ABSTRACT

Government’s New Growth Path is targeting five million (5 000 000) new jobs by 2020 and also aims to reduce the unemployment rate by 2030 by creating eleven million (11 000 000) new jobs. South Africa needs over forty-nine thousand (49,000) Small and Medium Enterprises (SMEs), growing at a rate of twenty percent (20%) per annum, to create eleven million (11 000 000) jobs by 2030 to meet the National Development Plan (NDP) target. The local economic development is providing capital to previously disadvantaged South Africans to encourage start-ups and grow existing businesses through grants and incentive programmes. The study evaluated the contribution of local economic development in developing SMEs in local communities. A total of twenty-three (23) in-depth interviews were conducted with respondents aged between eighteen to fifty-five (18-55) years. Snowball sampling was used to select respondents from Solomondale community in the Limpopo Province, South Africa. Thematic content analysis was used to analyse the data. The author adopted the Sustainable Livelihood Approach (SLA), which postulates that, for livelihood to be sustainable in the case of SMEs, it has to comprise of five elements, namely: human, physical, social, financial and natural assets. Regardless of the incentives provided by the government, the research identified challenges faced by SMEs. These include; lack of proper skills to maintain sustainability and growth of the businesses, competition by foreign markets of which most of the businesses are not registered, and the lack of complete assets outlined by the SLA. It is imperative to understand the Strengths, Weaknesses, Opportunities and Threats (SWOT) of small medium enterprises in local communities to provide business management skills. Most xenophobic attacks in local communities’ result from fear of losing control over local economies and the lack of job opportunities as had been happening in South Africa recently. It is trusted that findings in this study will contribute to the development of coherent strategies to support local economies to meet the NDP target.

Keywords: Sustainable Livelihood, Small and Medium Enterprises, Local Economic Development, Unemployment.

1. Introduction

The year 1994 marked the end of political apartheid in South Africa when the first black president, Nelson Rolihlahla Mandela was elected under the auspicious of the African National Congress (ANC). Racial segregation and discrimination were some of the strategies used by the white oppressor to occupy resources unequally in the country and other races mostly served as proletariats. While the end of apartheid opened the door for equal opportunities for all South Africans, regardless of race, the South Africa of today struggles to correct the inequalities created by decades of apartheid. According to Leibbrand, Finn and Woolard (2012), despite a rising Gross Domestic Product (GDP), poverty, unemployment, income inequality, life expectancy, land ownership, and educational achievement have worsened since the end of apartheid and the election of the ANC. This is witnessed by the frequent protests by workers and the students at national universities all over the country. Subsequent government policies have sought to correct the imbalances through state intervention with varying success. With the various national, provincial and local interventions implemented since 1994, South Africans are still faced with the major tripartite challenges of: unemployment, inequality and poverty which are not easy to address.
The African National Congress (2007), formulated the Reconstruction and Development Programme (RDP) which was a socio-economic programme, aimed at addressing racial inequalities by creating businesses and employment opportunities for blacks. Critics of the RDP argue that it emphasized macro-economic stability rather than social stability. The Broad Based Black Economic Empowerment (BBBEE) Act of 2003 aimed to offer new economic opportunities to disadvantaged communities. Its goals include achieving the Constitutional right of equality, increasing broad-based participation of blacks in the economy, protecting the common economic market, and securing equal access to government services. Many scholars see BBBEE as capable of advancing economic growth, promoting new enterprises, and creating sustainable job opportunities for the previously disenfranchised. Issues surrounding monitoring and enforcement are persistent obstacles to the success of BBBEE (Mpehle, 2011). Statistics South Africa (2016), reports show that unemployment rate slightly decreased to 26.6 percent in the June quarter of 2016 from 26.7 percent in the three months to March. It was also identified that the markers of unemployment in South Africa are; race, gender, age, location and schooling. The following bar graph (Figure 1), illustrates the rate of unemployment as from July 2013 up to July 2016 in South Africa.

In response to the persistent skills shortage and high unemployment rates, several measures intended to halve unemployment and poverty by 2020 were introduced. Implementation of the Joint Initiative for Priority Skill Acquisitions (JIPSA) which aims to address priority skills shortages through a variety of means including; organising special training programmes and exchange programmes with other countries, bringing back South African retirees and other skilled Africans working outside Africa where necessary (National Framework for LED in South Africa, 2006 – 2011). Furthermore, the New Growth Path (NGP) was set, targeting five million jobs by 2020, which requires the economy to be growing at an accelerated growth. Government’s New Growth Path is targeting five million new jobs by 2020 and also aims to reduce the unemployment rate from 27% in 2011 to 6% by 2030 by creating eleven million new jobs. South Africa needs over 49,000 Small and Medium Enterprises (SMEs), growing at a rate of 20% per annum, to create eleven million jobs by 2030 to meet the National Development Plan (NDP) target. The local economic development is providing capital to previously disadvantage South Africans to encourage start-ups and grow existing businesses through grants and incentive programmes (National Framework for LED in South Africa, 2006 – 2011).

2. LOCAL ECONOMIC DEVELOPMENT (LED): AN IMPORTANT WAY OF REACHING OUT TO LOCAL ECONOMIES IN SOUTH AFRICA

The democratically elected government of South Africa have realised as early as 1995 the importance of SMEs to the economy. Trevor Manuel, former Minister of Trade and Industry, clearly articulated these issues when he said:

"With millions of South Africans unemployed and underemployed, the government has no option but to give its full attention to the task of job creation,

![Figure 1: South Africa unemployment rate.](source: Adapted from www.tradingeconomics.com)
and generating sustainable and equitable growth. Small, medium and micro-enterprises represent an important vehicle to address the challenges of job creation, economic growth and equity in our country. We believe that the real engine of sustainable and equitable growth in this country is the private sector. We are committed to doing all we can to help create an environment in which businesses can get on with their job” (Department of Trade and Industry, 2005).

Local economic development (LED) was seen as one of the most important ways of reaching out to local economies. The main aim of LED is to create jobs by making the local economy grow by starting more businesses and factories in municipal areas. As part of Integrated Development Planning (IDP), key stakeholders in a municipality come together to reach an agreement and take decisions to make the economy grow and create income opportunities for more people, especially the poor. National government makes policy and provides funds, research and other support for local economic development (Revised National LED Framework, 2012-2016). Department of Trade and Industry (2005), outlines a consensus among policy makers, economists, and business experts that SMEs are drivers of economic growth. A healthy SME sector contributes prominently to the economy through creating more employment opportunities, generating higher production volumes, increasing exports and introducing innovation and entrepreneurship skills. The dynamic role of SMEs in developing countries insures them as engines through which the growth objectives of developing countries can be achieved. According to Turner, Varghese and Walker (2008), SMMEs are interpreted differently in various countries because they respond to diverse national and local government challenges and circumstances. From the South African legislative perspective, notably the National Small Business Act 102 of 1996, SMEs are categorised into five stages of development: (a) survivalist, (b) micro, (c) very small, (d) small and (e) medium-sized enterprises. Key roles underlying LED in developing local economies (SMEs) are to prioritize job creation and poverty alleviation, as the main challenges facing South Africa, target previously disadvantaged people, marginalised communities and geographic regions, black economic empowerment enterprises and SMMEs to allow them to participate fully in the economic life of the country, promote local ownership, community involvement, local leadership and joint decision making. Engage local, national, and international partnerships between communities, businesses and government to solve problems, create joint business ventures and build local areas, Uses local resources and skills to maximizes opportunities for development, and Integrate diverse economic initiatives in an all-inclusive approach to local development (Revised National LED Framework 2012-2016).

3. Challenges Underlying the Role of LED in Developing Local Economies (SMEs)

According to the Global Entrepreneur Monitor Report (2014), South Africa’s rate of entrepreneurial activity is very low for a developing nation, a mere quarter of that seen in other sub-Saharan African countries. Unemployment is around 40% of the adult population; despite this, the number of people starting businesses due to having no other option for work is low. Entrepreneurial activity in South Africa, although very low, has increased marginally over the last 10 years, but in 2014 dropped by a staggering 34% (from 10.6% to 7%). There has been an increase in women’s entrepreneurship primarily due to government support, but the perception of opportunities to start a business, and confidence in one’s own abilities to do so, remains alarmingly low compared to other sub-Saharan African countries. The level of business discontinuance still exceeds that of business start-ups, resulting in a net loss of small business activity and subsequent job losses. Like elsewhere in Africa, many of the businesses cite lack of finance and poor profitability as the main reason for shutting up shop.

The Global Entrepreneur Monitor Report (2014) further outlines that the main challenge is to provide jobs and/or opportunities for the youth, where the estimated unemployment level is in excess of 60%. This can be assisted through education; however, the level and quality of education in South Africa is one of the worst in the world. The level of mathematics and science education in the country, as assessed by the Global Competitiveness Report (2014/2015), puts South Africa at 144 out of 144 countries. Regulatory requirements make it very difficult for people to start businesses; this is further exacerbated by difficult labour laws and the low efficiency of the labour force. Corruption starting at the highest levels of government was also pointed out as a major challenge, together with high levels of crime. These trials arguably provide an opportunity to evaluate the role of LED in developing local economies in South African rural communities.
4. Theoretical Framework

The UK Department for International Development (DFID) defines the Sustainable Livelihood Approach (SLA) as a way to improve understanding of the livelihoods of the poor people. It can be used in planning new development activities and in assessing the contribution that exiting activities have made to sustaining livelihoods. The study adopted the SLA to assess the role of local economic development in developing small medium enterprises at Solomondale Community. According to Krantz (2001), SLA was coined by Robert Chambers in 1980s. It has been further developed by Conway and others in the 1990s. Chambers and Conway (1992), define SLA, as a tool for development work. It highlights how to understand, analyse and describe the main factors that affect the livelihood of the poor. The SLA places people, particularly rural people, at the centre of the development to understand how they create a livelihood for themselves and their household. The concept attempts to go beyond the definition and approaches to poverty eradication through the creation of sustainable employment programmes. SLA takes into account a variety of economic, social, political and ecological factors that impacts a person’s ability to sustain a livelihood Sustainable livelihoods comprises of five assets: the human, physical, social, financial and natural assets.

- Human asset refers to the skills, knowledge, ability to labour and good health and physical capability important for the successful pursuit of different livelihood strategies.

- Physical asset, these are basic infrastructure (transport, shelter, water, energy and communication), the production equipment and means that enable people to pursue livelihoods;

- The social asset refers to the social resources, (networks, social claims, social relations, affiliations, associations) upon which people draw when pursuing different livelihood strategies;

- Financial asset is the capital base (cash, credit/debt, savings, and other economic assets, including basic infrastructure and production equipment and technologies) which are essential for the pursuit of any livelihood strategy.

- The natural asset, such as soil, water, air, genetic resources, etc. and environmental services such as the hydrological cycle and pollution sinks from which resource flows and services useful for livelihoods are derived.

Krantz further postulate that (2001), the above assets are interconnected; one asset cannot function well or cannot function at all without the other assets. In this research paper, the investigator assessed the availability of all the five assets in SMEs to ensure sustainability of the business provided by the local government in the Limpopo Province. The guiding principles of SLA include: be people-centred approach, responsiveness and participatory, promotion of micro-macro link, partnerships encouragement, dynamic approaches, and sustainability. The SLA also stems from concerns about the effectiveness of development interventions. While professing a commitment to poverty reduction, the immediate focus of much donors and government effort has been on resources and facilities rather than people and their livelihoods. The approach involves starting from people’s practical lives and drawing localised development initiatives from their struggles for survival. It is about careful and calculated assessment of community assets.

5. Methodology Applied to Conduct the Study

The study used exploratory research to explore a relatively unknown research area with the aim of gaining new insights into a situation, phenomenon or community (De Vos, Strydom, Fouché and Delport, 2011). Data were collected from Solomondale community between January and February 2013 in the Capricorn District Municipality area of the Limpopo Province. The study used non-probability sampling, because the targeted population was specifically previously and existing small and medium enterprise owners, selected by the researcher not allowing each unit in the sample frame an equal chance of being selected. The researcher used snowball sampling, which entails exiting study subject(s), recruiting other participants who meet the eligibility criteria and could potentially contribute to the study. Snowball sampling involves approaching known individuals from the relevant population and requesting them to act as informants to identify respondents that would be relevant to the study. However, identification of participants using snowball sampling seize once a point of data saturation is attained where no new information is coming forward anymore (Welman, Kruger & Mitchell, 2005).
Face-to-face semi-structured interviews were conducted to collect empirical data from twenty-three (23) participants. The research questions focused on clearly defined criteria to address the aim and objectives of the study. Nevertheless, the researcher was allowed to divert and ask follow up questions or new questions depending on the response of the interviewee (Stuckey, 2013). The face to face interviews were conducted by the researcher in either English or Sepedi, depending on the preferred fluent language of the respondent. An audio recorder was used with the permission of the participants to record the information. Semi-structured interviews allowed the researcher to access comprehensive information including participants’ beliefs about, and perceptions on the role of LED in developing SMEs. Data was analysed using thematic content analysis. The data was reduced into themes which were emerging after a thorough reading and transcribing of data. Patterns emerging were coded and classified into different categories. The aim of the interviews was to get perceptions of the respondents in order to produce qualitative data about the role of LED in developing local economies (SMEs) in Solomondale Community in the Limpopo Province.

6. Key Findings and Discussions

The researcher used the Sustainable Livelihood Approach (SLA) to assess the changes that occurred as a result of the planned interventions (i.e. local economic development intervention to develop SMEs) by comparing actual with desired changes and by identifying the degree to which the activity is responsible for the changes (De Vos, et al, 2011). This was measured by assessing the availability of the five SLA assets that form an important part in development initiatives, especially for the poor (Chambers & Conway, 1992):

6.1 Natural Assets

Local communities in South Africa are well known to operate small and medium enterprises at the fronts of their yards by building a small shack, or in their houses through the kitchen window, some start a car wash on the side of the road, few privileged enterprises are operated in a hired store or well-structured market for good business processing. It was revealed that ninety percent (90%) of the respondents do not have a challenge in acquiring a piece of land to start a small business, because the traditional authority of Solomondale or Sebayeng community gives people land in accordance to their needs. The natural asset is available for livelihood persuasion but cannot be useful without the following four assets.

"We have plenty of space for business operation; the traditional authority of Molapo grants us the space to start the businesses. It is just a loss sometimes when you have the land but cannot use it, because of the lack of finance"

The findings about access to natural resource through housing is well supported by the South African Human Rights Commission (SAHRC (2014)), that a substantial amount of progress has been made since 1994 with the provision of an estimated 3.7 million housing opportunities providing around 12.5 million people with access to housing, along with further improvements in access to other basic services, including adequate water, sanitation, electricity and refuse removal.

6.2 Physical Assets

Respondents complained of the lack of infrastructural and production equipment to start and maintain a SME. The findings revealed that there is no support provided to ensure that these local economies are better developed to alleviate poverty and create employment.

"A business is supposed to attract customers; a buyer should have an interest from a distance to enter the store and purchase goods. I operate my business in a shack to sell fat cakes, sandwich and drinks. I can be perceived as being unclean, compared to someone who has a mobile store or well build store. I have been self-employed for seven years to support my family as a single parent without any assistance from the local government. I cannot afford to build a store with the profit I make like the Somalian in the community; they must have some sort of support to be able to do that”.

"My daughter started schooling at Solomondale Primary School and graduated to Mafofo High School while I sell fat cakes, juicy and other snacks at Baphutheng Secondary School. She is currently studying at the University of Limpopo because of the effort I put in this business. I have more than 15 years of experience in this business; operating in windy seasons, rainy seasons, and even in winter, without any sort of support from the
local government. If maybe we had a store built nearby the school, maybe things would be better because I would not have to travel everyday with my wares for business”.

“I sell vegetables from house-to-house; believe me the business is running so well, I have frequent customers. The problem is, I use a wheelbarrow to move my produce. This is challenging because if it is raining, I cannot work, if it is too hot also, some of my products like tomatoes get bad and that is loss to me. If I had a better transportation equipment to protect and transport my produce, then I would be a successful businessman”.

“I am a loan shark, I started small but now I have loyal customers who always loan here when they need money, more especially pensioners. However, it is not safe to do this type of business. I am sure you hear stories of loan sharks been killed by people who own them money. I operate the business at my house and all my customers come here for this business. I sometimes worry about the safety of my family in case of such danger. If I had a business office somewhere to operate the business, I would be relieved from this distress. I make good profit but cannot afford to rent out an office space or build an office space somewhere; my family will suffer in the process because I am the breadwinner.”

In supporting the above findings, Scarborough and Zimmerer (2006) states that without adequate working capital, most businesses struggle to get off the ground, cash flow problems arise and the chances of the business to survive become extremely limited. They further identify the broad categories of these resources, such as transport, stock, machinery, office/business space, storage, fitting (lighting, heating system, electricity toilets, and water supply), and others for effective functionality of the business.

6.3 Social Assets

The study detected that most of the respondents in Solomondale did not belong to any social structure like a union or society that motivates and guide them in pursuit of the established SME.

“Another respondent stated that:

"we mostly advise each other during trading times and also agree on the same price of selling similar goods to customers to avoid competition and failure of other businesses operating in the same area."

"It is much easier to sell alcohol in this area, it is profitable as well, no matter how much competition you have, you still make good money at the end of day. In this community alone, we have more than fifteen taverns which are well established, while the other black owned trading businesses are replaced by the foreign markets”.

These findings are supported by Hollund and Svendsen (2000), who states that, social capital is a valuable mechanism in economic growth. The connections between individuals and entities can be economically advancing and valuable for SMEs. They further states that, business network is a particular case of social network, which represents a union of actors joined by the common purpose. Social network accomplishes certain activities to achieve certain goals and purposes planned.

6.4 Human Assets

The study indicated that most of the respondents acquired business skills from family business operations and some by observing others. There are no business schools in the community that caters for business owners, except for those in government schools. Few had learned their best skills that enabled them to succeed, in the trade business. However, many had to shut down their business reason being mainly because of competition from foreigners in the same market.

"We are unable to compete with the Somalians, I sell R12 Vodacom airtime at the price of R13 to gain profit, they sell the same R12 airtime at R12.50 and others do not even add to the amount. How do we compete with that? Most of their prices are low, but they still make profit and survive in the business, I do not know how they do that”.

Some respondents added the point that it is, because of failure to compete, that xenophobic attacks emerge.

"Many black owned businesses in the community have closed, because of the foreigners’ competition. If you want to have a successful business here,
open a tavern, liquor store or loan shark business, these are successful black owned SMEs in the Community”.

“I am a tavern owner, I do not even feel that I need help from external stakeholders, I started small but the business has grown, a lot. I own two entertainment places in this community, sell alcohol related produce and my customers are satisfied. I cannot ask for a better business”.

These findings are supported by Dockel and Ligthelm (2002), outlining five important business skills needed to become a successful entrepreneur: accounting, leadership, sales, people and time-management skills. He further states that, amongst the five, the most important skill is sales, because without it the business will not function at all. Selling is the number one important duty and number one job of an entrepreneur. A business cannot survive without generating sales; sales keep the cash flowing into the business and cash flow is life blood of a business. Another reason why sales skill is important is because it is synergy of skills. When sales skills are improved, persuasion, negotiation and public skills are also developed, which leads to better management of a sustainable business.

6.5 Financial Assets

Respondents had little information regarding financial assistance from LED to assist them to start their own SMEs. Most of them revealed to have started their businesses with their own money. An article on business and entrepreneurship in South Africa revealed that unless one has some start-up capital, it is extremely unlikely that anyone in South Africa would be willing to provide money to start a new business. A proven working strategy might be to bring on partners to do the things you cannot, and give them a share in your business to get it moving forward.

“I started the business with the pension money I received from Coca-Cola but it is difficult sometimes because I am in the business alone with the help from family members sometimes. I had always had the love for business but the money was not available”.

Another responded stated the point that:

“I do not know of anyone here who have received funds for their business. I also do not have an idea on how to apply for grants/funds to extend my business. I just hear that it is a complicated process to follow and also takes long before they can assist”.

“Financing the business is really difficult, especially when the products get spoiled and no profit is made. Support through skills provision and finance will make a great difference in my business. You think of giving up sometimes but it is the only job I know and support my family through it”.

The Department of Trade and Industry (DTI) is well known for using the same difficult criteria which makes it totally impossible for a start-up to get finance from them. One of the criteria being that the business must be six months in operation. The question that arises is, with what money? And the banks also require a track record. The issue of corruption indicating the “who knows you” status has also been revealed to be playing a factor in granting of funding for the small and medium enterprises by the local economic development people. Few existing businesses are supported to do better but those without start-ups are shut out of the market (Deakins, North, Baldock & Whittam, 2008).

7. Recommendations

The study adopted the guiding principles of SLA as recommendations to the finding and results of the study, but is not prescribing solutions or is not dictating methods. Instead, recommendations that are offered are flexible and adaptable to diverse local conditions (Chambers and Conway, 1992). The guiding principles are:

Be people-centred: The second key role of the LED specifies that it must target previously disadvantaged people, marginalised communities and geographical regions, black economic empowerment enterprises and SMMEs to allow them to participate fully in the economic life of the country. The finding from this study revealed that the LED intervention in Solomondale local community is not people-centred, because the community are having unaddressed challenges.

Be holistic: SLA acknowledges that people adopt many strategies to secure their livelihoods, and that many actors are involved; for example the private sector, ministries, community-based organizations and international organizations. The finding revealed that most small and medium enterprises in Solomondale lack social assets to support them
to grow their business; a holistic approach will be effective at this point.

**Build on strengths:** To build on peoples’ perceived strengths and opportunities rather than focusing on their problems and needs. It supports existing livelihood strategies. Existing SMEs can be supported for growth and to employ other people in the community. Communities have perceived strengths that they use in their businesses and would do much better with support from the local government.

**Dynamic:** SLA seeks to understand the dynamic nature of livelihoods and what influences them. It does not replicate poverty alleviation strategies in every poor community without understanding the dynamics of livelihoods of people, as they differ from one community to another. Problems faced in urban areas cannot be exactly the same as those challenges faced in local communities, because of different settlement types. As thus, a dynamic approach should influence the development of local communities to avoid failure.

**Promote micro-macro links:** Examine the influence of policies and institutions on livelihood options and highlight the need for policies to be informed by insights from the local level and by the priorities of the poor. SMEs should be given a bigger platform to engage with big business to acquire more skills in managing their businesses.

**Aim for sustainability:** Sustainability is important if poverty reduction and job creation are to be lasting. The LED method employed should aim for non-dependency state but rather to empower local economies. This should help in identifying more effective ways to support livelihoods and reduce poverty. Short-term measures, such as the South African social welfare, are supported for their efforts in reducing poverty, but creation of long-term sustainable strategies for SMEs are vital for the country’s economy.

The SLA approach also stems from concerns about the effectiveness of development interventions. While professing a commitment to poverty reduction, the immediate focus of most donors and government efforts have been on resources and facilities rather than people and their livelihoods. The approach involves starting from peoples’ practical lives and drawing localised development initiatives from their struggles for survival; it is about careful and calculated assessment of community needs and their assets.

8. **Conclusion**

The findings in this paper were derived and organised using the SLA principle, which postulates that the assets are interconnected; one asset cannot function well or not function at all without the other assets. The researcher aimed at investigating the availability of support to SMEs by the Local Economic Development sector in local economies by assessing the availability of the five assets (physical, natural, financial, social and human) at Solomondale Community in the Capricorn District of the Limpopo Province. It was revealed that most SMEs have been operating for years with no recognition from the local government; some of the businesses have collapsed, while some are still operating though struggling and without support. The National government, according to the National LED Framework (2012-2016), makes policy and provides funds, research and other support for local economic development to create employment and alleviate poverty at local level, but the results of this intervention are not seen in rural communities.

It is imperative to understand the Strengths, Weaknesses, Opportunities and Threats (SWOT) of small medium enterprises in local communities to provide business management skills. Most xenophobic attacks in local communities are said to result from fear of losing their businesses and the lack of job opportunities. According to Masigo (2009), the term ‘xenophobic’ violence is widely used to describe the violence to apply to groups of people who may be within or outside a society, but who are not considered part of that society. Feelings of xenophobia can result in systematic prejudice and discrimination, mass expulsions, or in extreme cases, genocide. It does not, however, follow that feelings of hostility toward foreigners or immigrants always leads to violence. The findings from this study revealed some key areas that need attention of the LED to provide relevant support to develop local economies (SMEs). It is hoped that findings in this study will contribute to the development of coherent strategies to support local economies to meet the National Development Plan, targeting the creation of 11 million jobs by 2030.

**References**


