one owner or more persons which, including its branches or subsidiaries, if any, is predominantly carried on in any sector or sub-sector of the economy’ (National Small Business Act 1996:2). SMMEs in the South African context are classified into five categories: a) survivalist enterprises; b) micro enterprises; c) very small enterprises; d) small enterprises; and e) medium enterprises. The survivalist enterprise is generally seen as providing an income below the poverty line. Micro enterprises are considered as businesses with a turnover of below the VAT registration limit of R300,000. Many of these informal and micro enterprises provide the livelihoods of millions of people in South Africa (Annual Review of Small Business, 2004). Table 1 set out the definition of small business in South Africa.

**Table.1 National Small Business Act 1996: Definition of SMEs**

Size of enterprise	Number of employees	Annual turnover	Gross assets
Medium	Fewer than 100-200, depending on industry	Under R4m to R50m, depending on industry	Under R2m to R18m, depending on industry
Small	Fewer than 50	Less than R2m to R25m, depending on industry	Less than R2m to R4.5m, depending on industry
Very Small	Fewer than 10 to 20 depending on industry	Less than R 200.000 to R500, 000, depending on industry	Less than R150, 000 to R500,000, depending on industry
Micro	Fewer than 5	Less than R150,000	Less than R150,00

With the understanding that there are fundamental differences, in aspects such as the policies and structure of small and medium, micro and survivalist enterprises, this paper uses the term *small business* to mean small, medium and micro enterprises.

Lack of comprehensive data on SMMEs is one of the major challenges of studying small businesses in South Africa. However, in the last few years data collection in the formal sector has improved, although not in the informal sector, which is significant in poverty alleviation. The dearth of empirical

information in the informal sector is highest in the informal sector and is partly attributed to inadequate research and the difficulty of recording the frequent entries to and exits from the sector.

To obtain the maximum information this paper intends to triangulate multiple data sources to describe the different SMME sectors and how they contribute to poverty alleviation in Alexandra. Most information on SMMEs in this paper is drawn from the Global Enterprises Monitor (GEM) on South Africa, the *DTI Annual Review of Small Business* and the Alexandra Development Forum. Primary data from semi-structured interviews with key informants complement these sources.

Small business development in South Africa is focused on several key factors. It is seen as a catalyst for economic growth, job generation, and poverty alleviation. According to the most recent Small Business Annual Review, small businesses make up about 95% of all enterprises in South Africa (Annual Review of Small Business in South Africa, 2004:50). Non-VAT-registered businesses operating in the informal sector number between 1.8 to 2.5m. Small businesses contribute 45-50% of GDP. The remaining percentage is contributed by big businesses and the public sector. Formal small businesses employ 50-60% of the labour force, increasing to 75% when the informal sector is included (ibid: 63).

Since the late 1980s, the employment share of big businesses has been in decline, while that of small business has increased. The increase in small businesses' job absorption within the jobless growth economy has led to increased support for small business in South Africa. The 1996 White Paper for Small Business Development was a hallmark in small business development. Since then the White Paper has been reviewed and amended to accommodate some institutional changes that offer differential support programmes for formal and informal SMMEs.

### **Institutional framework for small business development in South Africa**

Several institutions and mechanisms have been introduced by the South African government through its Department of Trade and Industry (DTI). The two key government agencies established for small business development are the Small Enterprises and Development Agency (SEDA) and Khula Enterprises Limited. These institutions have initiated a range of programmes aimed at fostering new business start-ups and building the capacity of existing ones. For a long time the government did not have a support agency for micro and survivalist businesses. Although a few NGOs and CBO were involved in this sector, the lack of government support left a big gap in the development of the survivalist and micro enterprises sector. In 2004, the South Africa Micro-credit Apex Fund (SAMAF) was created within Khula to provide them with financial support. SAMAF operates mainly with

cooperatives and community development agencies which work directly with small business owners in rural areas and townships. Table 2, below, explains some of these institutions.

### **Government Development Institution for Small Business**

<b>Institutions</b>	<b>Activities</b>
SEDA	SEDA offers a range of business development services. It provides non-financial services through integrated support agencies across the nation with more than 284 Enterprise Information Centres in the municipalities across the nation
Khula Enterprises	Khula facilitates access to finance for small businesses. It has various financing products and works with major commercial banks and private organisations such as Business Partners. Khula's operations involve loans and credit guarantees through commercial banks. It also offers a mentorship programme.
National Empowerment Fund (NEF)	NEF provides various start-ups for small businesses and rural and community transformation. Its financing capacity ranges from R250,000 to R10m. NEF focuses specifically on disadvantaged individuals.
Industrial Development Corporation (IDC)	IDC generates its funds independently of the government. It provides various sector-focused financing products ranging from R1m, with specific focus on SMEs and empowerment.
South Africa Micro Finance Apex Fund (SAMAF)	SAMAF is modelled on the Grameen Bank in Bangladesh. It provides loans of up to R10,000 to micro and survivalist enterprises in poor areas. Its main focus is poverty alleviation.
Gauteng Enterprise Propeller (GEP)	The GEP is a Gauteng Provincial Government (GPG) agency established under the auspices of the Department for Economic Development to provide non-financial and financial support and to co-ordinate stakeholders for the benefit of SMMEs in Gauteng.

Within Khula there are other products such as the Umsobomvu Youth Fund (UYF), which provides support for young people. In addition to the above government institutions, private organisations provide financial and non-financial support to potential entrepreneurs with a special focus on previously disadvantaged individuals (PDI). The Business Partners collaborates with Khula to provide

funds for business start-ups and existing businesses. Anglo Zimele, a subsidiary of Anglo American, promotes enterprises with a special emphasis on the previously disadvantaged individuals (PDI). The Business Place provides non-financial support to entrepreneurs and is one of the few business support centres based in Alexandra. Commercial banks are also involved in small business development through community banking.

### **Small Business and Poverty Alleviation**

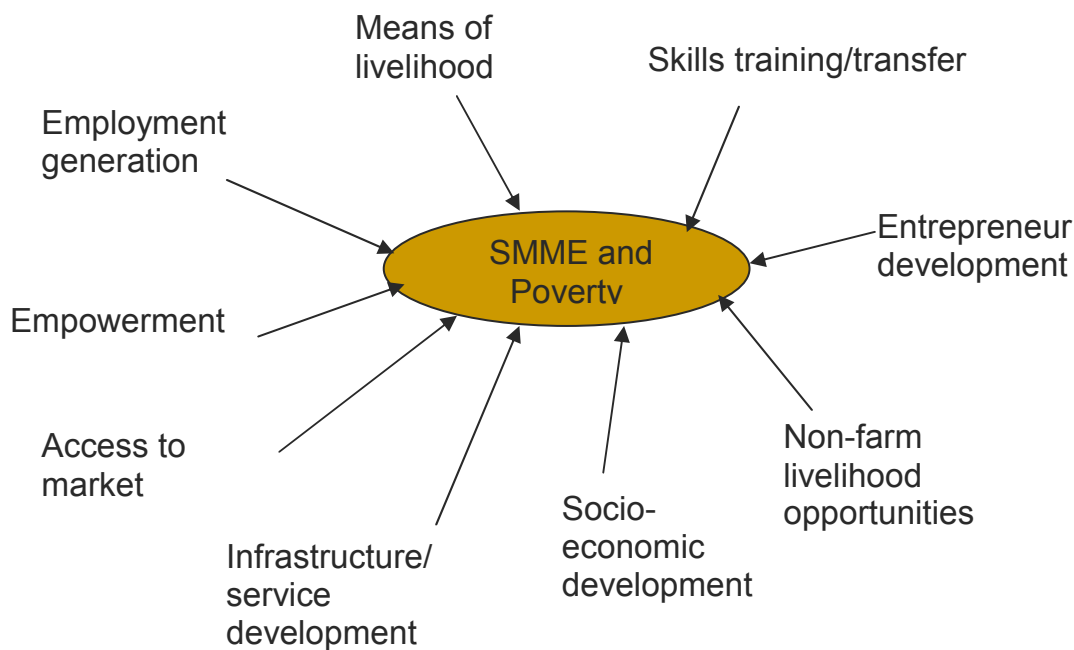
Promotion of small business for poverty reduction in developing countries has been gathering momentum among governments and international development agencies. For example, the UNDP has been developing 'Growing Sustainable Business (GSB) initiatives for poverty reduction in other developing countries such as Tanzania, Zambia, Ethiopia, El Salvador and Serbia and Montenegro. The initiatives focus on cutting adage business model that engages range of local partners<sup>3</sup>. In South Africa, the importance of the promotion of SMMEs as a tool for poverty reduction is noted in the Strategic framework for Small Business<sup>4</sup>. Most important is the broad scope of participants it will encompass, especially in the semi-formal and informal sectors which comprise very small, micro and survivalist enterprises. Survivalist businesses mainly represent a set of activities by people unable to secure regular formal employment or access to the formal economic sector, while micro enterprises often involve the owner, family members and at most four paid employees. Very small enterprises usually apply better business skills and are more organised, with greater potential for growth into the formal economy. These sectors predominantly comprise Alexandra's small business activities. They may act as a stepping stone into the formal sector and subsequently bridge the gap between the first and second economies typified by Alexandra and its affluent neighbours. Figure 1 illustrates the relationship between poverty alleviation and small business development.

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<sup>3</sup> Growing Sustainable Business for Poverty Reduction; [www.undp.org/business/gsb](http://www.undp.org/business/gsb)

<sup>4</sup> Unlocking the Potential for South Africa Entrepreneurs (The DTI 2006)





*Small business development and poverty alleviation: Modified after Pro-poor Tourism, Roggerson 2006*

Sectors of SMMEs with an advantage in Alexandra, such as transport, construction and tourism have the potential for providing the linkages needed to attract economic development in the community. There are some inherent advantages in promoting SMMEs for poverty reduction, such as through skills learning and transfer, especially in areas where there is an acute shortage of skills. Imperatively is job creation through the employment of others or self-employment thereby creating livelihoods for many people. SMMEs can also provide access to markets for the poor, much-needed infrastructure improvements and service in the community. SMME activities are expected to contribute to the transformation process.

**Poverty and small business development in Alexandra**

In 1912 Alexandra was made a Native Township wherein blacks were allowed to rent and own property. The town falls within Region 7 of the Municipality of Johannesburg. It is located 3 km from Sandton, the financial heart of Johannesburg. Alexandra borders the industrial areas of Wynberg, Limbro Business Park and Bruma Commercial Park. Smith (2002) describes the distance as just a few steps: ‘It amazes me the short quick steps – two to be exact – between Sandton and Alexandra. You get Sandton, Wynberg Industrial area, Alexandra. Is it really possible to make these steps even shorter? Although it is located next to the most affluent and one of South Africa’s highest income residents, the life and living conditions of Alexandrians are the exact opposite of their affluent

neighbours'. As a result of a long history of neglect during the apartheid era, Alexandra remains one of the most impoverished and densely populated townships with 60% of its population unemployed compared to 22% in Gauteng (Bozzoli, 2004; Rogerson, 2006).

There is a long-term problem of structurally unemployed individuals in Alexandra who have never had a job or who have been laid off from mines or factories due to the transition to the high-tech economy. It is increasingly difficult for them to find a job in the present-day labour market, which requires highly skilled labour (Bhorat, 2001; Chandra and Nganou, 2001) As a result, many individuals are left to employ themselves as SMMEs as their only possible means of livelihood.

The town is characterised by poor infrastructure, inadequate services, high crime and a severe environment that earns it the title of 'Dark City' (Mgquba & Voger, 2004; Rogerson 2006). According to the 2001 census, 50% of people over 20 years of age are without schooling and about 50% of people aged 2-24 are currently not receiving education, the highest incidences in the province.

Since 1994 there has been series of programmes to transform Alexandra. These include the Presidential Renewal Project (PRP), involving all stakeholders. There is also small business development and local economic development. The lives of many Alexandrians have improved since 1994, but a huge proportion of the population is still impoverished.

As a result of previous apartheid laws that discouraged black entrepreneurship, small business development is in its early stages and lacks adequate infrastructure and an enabling business environment. There are also limited business service providers in Alexandra. In addition most business activities operate at an informal, survivalist level.

There are few available data on small business activities in Alexandra, making it difficult to determine the number of small businesses in Alexandra. According to the Alexandra Chamber of Commerce there are approximately 4000 small businesses, with survivalist level enterprises dominating this number. This is in line with the recently-published FinMark survey of 6,000 households, which found that typical township businesses are in the retail (65%) and services (24%) sectors. Most of the existing micro businesses employ fewer than nine people, and are mainly kept in the family. The lack of alternative livelihoods is frequently cited as the primary motivation for starting up new businesses. Some of the retailers interviewed showed high entrepreneurial drive but lacked the necessary skills and knowledge to grow their businesses beyond the survivalist level. This explains the high number of survivalist enterprises and the stagnation of small business in Alexandra. This trend is not peculiar to

Alexandra, being common to most informal businesses in other parts of South Africa.

This paper concurs with Horn's (1995) argument that it is misleading to conceive of all participants in small businesses as entrepreneurs. The GEM analysis distinguishes between necessity and opportunity entrepreneurial motivation. Opportunity entrepreneurs are those who take advantage of a business opportunity, while necessity entrepreneurs are those who venture into business because there is no better livelihood option (GEM South Africa 2004). Although the majority of business owners in Alexandra are within necessity level it does not follow that these level are irrelevant in small business development, especially considering their contribution to their livelihoods and that of their family and others they employ through proactive activity. The role of necessity entrepreneurs in poverty alleviation through job creation, including in the informal sector, cannot be denied. It is likely that some will progress from survivalist to micro and formal businesses. Meanwhile, in an environment where most of the population is neither educated nor has formal employment skills, the tendency to informal (necessity) SMMEs is high as an alternative livelihood strategy. In addition, recession conditions in the formal sector are the core explanation for the surge in survivalist enterprises in often already-overtraded income niches such as tuck shops, spazas<sup>5</sup> and hawking operations (Roggerson, 1996)

There has been a continuous decline in jobs in the traditional sector (manufacturing, mining and agriculture), which absorbs unskilled labour. The growing service sectors are intrinsically skilled-labour intensive and thus not have no demand for unskilled labour. With the majority of the unemployed in Alexandra unskilled, the chances of getting work in this sector or in the commercial and industrial hub remain very low, at least in the short and medium term. This increases the poverty levels of Alexandra's residents. In order to tackle the poverty rate a multifaceted approach must include enterprises development. Small business development in itself is insufficient as a poverty alleviation strategy, but the sector could contribute significantly to poverty alleviation.

### **Key Feature of Small Business in Alexandra**

According to the local chamber of commerce, transport and tourism are the dominant SMME sectors; trading additionally takes a major share of the number of SMMEs. The trend whereby small businesses predominantly thrive in survivalist enterprises is similar to that in other impoverished towns and rural areas in South Africa. Small businesses in Alexandra are still in their early stages, at an average age of five years old. Most small businesses are less than seven years old.

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<sup>5</sup> Small shops and kiosks

The tourism sector has been attracting the attention of the public and private sectors and researchers. For the most part this is due to the Alexandra's strategic place in the history of South Africa, especially during the apartheid area.

As a result of the rejuvenation of the tourism sector and its contribution to employment generation there has been an initiative by the government towards making Alexandra a tourist destination (Roggerson 2006:51). The tourism sector is seen as a lever for promoting small businesses through local entrepreneurs providing such services as tour guiding and handicrafts (Ntlanjeni 2003; Roggerson 2006). The sector has also attracted linkages with key tourism players in Sandton, such as the Southern Sun Group and local stakeholders in Alexandra (Pro-poor Tourism in Practice, 2004c).<sup>6</sup>

The construction sector has also been thriving in South Africa, including Alexandra, since 1994. This is the result of an ongoing housing programme and the 2010 World Cup, both of which have attracted big projects. In addition the government has invested hugely in the sector and has made it key to the empowerment of PDI through contractor development, skills training and tendering. This provides entrepreneurs with an opportunity in the sector and is attracting a lot of newcomers.

The transport sector mainly consists of sole proprietors. Transport owners run commercial buses from Alexandra to other parts of Johannesburg. The sector is mostly dominated by males. On the other hand, the trading sector, which includes spaza and shop owners and street sellers, includes a high number of females.

### **Challenges to Small Business Development in Alexandra**

Arguably, small business development can contribute to poverty alleviation in South Africa, but developing the sector, especially in Alexandra, is more complex and challenging than it appears on the surface. The complexity is related to the multiple effects of apartheid's exclusion and discouragement of entrepreneurship culture among its black population which have led to a lack of positive outlook towards entrepreneurship in South Africa. The attitude of Alexandrians towards entrepreneurship is similar to that in other parts of South Africa; they prefer to seek formal employment rather than create a business. The average total early-stage entrepreneurial activity (TEA) index as calculated by GEM indicates that South Africa is below average compared, for instance, with countries such as Uruguay and Argentina (GEM SA, 2006:26)

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<sup>6</sup> For further study on tourism and poverty alleviation, see Roggerson, 2006 and Pro-poor Local Economic Development.

Notwithstanding the lack of positive attitude towards entrepreneurship among the residents and the predominance of women in informal trading, some of these informal business owners display strong entrepreneurship. As previously mentioned, they lack basic business management skills which could make their business more viable and sustainable. Lack of skills and poor infrastructure are frequently pointed out as obstacles to developing a viable and sustainable business in Alexandra. These are compounded by the lack of local business service providers and government support agencies in the area. There are also few financial institutions and small business service providers. The shortage of local business service centres is argued to be the result of Alexandra's proximity to Johannesburg, where most small business service providers have their office outlets. There is also the problem of crime and violence. To most service providers, including government agencies, Alexandra is a high risk area.

### **Development Business Support Agencies in Alexandra**

There are very few development support agencies in Alexandra. Notwithstanding the government's claimed to commitment to small business development for poverty reduction in rural areas and impoverished townships, there is no government business support agency in Alexandra. SAMAF, a government agency whose primary goal is poverty alleviation through provision of financial supports to informal and micro-enterprises in rural areas and impoverished towns have no outlet in Alexandra. When I spoke with SAMAF in Johannesburg I was told that they had organised couple of workshops in Alexandra, but the response had been poor.

One of the two private business support agency working there observes the situation differently. During an interview it was explained that most agencies avoid Alexandra because of preconceived ideas which can be traced to impressions of high violence and crime in Alexandra. The problem is also related to these agencies; lack of knowledge and understanding of the Alexandrian environment. These drive up the cost of doing business in the area considerably. This is also the key reason for low private sector investment in the area, although it is a potential area for development of some sectors such as tourism.

### **Private sector initiative for SMME development in Alexandra**

Alexandra is strategically placed due to its proximity to Sandton and other key commercial areas. The private sectors' initiative to support SMMEs in Alexandra includes skills training, outsourcing and information dissemination. There are high expectations that big companies will partner small businesses in Alexandra through supply chain linkages. For example, the tourism sector in Alexandra is targeted to develop strong linkages between Alexandra and Sandton through Southern Sun Hotels

(Pro-Poor Tourism in Practice, 2004c; Rogerson 2006). Southern Sun operates six five-star hotels and is expected to contribute to enterprise development in the area. The partnership is in line with the South African Black Economic Empowerment transformation initiatives and provides mutual benefits for both Southern Sun and Alexandra (Roggerson, 2006:51). It is also a means of promoting a link with the neighbouring commercial community of Alexandra through enterprise development, skills and job creation (Kaplan, 2004b). Southern Sun out-sources some of its services such as cleaning and housekeeping operations to Alexandra-based enterprises and supports local restaurant in terms of training. There is also an initiative to market township tours using residents as tour guides. These initiatives have contributed to the thriving of the service sector in the area.

Other private sectors are also involved in enterprise development in the town. An entrepreneur involved in skills training explained that she is in partnership with a private training agency in the city which usually recruits most of her training clients: ‘At least people are getting a paid job which provides them with a good income. A little improvement in skills adds value to one’s income; it makes a lot of difference to the life of young people in the community’.

An entrepreneur with an advertising agency commented that although he is based in Alexandra and about 70% of his clients are from the city he has no links with private or public organisations. He explained that it can be very difficult securing clients as he is competing with big, well-established names with plentiful resources. He argued that stepping out is most important for a businessman. Having my own business has given me more confidence financially, and I employ people from the community in addition to offering other community services’.

### **Key Constrains to SMME Development in Alexandra**

Interaction with entrepreneurs in Alexandra revealed that the major constraints to doing business there are similar to those faced by their counterparts in other townships and rural areas of South Africa, and are detailed below. These constraints limit the contribution SMMEs could make to poverty reduction.

**Lack of business management skills and skilled labour:** Although some local business centres provide training for entrepreneurs, they still have very low business acumen. Interaction with business owners and service providers indicated that this lack of basic business management skills is affecting business growth. A private service provider commented that entrepreneurs in the community still have a long way to go. Some do not keep accounts, nor do they have a bank account. Some spend their capital because they cannot distinguish between business capital and profit. This leads to business stagnation and collapse.

There is an extreme shortage of skilled labour in Alexandra. Business owners disclosed that it is very difficult to find an employee with enough training in Alexandra. The cost of employing people from outside is rather high, and those with skills prefer to work in Johannesburg than in Alexandra. An advertising agency owner explained that although he has trained his five permanent employees he still has to do some of the key work himself in order to produce acceptable quality of work. The local chamber of commerce agrees that outsourcing to local entrepreneurs is discouraging because of their poor service. Business owners tend to look outside Alexandra for skilled employees, thereby denying the contribution that small businesses could make to poverty alleviation within the community.

**Poor infrastructure:** Lack of essential infrastructure is another obstacle to business development. Although there is some development going on in Alexandra due to the transformation programme, key infrastructure and services such as water, a reliable telephone system and ADSL that could facilitate business are not adequately available. The local chamber of commerce is planning a strategy to attract businesses and service providers to Alexandra so that residents will benefit through skills transfer and job creation, but poor infrastructure has hindered this move. Entrepreneurs are also affected by poor infrastructure. One such commented that his desire is to open an internet café, but due to poor internet access and the cost of operating it he cannot. A graphic designer has to rely on the internet in the office of a local business service provider, and a spaza shop owner commented that as there is no major outlet for goods in bulk she has to travel out of Alexandra: 'It costs a lot to travel outside Alexandra for bulk purchases. In the end there is little or no profit out of the business, because no one will buy if prices are too high'.

**Crime and negative public perception:** Alexandra is known for its politically intense and violent environment, but it is crime that has given it its bad image. Crime and violence are seen by the residents as issues of the past that have been exaggerated. On the other hand, most business service providers outside Alexandra avoid it because of the high crime rate, which makes the cost of doing business very high. Alexandrian entrepreneurs interviewed did not see crime as their primary problem; rather, the lack of capital and access to markets was cited as the key constraint to small business development.

**Access to capital and bureaucracy:** Lack of capital and the complexities of obtaining loans from financial institutions and government development agencies were cited as major hindrances to small business development. The inhibitive policy framework discourages entrepreneurs from seeking funds to start up new or expand existing business. In terms of support intervention, a huge information gap has been identified between local business service providers and entrepreneurs. There is a lack of government support agencies which could fill the gap left by the small number of private business

service providers. Indeed, while there is businesses support agencies in nearby Johannesburg, most entrepreneurs are ignorant of their availability and how they might access them.

The few that have knowledge of some of the services and incentives available for them are discouraged due to the complexity and bureaucracy involved in obtaining any kind of support. The Strategy Business Partnerships Report shows that red tape costs businesses R79bn annually in South Africa (SBP, 2004). Entrepreneurs in Alexandra argued that the process of obtaining support from the government is not only difficult and discouraging but is also based on 'who you know' and political connections. A number of key players within the sector confirm this, but also argue that most of these entrepreneurs are not coming forward, and that those that are do not present viable business ideas. The question now is how the gap can be bridged.

### **Summary**

This paper has sought to critically analyse the activities of small businesses and their contribution to poverty alleviation and transformation in Alexandra. It is observed that small businesses form a very significant part of Alexandra's economic activity and are pivotal to its transformation process.

Considering the socio-economic make-up of the community, small businesses can contribute greatly to poverty alleviation. Due to the history of discouragement of entrepreneurship and the culture of working for 'the boss' there is still an absence of entrepreneurial education for young people in a way that could encourage them to enter business and acquire a culture of entrepreneurship. Small businesses are faced with a series of constraints which impede their development and consequently poverty alleviation.

Although the government accepts responsibility for ensuring that there is adequate support for SMMEs in all communities and addressing the needs of disadvantaged and marginalised black entrepreneurs, its presence is still to be felt in Alexandra. There is a claim that the government does not consult with organisations that represent businesses, despite its goal of promoting the sector for transformation and poverty alleviation.

It has also been identified that the elaborate government policies and established support institutions for small business development focus mostly on the formal sector and neglect the informal sector, where the majority of the poor are to be found. A few incentives, such as SAMAF and the Mafisa micro loan for the informal and semi-formal sectors lack the capacity and drive for implementation.



Small businesses in Alexandra are predominantly semi-formal to informal, but present policy on small business development neglects this sector. The micro and survivalist sectors which are dominant in the town are clearly contributing to the basic needs and greater wellbeing of their participants. Nevertheless, this sector could raise living standards and provide employment for residents if there were a coherent and constructive policy to enhance its dynamism. The chosen policy must understand the constraints on this sector.

### **Concluding Remark**

Government policy focus has not identified potential sector and disaggregates the characteristics and particular set of problems of the sectors, (such as the service sector, retailing and construction) and addresses them specifically. Maximising growth and a pro-poor policy for small businesses will contribute further to poverty alleviation and general transformation in Alexandra.

Using SMMEs to target poverty alleviation therefore requires a diverse strategy that accommodates and involves the very poor, who lack skills and formal education for business management. Approaches such as microfinance, skills and business management training are paramount.

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