

**The Contribution of Small, Medium and Micro Enterprises towards  
Local Economic Development in Mankweng Township,  
Limpopo Province**

by

**CASWELL MAHLANKGOANE MALOKA**

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**Supervisor:** Professor M. P. Sebola

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## **Declaration**

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I declare that the dissertation hereby submitted to the University of Limpopo, for the degree of Master of Administration in Development has not been previously submitted by me for a degree at this or any other university; that it is my own work in design and in execution, and that all material contained therein has been duly acknowledged.

Maloka C.M. (Mr)

**Surname & Initials (Title)**

15 May 2013

**Date**

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## Dedication

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This dissertation is dedicated to my late Aunt, ***Caroline Matshupa Maloka***, and my old high school friend, ***Arnold ‘Tumi’ Molepo***, who passed on in 2007 and 2006 respectively. May the Almighty God rest their souls in Jesus Christ’s loving peace.

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## Acknowledgments

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Firstly, I would like to give special thanks to God the Almighty for giving me a dream, strength, health and other resources to successfully complete this dissertation.

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Last but not least, I would also like to thank SMMEs owners/managers in Mankweng Township who took their time out of their busy schedule to answer the research questionnaire for this study. Without their input, this research would not have been possible.

*“Mogau wa Morena Jesu le matshidits’ho a moyo ga dibé le lena ka moka”.*

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## Acronyms

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|        |  |
|--------|--|
| ASGISA | Accelerated and Shared Growth Initiatives for South Africa |
| BEE    | Black Economic Empowerment                                 |
| CBOs   | Community Based Organisations                              |
| CSBD   | Centre for Small Business Development                      |
| DTI    | Department of Trade and Industry                           |
| DPLG   | Department of Provincial and Local Government              |
| EU     | European Union   |
| GDP    | Gross Domestic Product                                     |
| GEAR   | Growth, Employment and Redistribution                      |
| GGP    | Gross Geographic Product                                   |
| IDP    | Integrated Development Plan                                |
| COGTA  | Cooperate Governance and Traditional Affairs               |
| KEFL   | Khula Enterprise Finance Limited                           |
| LIMDEV | Limpopo Economic Development Enterprise                    |
| LED    | Local Economic Development                                 |
| MDGs   | Millennium Development Goals                               |
| NEPA   | Ntsika Enterprise Promotion Agency                         |
| NGOs   | Non-Governmental Organisations                             |
| OECD   | Organisation for Economic Cooperation and Development      |
| PGDS   | Provincial Growth and Development Strategies               |
| PPPs   | Public Private Partnerships                                |
| RDP    | Reconstruction and Development Programme                   |
| SBA    | Small Business Act   |
| SEDA   | South African Enterprise Development Agency                |
| SMMEs  | Small, Medium and Micro Enterprises                        |
| UL     | University of Limpopo                                      |
| US     | United States  |

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## **Abstract**

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The main focus of this study was to investigate the contribution made by SMMEs towards local economic development (LED) in Mankweng Township. To this end, specific working objectives were formulated as follows: to study the nature of SMMEs, to identify the challenges they face, to analyse the theory of local economic development and lastly, to study the role of SMMEs in local economic development. A variety of data collection methods were used in this study such as literature review, semi-structured questionnaires and observations. The study revealed that SMMEs represent a vital component of the local economic development process in Mankweng Township, and their contributions in terms of employment, income and poverty reduction is well acknowledged. However, SMMEs are constrained by a number of challenges such as lack of access to appropriate technology, limited access to markets, government regulations, lack of management skills and training, all of which hamper their development. Lack of access to finance remains the utmost constraint for most of SMMEs. In an attempt to enable the SMMEs sector to perform effectively and efficiently, a number of support initiatives were introduced by the South African government. This ranged from government institutions, private sectors, parastatals and NGOs. Conversely, access to these support initiatives remains a challenge for most entrepreneurs, as most of the SMMEs in Mankweng Township operate within the informal sector and they lack awareness of the support initiatives and structures provided by these institutions.

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# CHAPTER 1

## INTRODUCTION AND BACKGROUND OF THE STUDY

### 1.1. Introduction and Background

Poverty and unemployment are viewed as the most alarming issues affecting development in the majority of the developing countries in the world (Ndabeni, 2006; Mensah and Benedict, 2010; Okpara, 2011). Small, Medium and Micro Enterprises (SMMEs) are therefore inextricably linked to economic growth, job creation and income generation within poor and disadvantaged communities in developing countries (Netswera, 2001; Egan, 2009). SMMEs have become a focal point of considerable attention to many international and government institutions in the emerging economies. Governments in these countries have instituted measures to support SMMEs as a strategy to achieve sustainable economic development and poverty reduction (Mmakola, 2009; Ihua, 2009). However, not all SMMEs have the capacity to create jobs and economic development. Some of them are completely survivalist or micro enterprises with minimum prospect of making transition into larger enterprises. The latter is despite the implementation of government and private sector support interventions for SMMEs in most of the developing countries for many years (Lind and Ungerer, 2008). Moreover, SMMEs encounter numerous challenges that impinge on their expansion and thus on their contribution towards economic development (Chew and Chew, 2008; Okpara, 2010).

Nonetheless, SMMEs have constantly gained acceptance in the development literature because of their significant role in local economies and development (Ndabeni, 2006). Research studies show that SMMEs form an integral part of local economic development (LED) and are purported to resolve socio-economic problems in the majority of the leading economies in the world (Ndabeni, 2006; Kongolo, 2010). They are regarded as the first and primary source of direct employment, income, tax revenue, innovation and economic redistribution in their area of establishment (Ihua, 2009; Egana, 2009; Kongolo, 2010). The experience of prospering localities

in developed countries, particularly in the Western Europe and Japan indicate that the SMEs sector is at the centre of LED (Chew and Chew, 2008; Ihua, 2009; Kongolo, 2010).

SMMEs debates have also been underway in the majority of developing countries such as South Africa where there is a soaring level of unemployment and poverty (Netswera, 2001; Okpara, 2011). SMMEs are viewed as the mechanism through which economically disadvantaged groups can gain access to economic activities (Netswera, 2001). According Ndabeni (2006), SMMEs grant opportunities for people to generate income which meet their basic needs and help marginalised groups such as the unskilled, women, disabled and rural families to obtain employment. Conversely, SMMEs studies in South Africa show that survivalist and micro enterprises constitute the majority of the SMMEs sector (Kesper, 2001). This group of enterprises has trivial impact on the local economy in terms of job creation and income generation, and they grow in their numbers and not in their sizes. Therefore, the majority of people remain unemployed and trapped in the conditions of poverty. These circumstances characterise Mankweng Township of Limpopo Province, despite a growing number of SMMEs activities in the area. Therefore, the study seeks to uncover the extent to which SMMEs contribute towards LED in Mankweng Township, Limpopo Province.

## 1.2. Statement of the Problem

Research has shown that there is a correlation between unemployment, poverty and economic well-being of citizens and SMMEs in many countries (Ndabeni, 2006; Kongolo, 2010; Hess and Rust, 2010). Since poverty and unemployment have been identified as the two most pressing issues in both the developed and developing countries including in South Africa, SMMEs are viewed as having the potential to create jobs, and consequently reduce the level of unemployment and poverty (Egan, 2009; Booyens, 2011). Pragmatically, studies show that SMMEs contribute to over 55% of gross domestic product (GDP) and over 65% of total employment in developed countries, while they account for over 60% of GDP and 70% of total employment in developing countries (Kesper, 2001; Kongolo, 2010). Apart from the crucial role that SMMEs play in these countries, these enterprises are usually encounter by numerous challenges that impact negatively on their growth and survival (Clover and Darroch, 2005; Fumo

and Jabbour, 2011; Moboyane and Ladzani, 2011). In recognition of the crucial role played by SMMEs in the economy, governments in these countries have introduced various initiatives aimed at resolving the challenges they face and promoting their role with the intention of achieving greater socio-economic objectives (Perks, 2010).

Whereas SMMEs have been perceived as the means to LED, especially for the poor without marketable skills, their capacity to generate sustainable jobs, income earning opportunities and the general improvement of the living standard in Mankweng Township of Limpopo Province is unresolved. There are a number of SMMEs in the area, yet many people continue to be unemployed, resulting in conditions of poverty. This study, therefore, establishes how the SMMEs in the area contribute towards LED.

### 1.3. Research Questions

The general question of the study is: how do SMMEs contribute towards LED in Mankweng Township? To operationalise this question, four specific questions are formulated:

- What is the nature of SMMEs?
- What are the challenges facing SMMEs?
- What is the theory of LED?
- What is the contribution of SMMEs towards LED?

### 1.4. Aim and Objectives

The aim of the study is to investigate the contribution made by SMMEs towards LED in Mankweng Township. To this extent, specific working objectives are formulated as follows:

- To study the nature of SMMEs.
- To identify the challenges facing SMMEs.
- To examine the theory of LED.
- To investigate the contribution of SMMEs towards LED.

- To recommend possible measures which can be considered to strengthen SMMEs' contribution to LED in Mankweng Township.

### 1.5. Definition of Terms

SMMEs: are separate and distinct business entities including cooperative enterprises and non-governmental organisations managed by one owner or more which, including its branches or subsidiaries, if any, are predominantly carried on in any sector or sub-sector of the economy. SMMEs can be classified either as small, micro or medium enterprise using the criteria such as number of employees, annual total turnover and/or total capital assets (*National Small Business Act 102, 1996*). Therefore, small business in this study will include enterprises with less than 200 employees.

Local Economic Development (LED): is the process by which public, business and non-governmental sector partners work collectively to create better conditions for economic growth and employment generation. The aim is to improve the quality of life of communities (World Bank, 2003). The quality of life within the LED framework is informed by better jobs, income, economic redistribution and poverty reduction in local communities. It is also referred to as a process or strategy in which locally based individuals or organisations use local resources or expand local economic activities to the benefit of the majority in the local economy (Nel, 2001; Rogerson, 2003; Cunningham and Meyer-Stamer, 2005). In the context of this study SMMEs contribute immensely to job creation, income generation and poverty reduction in the local economy.

### 1.6. Research Design and Methodology

Research design and methodology are described as plan, structure, strategy, techniques and tactics used in the application of the research work so as to find answers to research questions (Neumann, 2000). This section illustrates the research design and methodology that will be applied in this research work. The section presents a discussion about qualitative and quantitative

research approaches to the study. Additionally, description of the study area, the kinds of data required and unit of analysis, target population, sampling design, data collection methods, data analysis methods will be discussed in this section. Validity and reliability of the concept used in this study and research design and techniques are covered in this section.

### **1.6.1. Research design**

Research design is described as a plan, structure and strategy of investigation conceived so as to obtain answers to research questions (De Vos, 2002). It specifies the methods and procedures for gathering the data needed to structure and solve the research problem. Correlation based analysis will be employed in this study. Correlation based analysis measures how associated or related two variables are. The purpose of doing correlations is to allow us to make a prediction about one variable based on what is known about another variable (Neumann, 2000). The researcher use qualitative and quantitative research approaches in this study. In qualitative studies, information is recorded in the form of descriptive textual reports with little or no categorisation. The documentation may consist of subjects' responses to semi-structured interview questions, notes taken on focus groups or other kinds of group interaction (Cresswell, 2003). In quantitative research, on the other hand, information is usually collected and recorded either numerically or in the form of recorded categories. The principal advantage of such surveys is that they can be administered to a numbers of individuals, organisations, or households using standardised methods (Cresswell, 2003).

### **1.6.2. Kinds of data required and unit of analysis**

The researcher requires both factual and opinion data for this study. Factual data is necessary for the study as discussions about the nature of SMMEs and the challenges they face are provided. Theories about SMMEs that generate employment and income and how they contribute to LED will be necessary. The literature about significant influence of government or private sector intervention on SMMEs and their contribution to LED will be required. The data collected will also include facts about the respondents that use to describe them, and demographic information such as gender, age, and educational status. Additionally, opinion data will also be required

about the nature of SMMEs and the challenges they face in Mankweng Township. The views of SMMEs owners/managers about the contribution of SMMEs towards LED will also be necessary. Therefore, the unit of analysis in this study will be individuals (SMMEs owner/managers) operating SMMEs in Mankweng Township.

### **1.6.3. Target population**

Target population is referred to as a set of elements that the researcher focuses on and from which data are obtained. A population is a set of entities in which all measurements of interest to the researcher are presented (De Vos, 2002). Welman and Kruger (1999) define population as encompassing the entire collection of units on which conclusions are made. The target population for this study will consist of the owner/managers of SMMEs operating in Mankweng Township in Limpopo Province. SMMEs owner/manager refers to the founder or owner of the enterprises who usually operate the business and act as both the manager and worker. SMMEs in this case will relate to a variety of businesses such as shoe makers, general dealers, restaurants, spaza shops, mini bus taxis, hair salons, dress makers, taverns, vehicle repair, metal working, hawkers and electronic.

### **1.6.4. Sampling design**

The population is too large for the researcher to study all of its members. A small, but carefully selected sample can be used to represent the population, and by studying the sample we may fairly generalise our results back to the population from which they were selected (Bless and Higson-Smith, 2003). The researcher in this regard uses probability sampling design. Probability sampling is referred to as a method for selecting the subset of units from the entire population so that each unit of the population has a known probability of being included in the sample (Babbie, 1992).

The researcher use stratified sampling method. Stratified sampling is a commonly used probability method that is superior to random sampling because it reduces sampling error (Cresswell, 2003). The researcher first identifies the relevant strata and their actual

representation in the population. Random sampling is then used to select a sufficient number of subjects from each stratum. The strata in this study will be based on type and size of business, whether small, medium or micro enterprise. The non-probability purposive sampling method will also be used in this study in order to accommodate the qualitative approach. Babbie (1992) states that purposive sampling method has the advantage that the researcher may use his/her knowledge, skills and experience to select appropriate respondents for the study. A sample of 80 enterprises will be used in this study. Each enterprise will be represented by the SMMEs' owner-managers. A sample of 80 enterprises is deemed sufficient to the researcher to represent the target population and make general conclusions.

### **1.6.5. Data collection methods**

The researcher will use the following data collection methods: documentations, semi-structured questionnaire and observation.

#### *1.6.5.1. Documentation*

Documentation is secondary source of information. They form part of the literature on the subject under study that already exists. The researcher will therefore review relevant literature for data collection. Data will be collected from relevant published material such as academic journals, books, government publications, extracts from discussion and conferences as well as speeches within the context of this study. The literature will attempt to provide theories and discussions about the nature of SMMEs and the challenges they face. Theories about LED, SMMEs that generate employment and income and how they contribute to LED will also be reviewed from the literature.

#### *1.6.5.2. Semi-structured questionnaire*

A questionnaire is a research instrument consisting of a series of questions and other prompts for the purpose of gathering information from the respondents. Questionnaires have advantages over some other types of surveys in that they are cheap and do not require as much effort from the

questionnaire as verbal or telephone surveys (Melville and Goddard, 1996). Semi-structured questionnaires will be used as the primary data gathering method for this study. This type of questionnaire provides greater scope for discussion and learning about the problem, opinions and views of the respondents. While there are some fairly specific questions (closed questions) in the questionnaire, each of which may be investigated, there are also questions which are completely open-ended. The latter type mainly serves to discover different aspects of the issue. The data thus collected are both qualitative and quantitative (Bless and Higson-Smith, 2003). Therefore, a total of 80 semi-structured questionnaires in this case will be distributed to SMMEs' owner/managers in Mankweng Township.

#### *1.6.5.3. Observation*

Observation is the collection of primary data by the researcher's own direct observation from relevant people, actions and situations or noting physical characteristics in their natural setting without asking them questions (Babbie, 1992). It thus provides the opportunity to document activities without having to depend upon people's willingness and ability to respond to questions. Observations can be overt (everyone knows that they are being observed) or covert (no one knows that they are being observed and the observer is concealed). The benefit of covert observation is that people are more likely to behave naturally if they do not know that they are being observed. However, the researcher will conduct an overt observation because of ethical problems related to hiding the observation. Seeing and listening are key to observation. Therefore, observation will be used in this study where a notebook will be kept, noting major events. This method will assist the researcher to have a general view of the nature of SMMEs and setting, resources they use and some of the challenges they are confronted with. The method will be applied at all times during field.

#### **1.6.6. Data analysis methods**

The process of data analysis involves structuring and bringing logical order to the large amount of data to be collected. In this study qualitative and quantitative analysis methods will be employed. Qualitative analysis method focuses on the qualities of phenomena being studied

rather than their numeric representation. On the other hand, quantitative method focuses on data that are collected and recorded numerically or in the form of recorded categories. The researcher analyses quantitative data using a coding process. Neumann (2000) defines coding as a system of marking/labeling something with letters/symbols so that facts about it can be understood. Therefore, Quantitative data analysis will be coded in numerical representation using Statistical Package for Social Sciences (SPSS) software. SPSS software will be used to compute and analyse data through various functions such as calculating frequencies, descriptive statistics, and generating graphs, charts and tables.

### **1.6.7. Validity and reliability**

Validity includes the experimental concepts and establishes whether the results obtained meet all the requirements of the scientific research methods and how truthful the results are. Reliability on the other hand, refers to the extent to which results are consistent over time and accurately represent the total population under study (Golafshani, 2003). Validity and reliability of the present study will be drawn from the concepts use, data collection and analysis methods. Therefore, the concepts used in this study are SMMEs and local economic development activities. Much has been written about SMMEs and their contribution to local economic development by scholars such as Kongolo (2010); Netswera (2001); Ndabeni (2006); Rogerson (2006). The results of their studies show a positive contribution made by SMMEs to local economic development. The scholars used almost the same research collection and analysis methods that were employed in this study.

## **1.7. Structure of the Dissertation**

The study consists of six chapters. Each chapter constitutes the following:

**Chapter 1** covers the introductory aspect of the study. This aspect includes introduction and background, problem statement, research questions, aim and objectives that provide rationale and justification for conducting this study. This chapter also provides a brief description of the study area, target population and kinds of data required. It also outlines research design and

methodology anticipated to be used and definition of the key concepts, the significance of the study and ethical considerations.

**Chapter 2** provides a literature review of the nature and the challenges of SMMEs focusing on both international and South African contexts. It also provides discussion on government interventions aimed at resolving the challenges that are encountered by SMMEs to enhance their role in LED.

**Chapter 3** examines and discusses in detail the theory of LED and provides review of literature on the contribution made by SMMEs to LED in South Africa.

**Chapter 4** outlines research methodology used in the study. This chapter describes the research design, study area, target population, kinds of data required and unit of analysis, sampling design, data collection and analysis methods. Validity and reliability of the concept used as well as data collection and analysis methods are included. Lastly, the chapter provides a discussion on the limitations of the study and ethical considerations.

**Chapter 5** focuses on data analysis and interpretation of the findings of the study. The analysis is based on the respondents' views about the contribution of SMMEs towards LED in Mankweng Township.

**Chapter 6** provides an overview of the preceding chapters and briefly discusses critical conclusions and deductions. This chapter also recommends possible measures that can be considered to strengthen SMMEs' contribution to LED.

## 1.8. Significance of the Study

The present study complements other areas of research which show interest in SMMEs and expose their role in local economic development. This information will assist in shaping the future of SMMEs and help in the formulation and improvement of government policies in relation to the industry. Government institutions such as the Limpopo Business Support Agency

(LBSA), Limpopo Economic Development Enterprise (Limdev) and others may use the study to guide them with regard to the provision of comprehensive support to small businesses. The findings of the study will also be shared with business people in the Mankweng area, with the belief that to a certain extent, it will reduce some of the challenges facing such businesses and contribute towards sustainable jobs and economic development.

### 1.9. Ethical Considerations

Ethics are defined as a set of moral principles suggested by an individual or groups which are widely accepted, and offer rules and behavioural expectations about the most correct conduct towards experimental subjects and respondents (Neumann, 2000). Therefore, traditional research ethics will be followed in this study. The researcher will ensure that the rights, privacy and confidentiality of the participants are protected and respected. The participants will be informed about the nature of the study. Participation will thus be on a voluntary basis.

## **CHAPTER 2**

### **THE NATURE AND CHALLENGES OF SMMEs IN SOUTH AFRICA**

#### **2.1. Introduction**

SMMEs are identified as a solution to attain economic development and through it, the creation of employment and reduction of poverty in the developed and developing economies (Netswera, 2001; Ndabeni, 2006; Kongolo, 2010). Globally, SMMEs are known to be the employers, the consumers and suppliers of goods and services to local markets including the provision of the entrepreneurship in the economies (Kongolo, 2010). SMMEs, having gained acceptance in the developed and developing economies, have become useful enterprises. They have the ability to make quick decisions, work with less capital but more intensive labour. And with the low cost associated with job creation, they result in cheap production (Egan, 2009). However, equally effective and dynamic SMMEs are lacking in the world, particularly in the developing countries (Egan, 2009). The latter is regardless of the execution of various government support programmes for SMMEs.

Whereas the official unemployment rate in South Africa is about 23.5% of the population (Statistic South Africa, 2009), SMMEs are seen as having the potential to create jobs, generate income and promote economic growth (Booyens, 2011). They are regarded as a solution which economically disadvantaged groups can have access to economic opportunities. However, SMMEs are faced with a variety of challenges that impact negatively on their contribution to economic growth. This chapter is structured into four sections. The first section describes the nature of SMMEs whilst the second relates broadly to the factors that influence the start-up of SMMEs. The third part examines widespread challenges that are identified as barriers to the survival and growth of SMMEs in the global economy and in South Africa and the fourth part turns attention to government interventions designed to address the challenges facing SMMEs.

## **2.2. The Nature of Small, Medium and Micro-Enterprises**

SMMEs represent diverse groups with differences relating to the economic sectors such as mining, construction, manufacturing, trade, retail and services (Ndabeni, 2006). These enterprises are to be found in both the formal and informal sectors of the economy. Generally, different countries and institutions classify SMMEs according to the number of employees, total turnover and/or the total value of capital assets. However, some countries vary their definition depending on whether the economic entity concerned is in what sector of the economy. The classifications of SMMEs are done mainly for two reasons: for statistical and policy purposes (Dockel, 2005). Apart from these reasons, however, organising economic units in this manner is useful for obtaining information on the size of each class and thus its contribution to the local economy, and for taking better focused development measures. For the purposes of this study, it is therefore critical to classify and differentiate between various types and sizes of SMMEs and their characteristics

### **2.2.1. The classification and characteristics of SMMEs**

A review of the literature on classification and characteristics of SMMEs suggest that there is no single and generally accepted definition of SMMEs. However, the classification of SMMEs differs across countries, and in many countries there are legal definitions for different sizes of their classes. The confines of SMMEs definition changes according to the economic size of countries (Laforest and Tann, 2006). Thus, in most cases SMMEs' classifications have economic implication rather than legal meaning. The most commonly used criteria are the number of employees, total turnover and value of capital assets. Between these criteria, the most frequent used definitional basis is the number of employees, because of the relative simplicity of collecting information, and there is variation in defining the upper and lower size limit of SMMEs (Dockel, 2005).

Therefore, most countries adopt the number of employees as a common measurement used in defining SMMEs. Moreover, other institutions also use the number of employees as criteria to classify entrepreneurial activities into their sizes, while for others; enterprise turnover is the

determining factor. The World Bank classifies SMMEs using the number of employee as a measurement in which instance, micro enterprises constitute less than 50 employees, small enterprises have 50 employees and medium enterprises with 50 to 200 employees. Conversely, the European Commission (EC) classifies SMMEs as those enterprises with fewer than 250 employees (O'Regan and Ghobadian, 2004). This definition/criteria is further disaggregated into micro enterprises with fewer than 10 employees, small enterprises with 10 to 49 employees and medium sized enterprises with 50 to 249 employees. Micro enterprises would include self-employed people working for themselves with no employees. In the United States (US) small business is the one that is independently owned and operated, which is not dominant in the field of operation. The most widely used criterion in the entrepreneurship literature is the one provided by the Department of Small Business Administration in the US. The department defines SMMEs as independent enterprises with fewer than 500 employees (O'Regana and Ghobadian, 2004). It can therefore be deduced that the classification of SMMEs by the World Bank, EC and US are closely related, where the number of employees is frequently used to define what constitute SMMEs.

Despite the fact that there is no commonly accepted definition of what constitutes SMMEs, there are numerous typical characteristics that these enterprises share. These characteristics relate to ownership, management, resources, economic sector of the activity and flexibility change (Abor and Quartey, 2010). SMMEs comprise an independent property which is individually owned by the owner/manager and which is active in a narrow market place (Fumo and Jabbour, 2011). Thus, SMMEs focus on a small variety of products or services sold mainly on the local domestic market. The ownership structure of this kind of enterprises revolves around one person or family members. Therefore, the majority of SMMEs are either individual proprietors or partnerships. These enterprises are usually managed and operated by the owner(s). The founder or owner of the enterprise usually leads the business and act as both the manager and worker. The development of the business is influenced by the owner, thus decisions are usually made by the owner (Fumo and Jabbour, 2011). Generally, these enterprises are regarded as a set of activities that are not part of larger cooperatives.

SMMEs are usually characterised by intensive labour production with low entrepreneurial skills, inadequate educational or technical background and low capital investment (Ndabeni, 2006). Moreover, there is little or no training and development offered to employees in these enterprises (Chew and Chew, 2008). In terms of the sector of activities, SMMEs are mostly engaged in retailing, service and manufacturing. However, the proportion of SMMEs activities that take place in these sectors varies considerably between countries and/or between rural and urban areas within a country. SMMEs in retail and services can be found in urban areas while SMMEs in manufacturing can be found in either rural or urban areas (Abor and Quartey, 2010). The extend of engagement of SMMEs in manufacturing depends on the number of factors including availability of raw material, experience, consumption pattern of local consumers and the level of development of export market (Chew and Chew, 2008). SMMEs have more flexibility to adapt to changes in the environment due to their sizes and predominant informal structures. However, they are also vulnerable to develop in the business environment, since changes in technology or government policy might have a great impact on the business because immediate changes on average require additional capital or resources. This might become a constraint to the businesses to contend and maintain itself in the market (Laforest and Tann, 2006).

### **2.2.2. The classification and characteristics of SMMEs in South Africa**

The *National Small Business Act 102 of 1996 and its Amendment of 2003*, classify SMMEs on conditions of qualitative and quantitative criteria. The qualitative criteria lays down a minimum level for total annual turnover, the total value of capital assets and total number of employees for different classes and sizes of SMMEs. In order to qualify under the Act as SMMEs, enterprises have to comply with two of the three criteria, namely assets, turnover or employment and qualitative criteria of being privately owned and managed exclusively or being part of larger enterprises that exceed quantitative criteria. The categories of survivalist enterprises are ruled out of the definition but are rather included into the category of micro-enterprises (Rogerson, 2002). Studies conducted by DTI (2006) show that the largest component of the South Africa's SMMEs sector is the survivalist enterprise, which consists of an estimated 2.5 million of enterprises.

According to the *Small Business Act 102 of 1996*, SMMEs are classified into four categories. The first group consists of informal survivalist enterprises, which are defined as a set of activities carried out by unemployed people unable to find permanent employment. In this group of enterprises the income is below the minimum standards, little capital investment, skills training are minimal and there is a little chance of these enterprises to grow into the larger enterprises (Perks, 2010). The level productivity within this group is low. The majority of enterprises in this category are in service and, specifically the retail or trade sector. Additionally, the size of this group of enterprises tends to increase when the economy declines and decreases as the economy grows. Therefore, this category serves as a safeguard that provides a means of survival during economic difficulties. However, sustained employment growth and production are not likely to emerge in this group. This does not suggest that this group is not important since it represents between 70% and 80% of all SMMEs in the South Africa (Dockel, 2005). Example of such enterprises includes hawkers, street vendors and spaza shops.

The second group is the micro- enterprises which are very small businesses involving the owner and numerous family members. Micro-enterprises employ more than four regular workers. These types of enterprises as in case of survivalist enterprises lack formality in terms of license or formal business premises. However, an entrepreneur has basic business skills. Though these enterprises lack formality, they can serve as a learning curve for small business to enter into more formally structured enterprises. Small enterprises comprise about employees fewer than 50 regular workers and medium enterprises employ up to 200 people (Ndabeni, 2006). These types of enterprises are owned-managed and are operated from fixed business premises and fulfill all the essentials associated with formality, including registration with taxation authorities. Medium enterprises, although still owner-controlled, have complex ownership and management structures with an increase in the division of labour (Mbonyane and Ladzani, 2011). Small and Medium enterprises operate within the formal sector and have access to technological devices such as computers, internet, telephone and other devices. These groups of enterprises maintain a sustainable employment growth. Therefore, labour productivity is sufficient for workers in this group and income is above the poverty line. Thus, the contribution made by SMMEs to local economic development will differ according to their classes and sizes.

Additionally, this sector is also divided into established and emerging enterprises (Tustin, 2003). The established SMMEs are referred to as enterprises that are largely owned by whites or Asians situated in the South African urban systems concentrated in the larger city. The emerging SMMEs sector consists of enterprises which are owned by blacks and coloured located in urban townships, informal settlements and rural areas. However, in the current economic groups of South Africa there are Indians, Chinese and foreign Africans such as Somalians and Ethiopians within the same categories. Therefore, based on *Small Business Act of 1996*, SMMEs in general are not regarded as international multi-million companies. These entrepreneurial activities are small in terms of the number of employees and their annual turnover.

The categories of SMMEs consist of different types of enterprises and can embrace a variety of firms from village handicraft maker, shoe maker, general dealer, internet café, spaza shop, mini bus taxi, hair salon, dress maker, small tourism, textile, supermarket, restaurant, wholesaler, vehicle repair, metal working, brick making, electronic store, owning public phones (Netswera, 2001). Some of these enterprises can be characterised as being dynamic, innovative and growing while others have little chance of growing into larger enterprises that are able to access bank finance and becoming internationally competitive (Rogerson, 2006). Additionally, SMMEs could be characterised as, among other things, having ease of entry, small scale of the activity, use of labour intensive technology, high level of self-employment with high percentage of family workers (Ndabeni, 2006).

### 2.3. Factors that Influence Start-up of SMMEs

The literature on SMMEs points out few reasons why people engage in these types of entrepreneurial activities. An individual may start a business in order to take advantage of the opportunity that exists in the market. The opportunities that exist in the market may include, among others, greater demand of a particular product, use of intensive labour than larger firms, low capital costs associated with job creation, easy entry, and that SMMEs can easily adapt to the market conditions (Van vuuren and Groenewald, 2007). Alternatively, individuals may start a business as a way of supporting themselves and their families. Hence, necessity is more likely to motivate women than men to start a small business and such a business is likely to operate in the

informal sector while men are more likely to engage in opportunity motivated SMMEs (Tambunan, 2009). One of the important roles undertaken by women entrepreneurs is in the small and micro enterprises. This enterprise group is more favourable to women since it supports the family, enhances their self realisation and unlocks the opportunity to enhance the level of family wellbeing. In other words, small and micro enterprises become a strategy for women entrepreneurs to help them to alleviate economic difficulties in their households. However, the participation of women in SMMEs in general is relatively low between different countries which can be attributed to factors such as low education, lack of capital, cultural or religious constraints (Tambunan, 2009).

On the other hand, the performance and strength of the formal sector also has an influence on SMMEs start-ups and sustainability (Venter and Bashoff, 2007). Difficulties in the formal sector in terms of slow growth, high level of inflation and low foreign investment can be encouraging to starting-up of SMMEs. Ndabeni (2003) states that lack of employment in the formal sector motivate many workers to venture into the SMMEs sector. Some people have been unemployed for a long period of time, and for them to be self-sufficient and to earn income, they eventually enter into the SMMEs sector to create opportunities for themselves. Therefore, SMMEs in both the formal and informal sectors are created to reduce unemployment and create opportunities (Lighthelm, 2003). The starting-up of SMMEs is the result of an attempt to break out of the difficulties of unemployment and poverty rather than the exploitation of prosperous business opportunities. The SMMEs sector is thus often regarded as a form of ‘safety net’, in that it creates employment and opportunities for those excluded from formal sector employment (Lighthelm, 2003). Many of those engaged in the SMMEs sector would, in its absence, be unemployed and unable to access any alternative form of income, including state grants.

Once the reasons that force people to embark into SMMEs are there in a country, the circumstances for entrepreneurship to perform better would have been created. However, a range of economic and non-economic, social and personal requirements need to be accessible for SMMEs to grow. Economic conditions would include the accessibility of capital, support from government, financial institutions and use of new technologies whereas non-economic conditions include the desire for personal achievement, ambition for social contribution, opportunity to

advance personal wealth and social status, research and development, good education system and supporting infrastructure (Van vuuren and Groenewald, 2007). These emphasise the need to develop business solutions that would support and integrate the informal SMMEs with formal sector activities.

## 2.4. Challenges Facing SMMEs

SMMEs constitute a fundamental element in both developed and developing economies (Tambunan, 2009; Perks, 2010; Kongolo, 2010). Despite the potential role they have to promote growth and job creation in developing countries, SMMEs usually encounter numerous challenges that negatively affect their prosperity and their contribution to economic development. Owners of SMMEs frequently point to a variety of concerns when required to identify the most significant challenges facing their businesses at a given point in time. According to Clover and Darroch (2005), external environment of the SMMEs and the individual characteristics of the entrepreneur affect business success and economic development. Therefore, the challenges to SMMEs survival and growth are to be found in four practical areas of operation such as management, marketing, operations, finance, and may relate to the size and start-up circumstances of the enterprise. This means that the analysis of challenges to SMMEs' success and economic development must also consider firm level or internal business environment. The section below provides the discussion of the challenges that confront SMMEs. The focus is placed both on the international experience and the South African context.

### 2.4.1. The challenges facing SMMEs internationally

SMMEs are significant to economic development in terms of employment, income generation and poverty reduction internationally and in South Africa. Yet, they are confronted with several challenges that negatively affect their development and contribution towards local economies. According to Zevallos (2003), a recurring challenge for SMMEs is the lack of access to finance. The issue of access to finance is important, mostly for SMMEs that show a great potential to grow. This challenge is initiated from the breakdown in the capital market such as the low level of SMMEs capital financing, excessive bureaucracy, high rates and short repayment schedules.

On the other hand, SMMEs present a high risk to the creditors because many of them have inadequate assets and suffer from low capitalisation. In addition, poor accounting records and the lack of other financial records make it difficult for banks to assess the creditworthiness of prospective SMMEs' borrowers (Katwalo and Mwiti, 2010). Evidently, an empirical study conducted in Europe show that about 21% of SMMEs stated that access to finance is problematic and in many member states the percentage is much higher for micro enterprises (Xhepa, 2006).

The lack of management skills also appears to be one of the most widespread challenges. Mears and Theron (2006) state that the majority of SMMEs owners do not have required skills to operate their businesses successfully. The lack of capacity and exposure to management experience impinge on SMMEs operations. The typical skills that are lacking include financial management, business management, personnel management and marketing. Moreover, these enterprises cannot afford qualified employees to operate them. The reasons why SMMEs cannot afford qualified employees include the failure of SMMEs to provide equal employee benefits and wages as compared to the large businesses. Assurance and prestige that is provided by large enterprises cause people to work in these enterprises (Mensah and Benedict, 2010). In a global survey carried out by consulting groups, a number of small businesses surveyed reported that finding and retaining qualified workers are the most frequent tribulations to their business development (Chowdhury, 2007).

According to Okpara (2011), government regulations for SMMEs are also viewed as the major challenge to business expansion. A legal and regulatory system that entails complex registration, licensing requirements and costly reporting practices imposes profound costs on these entrepreneurial activities. SMMEs' owners having to adhere with laws as they apply to employees and customers find it difficult to operate effectively and efficiently. SMMEs owners may often not understand the laws, and as a result may end up paying penalties and fine because of this (McGrath, 2003; Mears and Theron, 2006). In Canada for instance, a study conducted into SMMEs documented in the Small Business Research Policy, the challenge alluded to by the small businesses surveyed relate to taxation, government regulations and the cost of compliance as they increase the costs of running a business, customer service and the state of the economy (McGrath, 2003).

Van Scheers (2011) states that lack of access to market can also have a negative impact on SMMEs development. According to Dockel and Ligthelm (2002), the market related problems that affect SMMEs include issues such as marketing locality, lack of knowledge of the market, product demand and competition which are associated with the industry in which the enterprise operates. Therefore, the ability of SMMEs to enter the market depends on their internal conditions such as the quality of their product, price and market access opportunities. In India for example, there is a challenge of competition from Chinese businesses that are selling products at much lower prices, a situation which affects the Indian SMMEs sector. Additionally, the lack of access to public infrastructure is viewed as a preventative factor to SMMEs' establishments (Okpara, 2011). It is logical to argue that being able to operate a business requires the presence of important infrastructural services such as electricity, roads, telecommunication, water and sanitation. Public infrastructure is needed in order support the internal operations of the enterprise. However, these services cannot be provided within the small enterprise. These services are not provided and controlled by owners of enterprises, but by government or local authorities within which the business operates. The lack of access to these services can challenge entrepreneurial activities. Therefore, the performance and competitiveness of these enterprises are determined by the accessibility of public infrastructural services.

In Africa, SMMEs are confronted with several challenging problems. Through inference, many of these challenges could be reckoned as impediment to SMMEs growth in Africa. In a paper presented to the international trade conference on NEPAD priorities in South Africa, Nyamunda (2009) identifies a number of challenges concerning SMMEs management and development. The critical challenge facing SMMEs in African countries is being globally competitive. Competitiveness in developing countries is hindered by lack of human resource, development skills and access to finance. Under such circumstances, in order for SMMEs to maintain little profit margins, they are unable to initiate innovative improvements to products and processes which negatively impacts on their ability to take advantage of new market opportunities. The three most important reasons for small business failure were cited as the lack of business knowledge and skills, poor culture of enterprise, and the lack of working capital (Mears and Theron, 2006).

Moreover, education and training are seen as contributors to entrepreneurial development as they can help to bring about an advantage in a competitive environment. Nonetheless, technology development and transfer were also emphasised. Access to appropriate technology is also a significant challenge among SMMEs. Technological accessibility requires large expense which might not be accessible to SMMEs (Chiwane and Dick, 2008). As a result, SMMEs do not exploit the latest trends on technologies to gain competitive advantage over big businesses. This can lower customer satisfaction and critically lower growth in SMMEs. The vital issues which could be challenges to SMMEs development in Africa are also identified as industrial policies and incentives favouring large businesses, difficulties in raising finance, lack of knowledge on government regulations, insufficient physical and institutional support infrastructure (Venter and Bashoff, 2007). In countries such as the Democratic Republic of Congo (DRC), Sudan and Liberia, SMMEs are initiated from nothing because of wars.

#### **2.4.2. Challenges facing SMMEs in South Africa**

SMMEs in the new democratic South Africa are as well seen as a solution for employment creation, generation of income-earning opportunities, economic development and poverty reduction. However, pragmatic studies show that SMMEs in South Africa fail to achieve the intended objectives. According to Central Statistics Services cited in Radipere and van Scheers (2006), 40% of SMMEs fail in their first years, 60% in their second year and 90% in the their first 10 years of existence. Therefore, this section identifies and discusses critical challenges that confront SMMEs in South Africa. The challenges are classified into three categories, namely, the socio-economic challenges, institutional challenges and firm level challenges.

##### *2.4.2.1. Socio-economic challenges*

Clover and Darroch (2005) state that socio-economic challenges entail lack of public infrastructure services, access to profitable market, lack of access to finance and crime, and may result from spatial distance from urban areas within demarcated municipal boundaries in South Africa. Access to public infrastructure services for business operation includes access to water,

electricity, serviceable roads, telecommunication and postal services. A limited public infrastructure is a common concern to SMMEs as it limits operation and hampers access to markets and raw material (Mbonyane and Ladzani, 2011). Therefore, the majority of SMMEs in South Africa do not have access to public infrastructure services. Additionally, limited accesses to profitable markets also prevent SMMEs development and growth. The lack of access to markets in a South African context cannot be explained and understood without reference to the history of displaced communities that have been separated from mainstream markets (Rogerson, 2002).

According to Dockel and Lighthelm (2002), the market related problems include issues such as marketing area, lack of information about markets, products required and competition which is connected with the industry in which the SMMEs operates. These SMMEs have been spatially remote in areas that have a slight resource base, limited cash circulation and little information about product opportunities outside survivalist trading, services or production activities. Consequently, rural entrepreneurs often compete within a small location with low-income customers, where fewer customers may afford their products. Larger markets may be situated at long distances from the entrepreneur's home and the entrepreneur's proximity to both buyers and suppliers constrains business performance. The lack of own transport increases the operation costs for SMMEs operating from rural areas or at long distances from main roads (Rogerson, 2002).

The inability of SMMEs' owners to access resources and capital are also perceived as challenges in South Africa. This hampers the ability of SMMEs to secure the necessary skills and raw materials to put entrepreneurial ideas into practice, to be competitive, to survive and grow. As a result, the lack of capital and limited access to finance affects business negatively. In South Africa's disadvantaged communities, access to finance remains limited. Bannock cited in Clover and Darroch (2005), states that the difficulties in accessing finance emanates from SMMEs' owners' lack of understanding of loans application procedures or a private lending institution's bias against SMMEs due to relatively high cost of administration and relatively small amount of loans. Access to finance includes, among others, physical access, provision of credit, affordability as well as appropriate terms and condition. These accessibility challenges are often

most severe in rural areas among start-up SMMEs and those controlled by women (Hess and Rust, 2010).

Crime is also seen as a challenge to individuals and SMMEs in South Africa. It affects SMMEs directly, with the theft of property and money and indirectly reduces business confidence, loss of investment, causes emigration and destroys the foundation upon which the economy is built (Mahadea and Pillay, 2008). Crime is a challenge to the development and growth of the SMMEs. A crime infested area is not conducive to SMMEs development and growth, therefore entrepreneurs are not attracted to establish and invest their business in a crime prone area as it has negative consequences for growth and development.

#### *2.4.2.2. Institutional challenges*

Enterprise start-ups and operation are influenced not only by markets, but also by the regulatory and institutional environment established by governments. The impact of regulations originating in many areas of government may also discourage entrepreneurship (Madell and Adams, 2003). Appropriate labour, investment and tax law and regulations can create an enabling environment that encourages investment and sustainability of SMMEs as a source of wealth and job creation in the economy. On the contrary, inappropriate regulation may hold back business and increase the cost of doing business. According to Clover and Darroch (2005), institutional challenges arise from an apparent lack of government support for SMMEs. SMMEs owners having to conform to government policies and laws perceive that as lack of government support for the SMMEs. They may be discouraged to start business if they have to comply with a number of rules and procedures. The level of procedural requirements for registration and licensing, taxes and financial reporting may hinder SMMEs development. Studies in South Africa show that majority of SMMEs owners consider paper work as time consuming and cumbersome (Clover and Darroch, 2005).

The freedom for entrepreneurs to do business and to be their own bosses is considered one of the reasons why many entrepreneurs are self-employed (Mahadea and Pillay, 2008). However, this freedom is destroyed as entrepreneurs become obedient to a number of regulations introduced by

government. Rankhumise and Ragimbunu (2010) state that entrepreneurs view regulatory frameworks as increasing the costs of doing business in South Africa, one particular example is being the requirement to register employees working in SMMEs and to pay them in accordance with government guidelines. This is viewed as a challenge because most of the entrepreneurs make minimal profit on their operations and employers are unable pay their employee according to the minimum level set by the Employment Condition Commission.

The regulatory environment in which SMMEs operate can have a huge impact on a country's competitiveness and capacity to create jobs as well as on the well-being of the SMMEs. According to Jesselyn (2004), informal SMMEs respond differently to the regulatory environment by ignoring taxes, levies, health and safety standards. This comes at a cost to the local economy and informal entrepreneurs, in that inappropriate regulations act as a barrier to development by keeping a large proportion of the SMMEs out of the formal economy which results in a loss of tax revenue and lack of compliance. Ligthelm (2003) confirms that some SMMEs operate outside the law by under-reporting or not reporting employment, avoiding taxes, infringing copyright and even failing to register as legal entities. Furthermore, the main causes of becoming informal in the modern economy are the burden of direct and indirect taxation and government regulations. Both these elements provide a strong incentive to business failure.

#### *2.4.2.3. Firm level challenges*

Firm level challenges are often referred to as enterprise-based issues which are business's internal factors such as lack of management skills, poor financial control, physical premise and technological application (Radipere and van Scheer, 2005). The shortage of business management skills is a challenge of SMMEs in South Africa (Strydom, 2005). A skills shortage is defined as a situation where there is a definite scarcity in the accessible labour market of the type of skills being required. SMMEs would not exist if it does not have productive human skills and a product demanded. It is the entrepreneur's responsibility to hire and manage labour and other resources within the enterprise. However, recruitment and retention of labour are affected by internal and external factors (Mahadea and Pillay, 2008).

Internally, if the SMMEs are operating near full capacity, the increase in demand for the firm's products may require additional labour. Although internal conditions necessitate the hiring of additional workers, the complexity of the labour laws such as Labour Relations Act, Employment Equity Act and Minimum Wage Regulations may prevent employers from hiring additional labour. Such legislation denies the market of its flexibility, making hiring or firing costly. When there is a shortage of skilled workers, retention of labour is also a challenge, as skilled workers often hope from one firm to another in response to incentives that could range from higher salaries to better benefits. Skills shortages thus make the recruitment process for quality labour more difficult, time consuming and expensive (Mahadea and Pillay, 2008). Lee and Peterson (2000) state that low quality and high turnover of labour is a challenge facing newly established SMMEs. SMMEs cannot afford the wage rate necessary to attract highly qualified or skilled labour and workers accept better employment opportunities from larger enterprise. Access to labour market is also a key factor to SMMEs as it allows for proper expertise and skills that enables SMMEs to explore identified opportunities. In South Africa, the labour is mainly unskilled and informal while the semi-skilled or skilled is expensive.

The physical facilities and business premises used by many SMMEs are often inadequate to provide any long-run competitive threat to larger established enterprise and many cannot afford sufficient technology. Perks (2010) identifies lack of innovation and modern technology as the challenges facing SMMEs in South Africa. All businesses, regardless of their size need to innovate and use new ideas and practices to satisfy the changing needs of the market in the local environment. Outcomes of innovation include, introducing new products or services in new and existing markets, developing new organisational structures, competing in new ways and using new production functions and technology in creative ways to service customer needs (Mbongwane and Ladzani, 2011). Although the use of technology can be a source of competitive advantage, some old-fashioned entrepreneurs often view technology as expensive and may still prefer the conventional way of doing business. Such a traditional view constrains the growth prospects as the firm is likely to miss out on opportunities in the changing environment.

## 2.5. Government Interventions for SMMEs

Globally, SMMEs are viewed by scholars and policymakers as the ideal way to promote sustainable development. These enterprises are critical to initiate growth and development of the economy in a given country and, are inextricably linked to economic empowerment, job creation and income generation within disadvantaged communities (Rootman and Kruger, 2010). However, these economic activities face a wide range of constraints which limit them from realising and maintaining a competitive advantage in their respective industries. As a result, the support measures of SMMEs became the centre of attention to governments in many countries including in South Africa. Since, SMMEs have significance in the emerging economies, strategies have been developed worldwide to expand and integrate them into the mainstream of economic activities. This section therefore, provides a discussion of global trends on SMMEs support, the principles that guide SMMEs support and SMMEs support interventions in South Africa.

### 2.5.1. Global trends on SMMEs support

The promotion of SMMEs is the focus of considerable interest in the world (Perks, 2010). Different countries have recognised the importance of SMMEs in their economies and have put various governmental policies and strategies in place to support them. In European countries for instance, policies have been put in place to create an enabling environment for SMMEs. The role of SMMEs in the European economy has been repeatedly acknowledged at the highest political level. The European Council expressed a strong support for an initiative to further strengthen SMMEs' sustainable growth and competitiveness in March 2008, named the Small Business Act (SBA) for Europe and requested its rapid adoption. SBA aims to improve the overall policy approach to entrepreneurship, to permanently anchor the "Think Small First" principle in policy making from regulation to public service, and to promote SMMEs' growth by helping them tackle problems which hamper their development (Karjalainen and Kemppainen, 2008).

In other Asian countries such as Singapore, Brunei and Bangladesh, governments in these countries have shown immense commitment to the SMMEs by instituting measures to support

them. In Singapore, SME 21 was introduced as a 10-year strategic plan aimed at building up the capability of SMEs so as to enhance their contribution to Singapore's competitiveness and economic growth. In East Asia in Brunei, the government's primary role is to create good business conditions to strengthen the competitiveness of such enterprises by providing different support mechanisms such as administrative support, investment and trading opportunities, technical assistance, financial assistance and incentives (Van vuuren and Groenewald, 2007). Moreover, the Bangladeshi government is creating an investment-friendly environment, encouraging entrepreneurship development, restoring confidence among small business owners; training prospective and potential entrepreneurs to set up new business and this appears to have promoted approximately six million SMMEs (Chowdhary, 2007). Different organisations such as Bangladesh Industrial Technical Assistance Centre, Bangladesh Council for Scientific and Industrial Research, Micro Industrial Development Assistance Service and NGOs have become active in the development of SMMEs.

Governments in African countries have also shown commitment by instituting measures in an attempt to promote SMMEs. Countries such as Ghana, Malawi, Nigeria and Tanzania have realised the importance of SMMEs in term of economic growth and development, and various interventions have been formulated to resolve the challenges faced by SMMEs and strengthen the sector (Okpara, 2011). In Ghana, for example, the government, in an attempt to respond to SMMEs challenges, introduced numerous measures since 1992, popular among them is the setting up of the Private Sector Advisory Group. Government also provided equipment leasing, an alternative and flexible source of long term financing of plant and equipment for SMMEs that cannot afford their own (Abor and Quartey, 2010). Therefore, SMMEs interventions are significant for SMMEs to flourish in any country if they are well implemented. Following from the above discussion, the subsequent section presents a discussion of government interventions in South Africa. However, it becomes necessary to first outline the fundamental principles that guide SMMEs' support in South Africa.

## **2.5.2. Principles guiding SMMEs support in South Africa**

There are three essential principles that guided SMMEs support in South Africa. These include SMMEs as a basis of employment promotion, economic redistribution and economic competitiveness.

### *2.5.2.1. Employment Promotion*

The initial foundation for government intervention in the SMMEs sector is that SMMEs are seen as the most important source of employment. Ndabeni (2003) points out that formal sector unemployment forces many workers into the SMMEs sector. As noted earlier in this chapter, some people have been unemployed for long periods of time. For them to be self-sufficient, they have no choice but to enter into the SMMEs sector to create opportunities for themselves. Ligthelm (2003) states that small businesses in the formal economy are created due to the lack of employment and option of income possibilities. The establishment of the SMMEs is therefore the consequence of an effort to escape the difficulties of unemployment and poverty rather than the exploitation of prosperous business opportunities. Despite the prompt for SMMEs' origin, mainly the micro enterprises, most authors view SMMEs as having the ability to contribute positively to employment creation, given the establishment of proper enabling conditions.

Contrary to the views that SMMEs promote employment, authors such as (Rogerson 2000) and Kesper (2001) sees the contribution of SMMEs to the creation of employment as low. According them, the quality of the jobs that are created through SMMEs is pathetic. The quality of employment in South African micro enterprises is poor. A research carried out in Cape Town and Durban, poor wages and work conditions were identified among groups of women home-based workers (Jesselyn, 2004). In the informal taxi operation, studies shows the existence of unfair labour practices, including the use of children as queue marshals and car cleaners, long working hours, the struggle to meet daily targets and the tendency for taxi-fleet-owners to employ new drivers from rural areas in order to cheapen their labour cost. In the case of survivalist SMMEs, the wages and work conditions are worse. According to Rogerson (2000),

most survivalist activities cannot be viewed as being opportunities for employment creation since they are essentially poverty traps.

#### *2.5.2.2 Economic redistribution*

SMMEs are seen as important mechanisms of facilitating economic redistribution. Generally, the SMMEs' strategy is seen in the context being able to redress inequalities that were created by apartheid (Burger, Mahadea and Neill, 2004). However, it must be taken into account that whilst SMMEs do not represent a single method for redressing racial income inequalities, it would be wrong for the policy-makers to depend on SMMEs as the main agent for economic redistribution in South Africa, for at least three reasons (Rogerson, 2000). Firstly, it must be acknowledged that reliance on SMMEs to redistribute wealth does not temper with the economic powers of South Africans, most of which is concentrated in the ownership of whites. Secondly, the majority of black-owned businesses are very small and yield only minimal income to their owners, SMMEs alone cannot be expected to considerably shift the pattern of income distribution. Lastly, even if SMMEs could successfully direct wealth to black entrepreneurs, this does not necessarily mean that income inequalities would be reduced; instead, one likely outcome may be the enrichment of fewer black South Africans at the expense of the majority of the blacks.

#### *2.5.2.3 Economic competitiveness*

The third principle that guides SMMEs in the South African, is that they promote economic competitiveness of local industries in terms of growth and even towards exports (Njiro and Compagnoni, 2010). This specific issue has attracted controversy and debates. In terms of the debate regarding flexible specialisation and development of industrial districts, it is argued that the introduction of flexible production into South African manufacturing embraces substantial promise for a regeneration of the small scale industrial sector. More specifically, it is argued that through subcontracting arrangements, group small scale producers may experience growth and increased levels of competitiveness as they become more integrated into mainstream of industrial activity. The other side of flexibility is, however, the risk of the emergence of extended informalisation of formal enterprises resulting into high unfair labour practices and poor work

relationships under subcontracting. The existing evidence suggests that whilst out-sourcing by formal enterprises and casualisation may be increasing in the South African economy, the actual proportion of home-based workers who are subcontracting is very small (Rogerson, 2000).

### **2.5.3. SMMEs support in South Africa**

The requirement for an inclusive SMMEs strategy became noticeable even before democratic elections in 1994. This was mainly because of research conducted particularly on black-owned businesses in South Africa (Mmakola, 2010). These studies identified several constraints that hampered the growth and development of these enterprises. The constraints included a wide variety of issues from lack of access to markets, finance, infrastructure, appropriate technology, government regulations, tax, skills and training (Jesselyn, 2004). There was also a realisation of the general disregard of the potential of the SMMEs owned by blacks by the apartheid government and active measures were instituted to discourage SMMEs' development in this regard. As a result, the reaction to these challenges was the development of a policy that would place SMMEs high on the development agenda and to also address the past legacy of the omission of black-owned enterprises from the principal aim of SMMEs' policy (Ladzani and Netswera, 2010).

In 1995, DTI released the National Strategy for the Development and Promotion of Small Business together with the *Small Business Act 102 of 1996*. This strategy was seen in the context of a post-apartheid SMMEs' policy that identified key developmental objectives such as employment creation, redistribution and the improvement of competitiveness. The introduction of the strategy was viewed as an important part of the democratic government's effort to create better life for all and government's commitment to the process of stimulating and promoting small business and the creation of an enabling environment (Rogerson, 2004).

The White Paper on Small Business (1995) put forth the national objectives for the SMMEs' sector. The primary aim is "to create an enabling environment" in terms of the national, regional and local policy frameworks for SMME development (Diale, 2009). More specific policy objectives were identified to support the basic aim which included the facilitation and equal

distribution of income, wealth and economic opportunities which are indivisible from increasing the absorption of labour in the micro enterprise and survivalist segments, rectifying of discrimination among blacks as well as women's access to economic activities. And further, facilitating growth in black and small enterprises in rural areas. Additionally, the strategy intended to create long-term jobs which required policy interventions designed to upgrade human resource skills and to support the use of appropriate technologies, stimulate economic growth through resolving the challenges that prevent SMMEs from contributing to overall growth. Lastly, it aimed at strengthening the cohesion between SMMEs to overcome their remoteness by promoting the networking of SMMEs to build shared efficiency and to level the playing fields both between large enterprises and SMMEs and between rural and urban businesses (Njiro and Compagnoni, 2010).

Therefore, the strategy had been the first and most important attempt by South African government. This policy framework design targeted particularly a wide range of enterprises within the SMMEs sector. The overall objective of the strategy was to create an investment friendly environment for SMMEs growth in a country as a way of reducing basic inequalities in the economy. However, the strategy did not yield the required expectation (Dockel, 2005). As a result, a decade later, in 2005, the DTI released the Integrated Small Enterprise Development Strategy that takes into account the successes and failures of the first ten years of the implementation of the 1995 strategy (Winks, 2008). The strategy focuses on three key areas including the increase in the supply of financial and non-financial support services, create demand for small enterprise products and services and reduce small business constraints (Winks, 2008).

#### **2.5.4. Institutional arrangements for SMMEs support in South Africa**

Subsequent to the introduction of the White Paper on the National Strategy for the Development and promotion of Small Business (1995), the DTI started with the process of building institutions to service the SMMEs economy (Mmakola, 2009). Their vision for SMMEs was to integrate small business into the mainstream of the South African economy. In terms of the National Strategy, a framework for SMME development was developed and linked to the introduction of a

set of key intervention programmes which targeted to support the national objectives for SMMEs development. These intervention programmes involved both the introduction of a new set of programmes for SMMEs promotion and reforming of the existing programmes that will effectively embrace SMMEs (Diale, 2009).

As a result of the SMME legislation, institutional structures have been created to address the needs of the South Africans as a whole including both urban and rural SMMEs. The key actors are the Centre for Small Business Promotion (CSBP), established through the DTI at the national sphere of government, Ntsika Enterprise Promotion Agency (NEPA), Khula Enterprise Finance Limited (KEFL) and Provincial SMMEs Desks (Diale, 2009). CSBP is a Chief Directorate that falls directly under the DTI. It is responsible for policies related to SMMEs and supports programmes that are assisted by government. The centre also coordinates the implementation of the framework within the national government, mobilises funds and supervises the establishment of other new institutions proposed in the White Paper on Small Business. The centre gave birth to NEPA, which has now been replaced by the South African Enterprise Development Agency (SEDA). SEDA was established in 2004 when the National Small Business Act was amended to merge NEPA with the national Manufacturing Advisory Centre. The strategic objectives of SEDA relate to the promotion of competitiveness and capabilities of small business through co-ordinated service programmes and projects. The key services provided by SEDA include helping with business registration, compilation of business plans, facilitating access to market for local SMMEs, finance, technology, providing small business training and mentoring (Njiro and Compagnoni, 2010).

The institutional structure for implementing support to SMMEs as a central role was carried out by NEPA. NEPA was the implementing agency for non-financial entrepreneurial services meant to facilitate and act as a wholesaler of delivery programmes to support SMMEs in South Africa (Van vuuren and Groenewald, 2007). NEPA was committed to the objective of developing a thriving and vibrant SMME sector and for ensuring that small businesses are not deprived from the benefits of the economy and through its intervention, to create an environment conducive to the development of South African society, for example black people, women, youth and disable, to be empowered. NEPA was responsible for services such as marketing, training programmes

and procurement advice and technology assistance and mentoring to businesses (Rogerson, 2004).

Whereas NEPA's activities were to provide non-financial support to SMMEs through intermediary organisation, the central activities of Khula Enterprises Finance is to facilitate and expand access to finance for SMME development (Van vuuren and Groenewald, 2007). Overall, Khula Enterprise Finance functions as the national wholesaler SMME funding facility, providing loans, grants and guarantees for retail banking institutions servicing the SMME market. In common with NEPA, Khula works through a number of intermediary organisations such as micro credit outlets banks and NGOs providing loans, national credit guarantee fund, seeds loans, equity funds and institutional capacity building. Furthermore, the National Youth Development Agency (NYDA) was also initiated to promote entrepreneurship, job creation and skills development among South Africans between the ages of 18 and 35. It is dedicated to innovation in a way of creating opportunities for young people to acquire appropriate skills, find job opportunities or even start their own businesses (Ladzani and Netswera, 2010). The NYDA was launched in June 2009 through the fusion of the Umsobomvu Youth Fund and the National Youth Commission. One of the NYDA's strategic objectives is economic participation which aims to improve the involvement of the youth in the economy through targeted and integrated programmes (Perks, 2010). The economic engagement programme includes enterprise finance as one of its products. Enterprise Finance's central objective is to promote entrepreneurship among young people by providing loan finance to expand, buy into or buy out existing businesses or start new businesses.

The CSBP gave instructions to all nine provinces to form Provincial SMMEs Desks at the provincial sphere of government. The purpose of these desks is to give SMMEs support in all the provinces. SMME desks have been established with the goal of becoming "one-stop information units", which would speed-up and simplify communication conduit with government (Diale, 2009). Essentially, the role of these provincial SMMEs desks is to coordinate SMMEs' support programmes and activities within provinces. Provincial development planning for SMMEs development is therefore geared towards transforming the national policy guidelines and changing them to local circumstances. In line with the national SMMEs' support, various

support structures have been put in place for strengthening SMMEs' growth and survival in Limpopo Province. The Limpopo Department of Economic Development, Environment and Tourism is responsible for the implementation of provincial SMMEs' support initiatives. One of department's major role is to coordinate and integrate support service provided to SMMEs by the provincial support institutions. These institutions include among others Limpopo Development Agency (LIMDEV), a development financer and which also rents out trading and industrial space. Limpopo Business Support Agency (LIBSA) provides support to business regarding registration process, compilation of business plan, business training and mentoring, as well as marketing at trade shows. It also provides financial assistance to approved business co-operatives. Other institutions created to provide support to SMMEs include Limpopo Tourism and Parks, and Trade and Investment Limpopo.

## 2.6. Conclusion

The chapter provided a discussion on the nature and challenges of SMMEs in South Africa. This chapter was divided into four sections. From the outset, it was important to define accurately the scope of the study in terms of the nature of the SMMEs sector. The second section constituted a set of material which relates broadly to the factors that influence start-up in SMMEs undertaking. In addition, the chapter examined the key challenges which have been identified as preventive to the survival and growth of SMMEs in the global economy and in South Africa. Lastly, the material contained in this chapter turned attention to government policies and programmes designed to address the challenges facing SMMEs and identifying a number of institutions responsible for implementing these interventions.

In the chapter that will follow, the focus is on the theory of LED and the contribution made by SMMEs towards economic development and LED. The chapter conceptualise LED and its emergence. It also discusses the concept of LED within South Africa's local government and its application together with policies and legislative frameworks that guide its implementation.

## CHAPTER 3

### SMMEs AND LOCAL ECONOMIC DEVELOPMENT IN SOUTH AFRICA

#### 3.1. Introduction

The responsibilities of local government in South Africa include the promotion of social, economic, cultural and political development of all the communities. Hence, the concepts of SMMEs and LED become acceptable as a locality-based planning to respond to poverty, inequality and unemployment challenges (Nel and Rogerson, 2005). It is generally considered that sustainable economic activities are necessary for the development of any community (Phago and Tsoabis, 2010). Therefore, LED is usually considered as a participatory approach based at the local sphere of government to encourage sustainable growth, income generation and employment (Pretorius and Blaauw, 2008). Accordingly, the government has developed various initiatives in all spheres of government to respond to development challenges. Some of these initiatives include, among others, promoting LED through public private partnerships and SMMEs.

This chapter is divided into six sections. The first section focuses on the theory of LED. In the second section the focus is on the evolution of LED. Much attention is then given to the concept of LED and its application in South Africa in the third section. The fourth section provides the discussions of the approaches to LED and an overview of various policy and legislative frameworks guiding LED plans and their implementation. The fifth section discusses the importance of partnerships in LED. The last section of this chapter turns attention to the contribution of SMMEs to economic development. In unpacking the role of SMMEs in the economy, two tasks will be undertaken here. First, it is important to give an overview of the role of SMMEs in the global economy and secondly, to provide literature on the role of SMMEs in the South African LED.

### 3.2. The theory of local economic development

As explained in the previous chapter, the concept of LED has been promoted as a critical solution for poverty alleviation, unemployment and economic development in developing countries (Rogerson, 2005). Economic development has advanced from being merely considered in economic terms such as Gross Domestic Product, which did not essentially quantify the distribution of income and wellbeing (Blakely and Leigh, 2010). Development concepts have become premises with a human feature in which development is not viewed simply as economics, but aspects such as the level of education, gender based development, quality of water, health, employment and poverty levels are included (Blakely and Leigh, 2010). Therefore, LED links not only the economic measures and human aspects of development, but goes on further to focus on development at the micro level. LED is a conscious process in which communities are assisted by well advanced organisations to work in the direction of improving the standards of social and economic well-being (Cunningham and Meyer-Stamer, 2005). Thus, in essence LED promotes joint development between the local government, community, private sector, NGOs and any other stakeholders (Gunter, 2005).

LED is about building partnerships between different stakeholders in order to control local resources and to stimulate employment and the economy of a locality (Gunter, 2005; Kanyane, 2008). It is regarded as a participatory development processes that stimulates partnership between the private and public stakeholders of locality (Rodriguez-Pose, 2001; World Bank, 2003). It is often referred to as a ‘territorial development strategy’ which is based on endogenous factors such as the local economic structure, human resources and institutional setting at the local sphere of government (Rodriguez-Pose, 2001). Local resources are frequently underused in communities in developing countries and this is where local capacity is significant. There are different types of local resources that local community possesses. The greater the ability of the local community to translate these resources into development opportunities, the greater the benefits of development outcomes (Meyer-Stamer, 2003). For instance, a community requires an economic development institution such as business society or economic development corporation or government institution to effectively resolve the issues and problems of underdevelopment and improve the available resources. Additionally, there is no single action or strategy which

embraces LED; however, it is a concept that describes local initiatives that respond to the needs of communities at the local sphere of government. Alternatively, the focus is on using local people with local approaches for local outcomes. Therefore, LED is about seeking to manage and structure economic transformation at the local sphere. Ultimately, the primary aim of LED is to improve the quality of life of the people, alleviate poverty, create job opportunities, improve skills and build capacity within the communities (Nel and Rogerson, 2005; Kanyane, 2008).

There are a number of advantages that are associated with LED. These incorporate social and economic issues such as empowerment of local communities, creation of dialogue, enhancing transparency and accountability among local institutions (Rodriguez-Pose, 2001). In economic aspects, LED helps to create sustainable employment in business, given the promotion of economic activities that are at the centre of specific economic circumstances and comparative advantages of a locality (Rodriguez-Pose and Tijmstra, 2007). The emphasis of LED is to build economic activity within a territory dependent on the economic and social environment of the area (Rodriguez-Pose, 2001). Generally, LED contributes to renewal of the local economy and to the improvement of the monetary capacity of the local government. LED can assist in the formulation of balanced development strategies as a result of dynamic participation of crucial stakeholders in the planning and implementation processes (Rodriguez-Pose, 2001).

### 3.3. The evolution of local economic development

The conception of LED has evolved in the context of decentralisation, local economic opportunities or problems, globalisation (World Bank, 2003; Nel and Rogerson, 2005). Historically, the economic development of a specific locality deeply depended on the interventions from the central government in most of the developing countries. As a result, the traditional and top-down approaches of central governments have led to poor and underdeveloped social and economic conditions in local areas (Meyer-Stamer, 2003). The central government initiatives are thought to have failed to generate required conditions for sustainable development and employment opportunities in the majority of local areas where these interventions were implemented (Meyer-Stamer, 2003; Rogerson, 2005). The emphasis of the traditional development strategies were on infrastructure investment and attracting direct foreign

investment, which were viewed as being inadequate to improve the economic conditions of the local communities (Swinburn and Yatta, 2007). Subsequently, a wide range of local economic strategies emerged and were classified under LED.

The focus of LED was brought about by the high level of unemployment and poverty in local communities (Human, Marais and Botes, 2008). The concept of LED also evolved in the context of globalisation, where trade barriers have been reduced allowing goods and services to be sold freely around the world (Breitenbach, 2006). As trade stretched around the world, many producers of goods and services faced competition from producers and countries that produced services at lower prices and of better quality. Therefore, there was a need to promote local business as a response to the challenges brought by global competition. Globalisation also brought about both opportunities and threats. The opportunities lay in expanding trade beyond local, regional and national boundaries through competitive production methods, adding value to local products and innovation in the local economy. The threats lie in the ability to adapt to changing global economies and produce goods and services at the costs that can compete in the international markets. This suggests that technological usage and standards of production need to meet international requirements. As indicated above, LED can be seen as a response to external factors which call for internal restructuring (Breitenbach, 2006).

According to the World Bank (2004), LED has gone through three developmental stages since the 1960s. During the first stage of 1960-1980, the focus of LED was on mobile manufacturing investment and agricultural production. The focus during this stage was to attract foreign investment and hard infrastructure by providing grants, subsidies and tax allowances (Kanyane, 2008). During the second stage in the 1980-1990s, the focus moved towards the retention and expansion of local businesses, as well as internal investment targeted at specific sectors. This was achieved through direct payment of individual businesses, business incubators, business start-up support and the provision of hard and soft infrastructure (Swinburn and Yatta, 2007; Kanyane, 2008). Since the 1990s the focus shifted from direct financial assistance towards making the whole business environment conducive to business by focusing on soft infrastructure, private partnerships and networks, supporting the formation of business clusters and the

development of workforce through education and training with a view of providing encouragement for entrepreneurship (World Bank, 2002; Kanyane, 2008).

Although LED dates back to the 1960s and 1970s, it was not until the late 1990s that emphasises have been placed on enterprise development, the improvement of infrastructure, building of local partnerships and the promotion of inclusive and vibrant frameworks that became the central strategy for LED (World Bank, 2003). Since LED has moved through each of these stages, the elements of each stage are still practiced. The fundamentals amongst them is the role of local government, the private sector, NGOs and the local community in creating opportunities to work together to improve the local economy. Hence, the aim of LED is to resolve socio-economic challenges such as poverty and unemployment at the local sphere (Tomlison, 2003). Therefore, the majority of the national governments and international agencies, including the World Bank and Organisation for Economic Corporation and Development (OECD) have acknowledged the important role of LED in local development and business promotion.

### 3.4. Local economic development in South Africa

Municipalities in South Africa cannot ignore the fact that they are experiencing economic changes in their localities either through the increase or closure of businesses. This is because increase or closure of businesses has a consequence on job creation, poverty and municipal revenue sources. For this reason, municipalities are mandated to be developmental in nature, are designated to improve social and economic conditions conducive to business development and promotion (Malefane, 2008; Helmsing, 2005). Therefore, LED is inextricably linked to developmental local government in South Africa. It is a product based on local initiatives and motivated by local stakeholders. LED, in this context, is a municipal driven plan through individuals and sectors, thus attracting and strengthening public private partnerships (Kanyane, 2008). The sectors referred to are local government, business and civil sectors. The contributions of the three sectors have an impact on distinct municipalities within the provincial jurisdiction. LED is a bottom up socio-economic strategy within a broader Provincial Growth and Development Strategy to create conducive business environments to improve their competitiveness (Phago and Tsoabisi, 2010). As implied above, LED recognises that people,

business and government are best placed to change economic conditions that will stimulate growth, which is required to create jobs and therefore reducing poverty in South Africa. LED is described as focusing on the development of local areas as opposite to the regional or national development. This form of development is the responsibility of local council and community which are willing to promote development in the area (Rogerson, 2006).

The aim of LED is to create employment in the local government sphere, alleviate poverty and redistribute resources and opportunities to the benefit of all community members (Tomlison, 2003; Kanyane, 2008; Phago and Tsoabisi, 2010). The World Bank (2002) defines LED as the process by which the public, business and non-governmental sectors partner work together to create better conditions for economic growth and employment generation. The Department of Provincial and Local Government (DPLG), now the Department of Cooperate Governance and Traditional Affairs (COGTA), defines LED as an outcome based on local initiatives driven by local stakeholders. It involves indentifying and using local resources, skills and ideas to promote economic growth and development (Moyo, 2007). The focus of LED is on socio-economic development of the communities using local resources. Based on the World Bank definition, it is expected that the businesses within municipalities achieve sustainable economic growth to improve the quality of life. The quality of life within LED framework is informed by poverty reduction, employment, income and literacy improvement (Kanyane, 2008).

The focus of LED should be on the needs of communities and creating an environment for private sector investment through public sector investment and by supporting the retention, growth and development of enterprises (Malefane, 2008). The growth of businesses that use local resources, including labour and materials for production, will generate local wealth and jobs. LED must aim to create jobs by making the local economy grow. This means that more businesses and factories should be established in the municipal areas. As part of the Integrated Development Plan (IDP), key stakeholders in a municipality must come together to reach agreement and take decisions to make the economy grow and create income opportunities for more people, especially the poor (Bouare, 2001). Former DPLG has identified the following key principles underlying LED:

- Poverty and unemployment are the main challenges facing South Africa. LED strategies must prioritise job creation and poverty reduction.
- LED must target previously disadvantaged people, marginalised communities and locations, black economic empowerment enterprises and SMMEs to allow them to participate fully in the economic life of the country.
- LED promotes local ownership, community involvement, local leadership and joint decision making.
- LED involves local, national and international partnerships between community, businesses and government to solve problems, create joint business ventures and build local areas.
- LED uses local resources and skills to maximise opportunities for local development.
- LED involves the integration of diverse economic initiatives in all inclusive approach to local development.
- LED relies on flexible approaches to respond to changing circumstances at local, national and international level.

LED in South Africa has been seen by government as the approach to pursue within the context of empowered local government, pro-active actions by local communities and the need to ensure that development is pro-poor in focus and outcomes. LED tends to have more different pro-poor approach (Nel, 2001). It is both a spatial and sectoral strategy focusing at one, on the level of the improvement of employment levels and comparative and competitive advantages of a given locality, while on the other level it relates to development of specific economic sectors such as SMMEs and tourism. According to Tomlinson (2003), LED can also have either a pro-poor approach aiming at poverty alleviation as supported by DPLG or pro-growth approach seeking economic growth as encouraged by DTI. LED strategies in South Africa form part of a relatively new approach to development. Economic and Social development has been mandated by the national government to local government, whereas policies are in place, LED strategy has produced little success for different reasons, but mainly as a result of lack of capacity within municipalities as well as resource challenges (Nel, 2001).

### **3.4.1. Approaches to local economic development in South Africa**

Recent debates about LED revolve around two approaches, pro-poor and pro-growth or market-led LED. Pro-growth approach put emphasis on the promotion of economic growth through market competitiveness and investment attraction. The pro-poor LED approach focuses at poverty alleviation strategies (Helmsing, 2003). The literature on LED shows that it is usually in Western Europe and North America that the pro-growth approaches are concentrated, whereas in the developing countries there is a need to focus on poverty reduction, thus pro-poor LED approach (Rogerson, 2003). Pro-poor LED planning in developing countries supports and enables local stakeholders to empower the poor to gain access to and take advantage of economic activities and helps the poor to become entrepreneurs. According to Nel, Hill and Eising (2002), these approaches are evenly important and can be practiced together to achieve greater socio-economic objectives. These approaches provide for a balanced growth by ensuring that large businesses can generate spin-offs to the small and emerging business sectors.

Looking closely at the difference between pro-poor and pro-growth LED approaches, it is clear that the pro-growth approach aims at improving local economies by stressing the goals of stimulating self-reliance, entrepreneurship, expansion of market competitiveness and reducing unemployment (Rogerson, 2003). Whereas pro-poor approach of LED is characterised by bottom-up approach towards achieving empowerment, participation, local co-operation and environmental sustainability (Rogerson, 2003). Pro-poor approach to LED basically suggests the shift towards poverty alleviation and supports the poor and marginalised groups to take the advantage of the economic activities. The idea behind this approach is to ensure that poor people takes advantage of economic activities within local areas through socio-economic consideration. The difference is that this approach does not only look at business development, but also focus on initiating plans which will assist the poor to take advantages of economic opportunities available to them. This can be done by introducing possible economic strategies to allow the poor access to either economic activities or support and information to build capacity for potential economic opportunity (Pretorius and Blaauw, 2008).

The current approach in terms of LED in South Africa shows bias towards pro-growth strategies especially in the urban areas. LED approach in South Africa continues to be dominated by pro-growth activities that are geared towards achieving sustainable economic growth (Nel and Rogerson, 2005). Present interventions across South African urban areas are similar to the international record with urban areas having initiated LED activities in support of building local competitiveness. LED seeks to provide support on local competitiveness through stimulating growth potential SMMEs. Entrepreneurship is also supported by viewing localities as competitive spaces for production, consumption and information-processing activities. Despite growing global competition, the retention and promotion of manufacturing continues to be significant. Regardless of the growing amount of the literature on LED, there seems to be only a limited focus on the contribution of LED on poverty alleviation. LED, without any doubt, provides means to improve economic activities, but without the inclusion of social development goals, it would seem to be unsustainable. Nel and Binns (2002) state that policy imperatives in South Africa are in parallel to social responsibility of promoting social development, but whether the resource placed in municipalities achieve social objectives is unknown (Nel and Binns, 2002).

### **3.4.2. Policy and legislative background of LED in South Africa**

In the new government of South Africa, a number of national policies and laws have been introduced and implemented to address poverty and exclusion. These policies have led to the development of LED at local sphere of government to improve service delivery since 1994. The National Framework in South Africa aim to support the development of sustainable local economies through inclusive government action. This government action is developmental and stimulates the economy which comprises those enterprises that operate in local municipalities (Moyo, 2009). Municipalities should therefore ensure that all their activities are in line with the national policies and legislations. This section therefore seeks to provide an overview of national and provincial policies and legislation that laid foundation for LED planning and implementation in South Africa.

#### *3.4.2.1. Reconstruction and Development Programme*

The Reconstruction and Development Programme (RDP) is one of the national policies that attempts to mobilise the country's resources towards eradicating apartheid by building a democratic and non-racial society in South Africa. According to Human, *et al* (2008). The RDP was designed to reform the economy by addressing challenges of racial and gender inequalities in ownership, employment, skills, and past industrial policies. The RDP was intended to be people-driven and facilitate employment and reduce inequalities. It provides municipalities with the responsibility to seek investment in research and skills development as the strategy to deal with low productivity and declining employment. The government argues that the objectives of the RDP can be attained by giving responsibility of development to local government, which is viewed as the primary level of democratic representation. As the RDP stresses, the democratic government will reduce the load of implementation through the allocation of powers and functions to local government and through active involvement of civil society. Therefore, the RDP laid the foundation for promoting participation through local governments and support for local actions. LED serves as means to an end for the municipality in order to realise the objectives of the RDP.

#### *3.4.2.2. Growth, Employment and Redistribution*

The Growth, Employment and Redistribution (GEAR) policy is a macro-economic document of the state which was introduced in 1996. According to Kanyane (2008), the government introduced GEAR to address macro-economic inequalities including budget shortfall inherited from the apartheid government. GEAR was seen as the strategy to finance development with government's own resources rather than depending on loans from international institutions. It was the recognition that development and poverty reduction would have to be influenced by market led economic growth, shifting the focus to structural economic reforms. It also meant that social spending would be reduced while the country tries to reduce its international debt accumulated during the apartheid era. The role of government has moved from being a major role player in socio-economic development to the one of being a facilitator. GEAR is a strategy to produce a growing economy and create more jobs. Local government reform in South Africa

is therefore part of an inclusive transformation programme. Municipalities are therefore required to strategically include GEAR into their institutional policies and programmes. This will enhance local economic processes aimed at promoting sustainable economic growth and development.

#### *3.4.2.3. Accelerated and Shared Growth Initiatives for South Africa*

Accelerated and Shared Growth Initiatives for South Africa (ASGISA) was developed to successfully deal with the growth, competitiveness and development challenges experienced during GEAR period. ASGISA was viewed as a policy that would enable the government to address the cost of doing business which prohibited SMMEs in different municipality areas from restraining growth. ASGISA aims at speeding up economic growth and the rate of investment productive capacity, promoting participation of marginalised communities and improve the quality of the livelihoods of the poor and human development. The argument is that the policy would be able to broaden economic growth and development. In addition, it recognises all the three spheres of government as the crucial stakeholders in achieving high level of growth. Other important role players include business, civil society and citizens in achieving accelerated growth. These imply that both the making and accelerating of growth are shared growth. The municipalities should ensure that principles of ASGISA are included in their policies and promote the participation of various stakeholders in LED (Kanyane, 2008).

#### *3.4.2.4. The White Paper on Local Government (1998)*

The new developmental role of local government was further expressed in the White Paper on Local Government which indicates that the responsibility of municipalities is to work together with local communities to find sustainable ways to meet their needs and improve the quality of their lives. In order for this to be realised, local authorities are expected to maximise, social development and economic growth and ensure that local economic and social conditions are favourable for the creation of employment opportunities (Nel and Binns, 2001). In addition, local government is required to take a leadership role, involving citizens and stakeholders in the development process to build social capital and to generate a sense of common purpose in finding local solutions for sustainability. Local municipalities thus have a role to play as policy-

makers and as institutions of local democracy, and they are advised to become more strategic, visionary and influential in the way they operate (Phago and Tseobisi, 2010).

#### *3.4.2.5. Constitution of the Republic of South Africa (1996)*

In South Africa, the supreme law upon which all other laws are based is the Constitution of the Republic of South Africa (Malefane, 2009). The Constitution views local government as a distinctive sphere of government and mandates them to give priority to the basic needs of the community and to promote the social and economic development of the community and participate in national and provincial development programmes. In terms of section 152(c) of the Constitution, municipalities are required to promote social and economic development, and in section 153(a) municipalities are obliged to structure and manage their administration and planning processes to give priority to the basic needs of the community and to promote social and economic development of the community. The Constitution requires local government to encourage the involvement of communities and community organisations in matters of local government. This implies that the Constitution promotes locality based planning, and therefore LED is an important tool to address local economic issues and promote sustainable economic development.

#### *3.4.2.6. The Local Government Transition Act (1993)*

The *Local Government Transition Act of 1993* and its 1996 amendment are major post-apartheid local government legislation, and they refer to LED as a municipal strategy in promoting economic and social development. The *Local Government Transition Act of 1993* states that municipalities should be open to review by concerned residents and other stakeholders within their municipal jurisdiction. The Act further identifies that municipal change arrangement that allows for the promotion of economic development and job creation. The Act assigned various powers and functions to local governments relating to service provision and requires municipal councils to promote integrated economic development, the equitable distribution of municipal resources and the delivery of services, with a developmental focus in mind (Nel and Bennis, 2001).

#### *3.4.2.7. The Local Government, Municipal Systems Act (2000)*

*Municipal Systems Act 32 of 2000* requires municipalities to realise that the idea of developmental local government, through the formulation and adoption of a single and inclusive Integrated Development Plan, contains local economic development objectives. The Act assigns municipalities with the responsibility to create and promote economic development in a participatory way that allows for informed municipal decisions and strategies. The integrated development planning guide packs suggest that municipalities should be involved in formulating policies for improving their local economy. The Act sees LED as a means for addressing spatial inequalities that were created by apartheid planning. In terms of the Municipal Systems Act, LED represents a municipal development process that involves the mobilisation of local resources that are encouraged by the need to solve local economic and social problems (Human *et al.*, 2008).

### 3.5. Partnerships in local economic development

The international literature suggests that the creation of partnerships between local government and businesses is an important process to enhance LED (Human *et al.*, 2008). Basically, LED is about people working together at the local sphere of government to improve the local economy. The public sector has been the driver in the provision of public services in most countries up to the mid-1980s. However, in the mid-1990s the role of the public sector in development process has changed. Currently its role is to facilitate the private sector to achieve sustainable economic development and growth (Ngowi, 2009). The role of the private sector in most economies has been acknowledged for the achievement of sustainable economic development and growth. According to Ngowi (2009), the concept of Private Public Partnerships (PPPs) is an important form of cooperation between public and private organisations in public service delivery within LED. The objective is to improve public funded goods and services. PPPs in service delivery may involve the nation, provincial or local government, the private sector, NGOs, CBOs and civil society.

Since LED supports the involvement of stakeholders, both private and community sectors are well positioned to promote networks and partnerships within municipalities. In essence, LED is not the responsibility of municipalities to their people (Gunter, 2005). Instead, LED is the introduction of economic development through sustainable business means such as community self-help and entrepreneurial activities. Self-help and entrepreneurial activities need local economic transformation and social inclusion through networks and partnerships. LED is therefore not only an action of a single organisation, but involves collective efforts of different stakeholders with a single plan and purpose. As a result, pursuing partnership and network arrangement forms an important part of strengthening LED initiatives (Breitenbach, 2006).

According to Phago (2005), the presence of a municipality does not assure the achievement of government goals including the general improvement of welfare of society. However, the accessibility of municipal services to its community serves the purpose of the presence of municipality. The municipalities should not only be close to the community because of their constitutional mandate, but also be accessible to work together with municipal stakeholders such as the private, public and community sectors to make informed decisions. The private and community sectors as municipal stakeholders play an important role in LED, in which partnership and networks can be enhanced. The private stakeholders include individual manufacturing or service sector commercial businesses, private developers, local and informal sectors, while the community sector includes individuals, CBOs and NGOs.

LED initiatives include service partnership, whereby local businesses are empowered by being given municipal service contracts. Municipalities have the responsibility to ensure that business activities are generated and people are encouraged to start their own businesses (Breitenbach, 2006). According to the *Preferential Procurement Policy Act 5 of 2000*, when municipalities prepare procurement deals, the above stakeholders should be given a chance to bid for the contracts, in fact, preferences should be given to these stakeholders as opposed to those that are not within the municipal area (Phago, 2005). The reason is that local stakeholders frequently engage with local municipalities and understand local needs and challenges. The municipal tenders and policies must favour small contractors and emerging businesses. Where these companies cannot provide the required services, steps must be taken to get larger businesses to

enter into joint venture with small partners. The following section focuses on the role that local government and businesses play to enhance LED.

### **3.5.1. The role of local government in implementing LED**

The sphere of local government has traditionally been seen as a subservient sphere of government in South Africa. Dominated by provincial and national government, local government was forced to implement development plans developed by provincial or national government. During the apartheid period, local government played an administrative role in economic development (Gunter, 2005). After 1994 there was a change in the way in which local government was viewed. It was designated as a separate sphere of government that has to play a critical role in the economic development of the country. This change in the role of local government meant that LED became crucial to development planning.

The introduction of a new system of local government in South Africa is the product of the *Constitution of South Africa (1996)*, *White Paper on Local Government (1998)* and *Municipal structures Act (1998)* as well as *Municipal Systems Act (2000)*, all of which were introduced to give guidelines to local government on how to implement sustainable ideals of developmental local government (Tshishonga and Mafema, 2008). The White Paper on Local Government (WPLG, 1998) identifies the South African local government sphere as being developmental in a sense that it is committed to working with citizens and groups within communities to find sustainable ways to meet social, economic and material needs and improve the quality of their lives. Bagnci (2000) defines developmental local government as one that puts economic development first priority and is able to formulate mechanisms to promote such objectives. Given the new role of municipalities, there is a need for municipalities to develop LED strategies that are aimed at:

- creating an environment that is conducive to business establishments, growth and development;
- investing in hard infrastructure and maintenance of roads, developing, improving and expanding industrial and commercial site and buildings;

- promoting the development of new enterprises and encouraging growth in existing enterprises to access finance, provision of business advisory services, promoting procurement policy which enhance access by emerging small to medium scale-enterprises;
- provision of soft infrastructure such as access to finance, skills training, mentorship and developing business focused education programme; and
- Supporting the quality of life improvement initiatives (Moyo, 2008).

Helmsing (2003) states that municipalities realises that they are but one of the many actors involved in LED and even though they only spend part of their budget on direct economic development support. Their importance lies in the way that they discharge their main functions and significance as a source of economic opportunities and as a service enhancing enterprise based development and competitiveness. The municipalities should play a critical role in supporting social and economic activities. They should thus play an enabling and supportive role by providing economic activities infrastructure and services; however, most of poor communities depend on municipalities for guidance to initiate LED.

### **3.5.2. The role of SMMEs in LED**

Businesses need to realise the importance of cooperation with government and civil society in LED. They should arrange themselves to participate in building the economy of the area concerned (Kroukamp, 2006). Though being observant of environmental management, businesses need to work on extension strategies and work in collaboration with municipalities to create encouraging conditions for investment. Larger businesses could support small business through advisory means and help to grow the economy by sub-contracting to and tendering from local businesses. The developers of trading areas should ensure that micro-enterprises are incorporated into their spatial planning frameworks (Breitenbach, 2006).

In the majority of developing countries such as South Africa, successful local economy is grounded on policy arrangement that are made up of diverse government institutions, the private sector, trade unions, NGOs and other players (Phago and Tsoabisi, 2010). Partnerships have been

viewed as a success instrument in general, since it seems to be an organisational form of creativity, innovation and social coherence necessary for local development. However, networks require a certain amount of trust in developing countries such as South Africa that has been destroyed because of ethical or racial pressure, lack of trust between public and the private sector or governance issues such as corruption or the absence of the rule of law.

### **3.5.3. SMMEs and LED**

Whereas the idea of SMMEs has been recognised in the South African economy, the chance to improve economic development and growth are great. Municipalities in South Africa are faced with poverty and unemployment, which requires state involvement to improve the conditions of the poor (Phago and Tsoabisi, 2010). Therefore, the role of municipalities has to be clarified, not as business owners, but as facilitators of an environment that is favourable to business owned by community members. This application of the notion of SMMEs is important for the development of LED activities in the South African local government. In this regard, municipalities are expected by the communities, most specifically by SMMEs owners to become the role players in LED in creating a favourable policy environment for SMMEs activities.

The relationship between municipal LED strategies and the existence of SMMEs should be clear. This is because LED strategies give municipalities and the private sector, including SMMEs, opportunities to work together to improve the local economy (Chalera, 2007). According to Cunningham and Meyer-Stamer (2005), the purpose of this relationship is at promoting competitiveness of different SMMEs. This should encourage growth that is inclusive and participatory for the community. On the other hand, LED is a result of local government action and improvement and inclusion of the national priorities and programmes in local spheres. SMMEs development and operations are also the result of LED strategy aimed at improving the living conditions of communities.

### **3.6. The contribution of SMMEs in the economy**

Poverty and unemployment are regarded as the most pressing challenges facing the majority of the developing countries in the world. As a result, SMMEs are lauded as a solution to address these socio-economic challenges in many developing countries. They are viewed as a mechanism through which jobs can be created, and eventually a decline in the level of poverty. The recognition of SMMEs as a means to employment generation and poverty reduction has led to the establishment of various interventions by government and private sector organisations in an attempt to achieve greater socio-economic objectives in their respective countries. Indeed, SMMEs interventions have been put in place as an endeavor to promote this sector of the economy in various countries. Therefore, the section below attempts to provide theoretical and empirical discussion about the contribution of SMMEs in the economy and local economic development in the global context and in South Africa.

#### **3.6.1. The contribution of SMMEs in the global economy**

The contribution of SMMEs to economic growth and economic development is widely acknowledged (Katwalo and Mwiti, 2009; Kongolo, 2010). Their ability to create jobs, income, economic wealth, innovation, poverty reduction and the general improvement of the living conditions within the local communities is undoubted (Urban and Naidoo, 2012). Therefore, the majority of economic activities in many countries, whether developed or developing, are constituted by SMMEs (Zevallos, 2003; Cholera, 2007). These enterprises are considered by various policy makers and researchers as crucial for economic development including poverty reduction in many countries, particularly in the developing countries (Fumo and Jabbour, 2010). According to Kongolo (2010), a successful and growing economy is usually characterised by vibrant and prosperous SMMEs' sector. However, SMMEs contribute largely in well developed countries, where high level of education, low inflation rate and a high level of financial support are evident (Booyens, 2011). Although the economic performance of SMMEs might not be significant in other economies, their important contribution with regard to innovation, facilitating change and competition are essential. In recognition of the crucial role of SMMEs in economic growth and development in developed countries such as in the European Union, SMMEs account

for about 98 and 99% of the majority of enterprises in these countries and provide jobs for over 100 million people, which are over 2/3 of total private employment (Kongolo, 2010; Fumo and Jabbour, 2011). Looking at countries such as Australia, 95% of businesses are regarded as SMMEs, whilst Germany's economic growth was also led by SMMEs. Job creation studies indicate that the employment dynamics associated with business formation and closure is critical to the overall contribution of smaller businesses (Chalera, 2007). Currently, the majority of small business start-ups in developed countries may have been caused by poor economic performance in general and high level of unemployment in particular. The creation of new jobs in small businesses, however, results from very active process of expansion and contraction in the small business sector (Kesper, 2001).

Additionally, the contribution of small businesses to the economy can also be drawn from the United States (US). Small businesses are considered as the creators of jobs and are what constitute the US economy (Chowdhury, 2007; Kongolo, 2010). A small business with less than 500 employees makes the US economy by providing employment to the majority of the people. Throughout the period 2001 to 2003, small businesses with less than 20 employees improved employment by 853, 074. These enterprises account for 99.7% of the firms, generating more than half of the private sector's gross domestic product, including 60% to 80% of the employment in the economy. In 2004 there were about 5 million SMMEs in the US which provided employment for more than 6 million people. Therefore, it is evident that the contribution made by small businesses in the global economy is substantial, given the availability of support programmes. According to Kongolo (2010), SMMEs are the engine of economic growth and development in any economy. This stems from the fact that the majority of the countries that have focused on the SMMEs sector and have ensured its vibrancy, have succeeded significantly in reducing unemployment and promoting the standard of living. Their effect on income distribution, tax revenue, efficient use of resources and stability of income in the global economy is evident. Additionally, SMMEs are viewed as the consumer and supplier of goods and services to the local market including the provision of entrepreneurship in the economy. Egna (2009) states that small businesses contribute to economic development in many ways such as creating jobs for rural and urban labour force, and bringing stability and innovation in the entire economy.

In Japan, SMMEs account for the majority of business establishment; most of their employees are members of free market and strong market economy (Kesper, 2001; Netswera, 2001). SMMEs do not only provide support for the regional economy through employment, but are also responsible to a day-to-day life of most Japanese. According to Netswera (2001), other countries such as the People's Republic of China and Taiwan have reported that their SMMEs sector accounts for between 60% and 88% of the national total income.

In Africa, according to Katwalo and Mwiti (2009), small businesses contribute to employment creation and to economic development. In Nigeria for example, the SMMEs sector provides income earning for a number of people (Okpara, 2011). It is estimated that this sector accounts for about 50% of the economic activities in the Nigerian economy. In terms of employment creation opportunities, the sector consists of a different types activities including small to medium scale manufacturing and service businesses. Despite their little capital, they are created in almost all economic activities such as manufacturing of goods and farming tools, dressmaking, shoe-making patch-ups and shinning, transportation, radio, electric works, bricklaying, carpentry and vehicle repair. Nkamnebe and Idemobi (2011) state that these businesses involve between one and twenty persons and are open to all men, women and children. About 60% of the urban labour force in most African countries is employed in this sector.

According to Nyamunda (2009), the role of SMMEs is supportive of the achievement of the Millennium Development Goals (MDGs) that among other objectives targets the halving of poverty by 2014. On the contrary, Egan (2009) argues that in sub-Saharan Africa, 80% of the firms are small, so it is not the increase of small businesses that creates economic growth. However, there is a negative relationship between GDP and the percentage of the small businesses in the country. In addition, the increase of small businesses in Africa means that the employees are paid low wages, which while alleviating poverty; to some extent contribute to levels of poverty. Therefore, there should be a number of enabling conditions that exist before the small business sector can contribute towards economic development of a country.

### **3.6.2. The contribution of SMMEs towards the South African economy and local economic development**

Poverty and unemployment are viewed as the most disturbing challenges affecting many communities in South Africa (Mensah and Benedict, 2010). SMMEs are therefore inextricably connected to economic growth, job creation and income generation within poor and disadvantaged communities in the country. These enterprises are purported to have the ability to create jobs for the poor and enable them to earn the income required to buy goods and services (Ndabeni, 2006). They are also regarded as the primary source of tax revenue which allows governments to fund pro-poor services such as health care, clean water and education. In an attempt to enable the sector to perform its role effectively, a number of technical and financial support mechanisms were introduced in South Africa (Diale, 2009; Ladzani and Netswera, 2009). This support came from government institutions, parastatals, private institutions and NGOs. The principal objective of such interventions is to achieve greater socio-economic objectives, including poverty reduction through small businesses development in the country. The section below attempts to provide literature on how SMMEs contribute to the South African economy and LED.

SMMEs, rather than large enterprises, are seen as the engine to South African economy and LED. These enterprises, ranging in size from a business employing less than 200 people to micro enterprises employing less than five people, are the largest source of employment and income for many South African communities and are the source of the majority of new jobs. These enterprises are viewed as the solution for the growing levels of poverty, unemployment and inequality in most of rural areas and townships in South Africa. According to Urban and Naidoo (2012), SMMEs in South Africa generate about 35% of the GDP; contribute 43% of the total salaries and wages, and employs about 54% of all private sector employees. Indeed, the development and promotion of these enterprises could be critical in advancing the economic performance in the local economies and the overall economy in the country. Additionally, the white paper on Small Business and National Small Business Act in South Africa view SMMEs as the engine for socio-economic development. These enterprises are purported as having the ability to:

- Address high unemployment in South Africa as they have huge labour absorptive ability,
- Promote local competition by creating markets place in which they grow by identifying new places as they respond to demand changes and international competitiveness because of their flexibility,
- Redress inequalities created during the apartheid era in terms of patterns of economic ownership and limited career opportunities for black employees,
- Contribute to black economic empowerment by having SMMEs initiated, owned and controlled by those who were excluded in the past, and
- Play vital role in people's effort to meet their needs in the absence of social support systems.

Since the national economies experience the predominance of SMMEs, this predominance is even more evident at the local economies (Ndabeni, 2006). According to Chew and Chew (2008), SMMEs are at the centre of any local economic development process. They are regarded as the first and primary source of direct employment, income generation and innovation in their area of establishment. According to Kesper (2001), the level of employment in local economies could influence a range of other standard of living conditions such as disposable income, home foreclosure rates and new small business startups. Additionally, SMMEs contribute to a significant proportion of all taxes in the local economy such as income tax, property tax and employment tax. Therefore, having more businesses in the local economy can enhance tax revenue for local governments, bringing in more money to repair roads, develop schools and improve public services (Ihua, 2009; Egana, 2009; Kongolo, 2010).

There is also increasing recognition of the role that SMMEs play in poverty reduction within the local economies in South Africa (Mensah and Benedict, 2010). These enterprises are understood to create and sustain the jobs necessary for poor people to work and earn the income needed to purchase goods and services. Therefore, the small enterprise contributes to poverty reduction by creating employment either through the start-up of new enterprises or the expansion of existing ones and thus providing income to the poor. The poor in this regard refers to individuals who own micro and small enterprises, employees, the dependents of such poor employees or owners,

the unemployed who may obtain employment from these enterprises and poor people who purchase goods and services from small enterprises in the community. In most cases, poor people opt for such enterprises because they have little choice, or adequate paid employment is not available. They attempt to move out of poverty by working for themselves. Therefore, it could be concluded that SMMEs are vital to local economic development. The idea is that the survivalist enterprises will firstly meet the needs of the owner and grow into micro enterprises, which will not only increase the income of the owner, but also create jobs for others. South Africa could achieve the goal of improving economic development and creation of wealth and employment if the sector is prepared to improve business performance (Njiro and Compagnoni, 2010).

### 3.7. Conclusion

Generally, it is accepted that SMMEs play an important role in the development of any country. Therefore, the promotion and development of this sector is crucial to achieve their full potential. Municipalities as the agents of change should include SMMEs into their LED strategies to develop their local economies. This chapter therefore provided a set of material relating to the background and historic overview of LED. In the second section, the focus was on the concept of LED, approaches and its application in South Africa. Section three provided an overview of various policy and legislative guiding LED plans and their implementation. Section four provided a discussion on the importance of partnerships in LED. The last section dealt with the role of SMMEs in economic development and local economy. In unpacking the role of SMMEs in the economy, two tasks were undertaken. First, it was important to give an overview of the role that SMMEs play in the global economy. Secondly, the discussion provided literature on the role of SMMEs in the South African economy.

In the chapter that follows, the focus will be on the research methodology. The chapter will provide a brief description of the research design, the area study, kinds of data required and unit of analysis, target population, sampling design, data collection methods and data analysis procedures. Validity and reliability of the concept used in this study as well as data collection

and analysis methods will be included. Lastly, the chapter provides a discussion on the limitations of the study and ethical considerations.

# **CHAPTER 4**

## **RESEARCH METHODOLOGY**

### **4.1. Introduction**

Research methodology refers to the techniques and tactics used in the application of the research plan. These include the data collection tools and data analysis procedures that the researcher uses in performing research operations. According to Neumann (2000), the validity of the research results depends on the quality of the data collection and analysis methods chosen to answer the questions and achieve the aim and objectives of the research. Therefore, this chapter provides a detailed overview of the research methodological procedures used in this study. These include research design, the description of the study area, target population, kinds of data required and unit of analysis, sampling design, data collection methods and analysis procedures. Validity and reliability of the concept used as well as data collection and analysis methods will be included. Lastly, the chapter provides a discussion on the limitations of the study and ethical considerations.

### **4.2. Research Design**

Research design is described as a plan, structure and strategy of investigation conceived so as to obtain answers to research questions and to control variance (De Vos, 2002). It specifies the methods and procedures for gathering the data needed to structure and solve the research problem. Correlation based analysis was employed in this study. Correlational research is a form of analysis in which the researcher correlates one variable with the other to determine if there is a relationship between them. The purpose of doing correlations is to allow the researcher to make prediction about one variable based on what is known about another variable (Neumann, 2000). In this study the researcher attempts to establish the relationship between SMMEs and LED in Mankweng Township. However, the researcher also used descriptive research design. In descriptive research the researcher attempts to describe the nature of SMMEs and the challenges

they face in the area. Qualitative and quantitative research approaches were used in this study. In qualitative studies, information is recorded in the form of descriptive textual reports with little or no categorisation. The documentation may consist of subjects' responses to semi-structured interview questions, observations, notes taken on focus groups or other kinds of group interaction (Cresswell, 2003). Qualitative research intends to learn about the phenomena in question by applying a "less-structured" methodology to gain richer and deeper information on the respondents. In quantitative research, on the other hand, information is collected and recorded either numerically or in the form of recorded categories. The principal advantage of such surveys is that they can be administered to a number of individuals, organisations, or households using standardised methods (Cresswell, 2003).

#### 4.3. Area of Study

The study was conducted in Mankweng Township. Mankweng Township is situated in Polokwane Local Municipality in Capricorn District Municipality. It is situated 30km East of Polokwane, close to the University of Limpopo (UL) and Mankweng Hospital. It is a middle-class settlement with many businesses and shopping centers. A fairly high level of literacy (80%), characterises Mankweng Township, and the majority of residents are either staff or students of the university. SMMEs are more commonly concentrated in the area as compared with the other areas. Mankweng Township falls under Polokwane Municipality growth points because of its important service function to the surrounding villages and townships, as well as linkages to Tzaneen, Polokwane, and the northern part of the province. It is one of the major trading areas in Limpopo Province, consisting of higher order land uses such as retail shops, government offices, transport interchange facilities (taxi rank and bus rank) and social facilities serving the surrounding area of about 70km (Polokwane IDP 2010/11).

#### 4.4. Target Population

Target population is referred to as a set of elements that the researcher focuses on and from which data are obtained. A population is a set of entities in which all measurements of interest to

the researcher are presented (De Vos, 2002). Welman and Kruger (1999), define population as encompassing the entire collection of units about which we wish to make conclusions. The target population for the purpose of this study was owner-managers of SMMEs operating in the study area. SMMEs owner/managers refer to the founder or owner of the enterprises who usually operate the business and act as both the manager and worker. SMMEs in this case related to a variety of businesses such as shoe makers, general dealers, restaurants, spaza shops, mini bus taxis, hair salons, dress makers, taverns, vehicle repair, and metal working and hawkers.

#### 4.5. Kinds of Data Required and Unit of Analysis

The researcher required both factual and opinion data for the study. Factual data was necessary for the study as discussions about the nature of SMMEs and the challenges they face were provided. Theories about SMMEs that generate employment and income and how they contribute to local economic development were necessary. The literature about significant influence of government or private sector intervention on SMMEs and their contribution to local economic development was required. The data collected also included facts about the respondents' demographic information such as gender, age, and educational status. Additionally, opinion data were also required about the nature of SMMEs and the challenges facing SMMEs in Mankweng Township. The views of the respondents about the contribution of SMMEs towards LED were necessary. Therefore, the unit of analysis in this study was individuals (SMMEs owner/managers) operating SMMEs in Mankweng Township.

#### 4.6. Sampling Design

The population is too large for the researcher to attempt to survey all of its members. A small, but carefully chosen sample was used to represent the population in this study. The sample reflects the characteristics of the population from which it is drawn. Therefore, sampling is the process of selecting units (e.g., people, organisations) from a population of interest so that by studying the sample we may fairly generalise our results back to the population from which they were chosen (Bless and Higson-Smith, 2003). The researcher in this regard used probability sampling design. Probability sampling is referred to as a method for selecting subset of units

from a larger set of these units (population) so that each unit or subset of units of the population has a known probability of being included in the subset or sample (Babbie, 1992).

The researcher used stratified sampling method. Stratified sampling is a commonly used probability method that is superior to random sampling because it reduces sampling error (Cresswell, 2003). First the population was divided into stratum. A stratum is a subset of the population that shares at least one common characteristic. The researcher identified the relevant strata and their actual representation in the population. The strata in this study were based on type and size of business, whether small, medium or micro enterprise. Random sampling was then used to select a sufficient number of subjects from each stratum. "Sufficient" refers to a sample size large enough for the researcher to be reasonably confident that the stratum represents the population. The non-probability purposive sampling method was also used to accommodate qualitative approach in this study. Babbie (1992) states that purposive sampling method has the advantages that the researcher may use his/her knowledge, skills and experience to select appropriate respondents for the study. A sample of 80 enterprises was used in this study. Each enterprise was represented by its owner-manager. A sample of 80 enterprises was deemed sufficient to the research to represent the target population and draw general conclusions.

## 4.7. Data Collection Methods

The researcher used the following data collection methods: documentation, semi-structured questionnaire and observation.

### 4.7.1. Documentation

Documentation is secondary source of information. In other words, the literature on the subject under study that already exists. The researcher therefore reviewed relevant literature for data collection. Data were collected from relevant published material such as academic journals, books, government publications, extracts from discussions and conferences as well as speeches within the context of this study. The literature attempted to provide theories and discussions about the nature of SMMEs and the challenges they face. Theories about local economic

development, SMMEs that generate employment and income and how they contribute to local economic development were reviewed from the literature.

#### **4.7.2. Semi-structured questionnaire**

A questionnaire is a research instrument consisting of a series of questions and other prompts for the purpose of gathering information from respondents. Questionnaires have advantages over some other types of data collection methods in that they are cheap, and do not require as much effort from the questioner as verbal or telephone surveys (Melville and Goddard, 1996). Therefore, a semi-structured questionnaire was used as the primary data collection method for this study. Semi-structured questionnaires provide greater scope for discussion and learning about the problem, opinions and views of the respondents. While there are some fairly specific questions (closed questions) in the questionnaire, each of which may be investigated, there are also questions which are completely open-ended. The latter questions mainly serve to discover different aspects of the issue. The data thus collected are both qualitative and quantitative (Bless and Higson-smith, 2003). Thus, a semi-structured questionnaire was used to collect data from 80 owner-managers of SMMEs in Mankweng Township. The questionnaire was divided into five sections and also contained a cover page and instructions on how to complete the questions. Section one sought to elicit data on the demographic profile of the respondents. This section used close-ended questions of which the respondents were allowed to respond to questions with pre-determined answers regarding their gender, race, age and education level.

Section two sought to obtain data on the nature of SMMEs in Mankweng Township. The section used close-ended questions to collect data on the profile of small businesses in the area. The information collected in this section was used to categorise SMMEs into one of the three classes, namely, survivalist or micro, small and medium enterprises. Section three focused on the challenges facing SMMEs in the area. The respondents were asked to indicate the level of impact of the type of challenges provided in the questionnaire. Section four focused on the concept of local economic development. This section used both close and open-ended questions. This section sought to elicit data on owner/managers' understating of local economic development

and their engagement thereof. The last section of the questionnaire was designed to elicit information on the contribution made by SMMEs towards local economic development.

#### **4.7.3. Observation**

Observation is the gathering of primary data by the researcher's own direct observation to relevant people, actions and situations or noting physical characteristics in their natural setting without asking them questions (Gillham, 2000). It thus provides the opportunity to document activities without having to depend upon people's willingness and ability to respond to questions. Observations can be overt (everyone knows that they are being observed) or covert (no one knows that they are being observed and the observer is concealed). The benefit of covert observation is that people are more likely to behave naturally if they do not know that they are being observed. However, the researcher conducted overt observations because of ethical problems related to concealing the observation. Seeing and listening are key to observation. Therefore, observation was used in this study and a notebook was kept noting major events. This method helped the researcher to have a general view of SMMEs' setting, resources they use and some of the challenges they are faced with. The method was applied at all times while in the field.

### **4.8. Data Analysis Methods**

The process of data analysis involves arranging and bringing logical order to the huge amount of data collected. In this study qualitative and quantitative analysis methods were employed. Qualitative analysis method focuses on the qualities of phenomena being studied rather than their numeric measurement. On the other hand quantitative method focuses on data that are collected and recorded numerically or in the form of recorded categories. The researcher analysed data by using a coding process. Neumann (2000) defines coding as a system of marking/labeling something with letters/symbols so that facts about it can be understood. Quantitative data were coded in numerical representation using Statistical Package for Social Sciences (SPSS). SPSS software was used to compute and analyse data through various functions such as calculating

frequencies, descriptive statistics, and making graphs, and tables. In analysing quantitative data, coding was done by converting raw data into numerical symbols to be captured using SPSS.

#### 4.9. Validity and Reliability

Validity encompasses the experimental concepts and establishes whether the results obtained meet all the requirements of the scientific research methods and how truthful the results are. Reliability on the other hand, refers to the extent to which results are consistent over time and accurate representation of the total population under study (Golafshani, 2003). Validity and reliability of the study were drawn from the concepts used and data collection and analysis methods. Therefore, the concepts used in this study are SMMEs and local economic development. Much has been written about SMMEs and their contribution to local economic development by scholars such as Kongolo (2010), Netswera (2008), Ndabeni, (2003) and Rogerson (2003), and the results of their studies show a positive contribution made by SMMEs to local economic development. These scholars used almost the same research collection and analysis methods that were employed in this study to generate valid and accurate results. Therefore, the researcher is confident that the method used in this study obtained correct and truthful results.

#### 4.10. Ethical Considerations

Ethics are defined as a set of moral principles suggested by an individual or groups which are widely accepted, and offers rules and behavioral expectations about the most correct conduct towards experimental subjects and respondents (Neumann, 2000). Therefore, traditional research ethics were followed in this study. The researcher ensured that the rights, privacy and confidentiality of the participants are protected and respected. The participants were informed about the nature of the study. Participation was on a voluntary basis.

#### **4.11. Limitations of the Study**

The research was limited by the reluctance of some respondents to complete the questionnaires promptly and those who even fail to complete them at all. The other limitation of this study relates to time and funding, which limited the intensity of the area coverage of the study. Though SMMEs are spread throughout Mankweng Township with negligible concentration in some sections, this study focused largely on SMMEs located in Zone 1/ Unit A in Mankweng Township, where there is a relatively high concentration of about 80% of SMMEs in the area. However, quantity surveyed gathered data which was adequate to provide a framework from which conclusions could be made.

#### **4.12. Conclusion**

This chapter dealt mainly with the choice of methodology used to conduct the present study. The researcher used correlational research design in this study, however descriptive research design was also considered. The range of methods and approaches that were applied fall within both the qualitative and quantitative research approaches. This chapter focused mainly on the description of the research design, study area, kinds of data required and unit of analysis, target population, sampling design, data collection methods and analysis procedures. Validity and reliability of the concept used as well as data collection and analysis methods were included. Lastly, the chapter provided a discussion on the limitations of the study and ethical considerations.

The chapter that follows focuses on the research findings, data analysis and interpretation. The analysis and interpretations of the results are based on the respondents' demographical information, the nature of SMMEs, challenges facing SMMEs, an analysis of local economic development and the respondents' views about the contribution made by SMMEs towards local economic development in Mankweng Township.

# **CHAPTER 5**

## **DATA PRESENTATION, ANALYSIS AND INTERPRETATION**

### **5.1. Introduction**

This chapter presents the analysis and interpretation of the research findings. The information contained in this chapter was obtained through a semi-structured questionnaire administered to a total sample of 80 SMMEs owners/managers in the study area; nonetheless observations made by the researcher were also used. The findings are presented in tables and figures and are further utilised to provide a clear understanding of the phenomenon under study. This chapter is therefore structured into five sections. The first section focuses on the demographic profile of the respondents in Mankweng Township. Participants in this regard had to give information about their gender, race, age and educational status. The second section focuses on the nature of SMMEs in Mankweng Township. The information collected in this section was used to categorise SMMEs into three classes of enterprises, namely, micro, small and medium enterprises and the discussion on their characteristics. The third section focuses on the challenges facing SMMEs in the study area. The fourth section focuses on the concept of LED as a tool for entrepreneurial development in the study area. The fifth section of this chapter elicits information on the contribution made by SMMEs towards LED in the study area. The contribution of SMMEs to LED in this study was measured through the ability of SMMEs to create employment, generate income-earning opportunities, alleviate poverty and SMMEs as a source of local competitiveness and economic redistribution.

### **5.2. Demographic Profile of the Respondents**

This section reports on the respondents profiled according to their gender, race, age and educational status in Mankweng Township.

### **5.2.1. Gender composition of SMMEs ownership**

In terms of gender composition of SMMEs ownership, female owned enterprises are fewer than male owned enterprises in general. This finding is consistent with the studies on gender based SMMEs ownership in South Africa which demonstrate a typical African profile, in which men dominate as entrepreneurs. This is because women participate in SMMEs only when necessity arises rather than men who partake in SMMEs to take advantage of the opportunities that exist in the market (Supra: 17; 18). Table 5.1 below demonstrates the gender composition of SMMEs ownership in Mankweng Township.

Figure 5.1.: Gender composition of SMMEs ownership

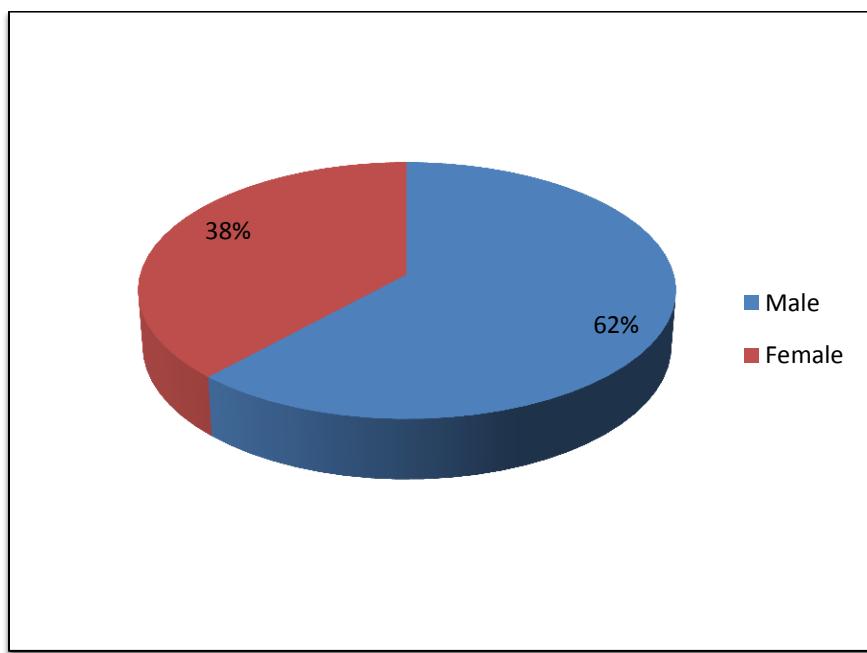


Figure 5.1 above indicates the proportion of gender of the enterprise ownership surveyed in Mankweng Township. About 62% of the respondents surveyed are males and 38% are females. Male representation is higher in ownership and management in of small and medium enterprises whilst women entrepreneurs are more concentrated in micro and survivalist enterprises. Therefore, it can be deduced that SMMEs that are owned by men are comparatively successful than those owned by women because males prefer establishing opportunity inspired businesses than females, who usually engage in necessity driven enterprises.

### **5.1.2. Racial composition of SMMEs owners/managers**

As explained in the literature in chapter 2 Africans/blacks constitute a large proportion of individuals engaged in SMMEs in South Africa, particularly within the emerging SMMEs sector in the informal economy. SMMEs owned by Africans are largely concentrated in urban townships, informal settlements and rural areas. This is due to the fact that unemployment and poverty are rife in urban townships, informal settlements and rural areas. As a result, individuals participate in these activities as a response to these challenges. However, established enterprises are usually owned by the majority of Whites and Asians concentrated in urban suburbs (Supra: 17).

Figure 5.2.: Racial composition of SMMEs owners/managers

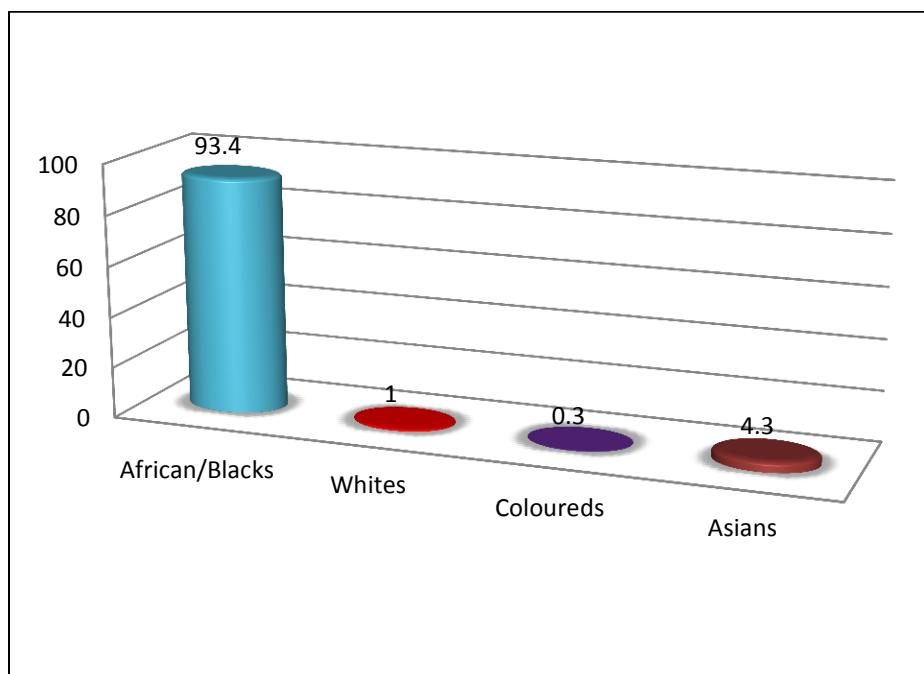


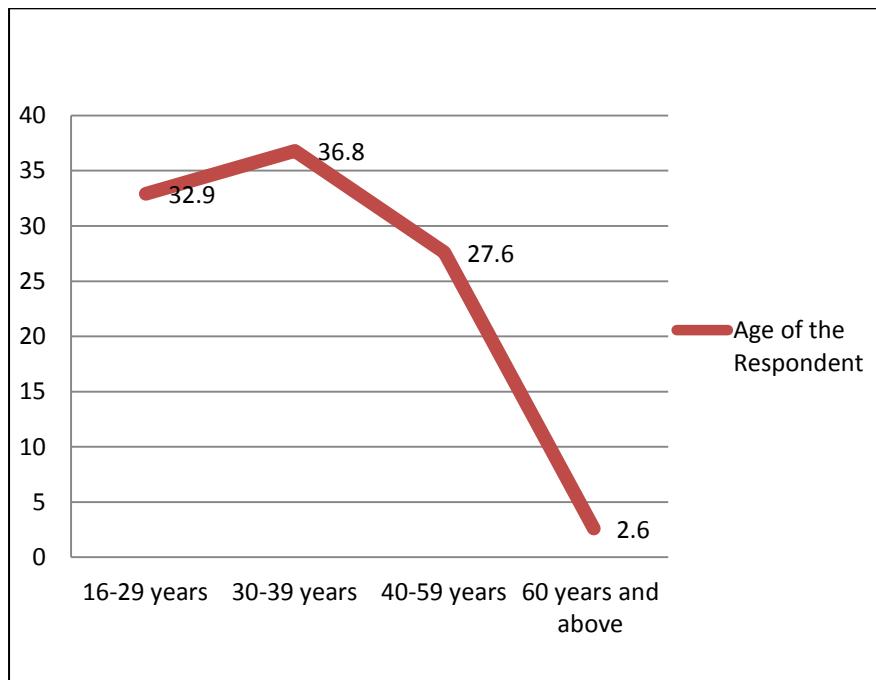
Figure 5.2 above demonstrates the racial composition of the respondents in Mankweng Township. The responses from the participants confirm that Africans/Blacks constitute the majority of individuals engaged in the SMMEs sector, particularly within the informal economy. Africans/Blacks represent 93% of the respondents in the area, followed by Asians with 4%, whilst whites and coloureds constitute the least with 1 and 0.3% of owners/managers respectively. It can be concluded that SMMEs are operated by the majority of Africans in the

area. This is because Mankweng is a typical South African Township dominated by Africans/Blacks population. Therefore, the engagements of Africans in the SMMEs sector is an attempt to escape unemployment and poverty.

### **5.1.3. Age distribution of owners/managers of SMMEs**

The literature on the age of entrepreneurs indicates that most SMMEs are likely to be owned/managed by young entrepreneurs as compared to those owned/managed by older individuals. The activeness of young generation could be attributed to by a variety of factors such as unemployment, not wanting to work for other people and the willingness to assist parents. This means that individuals aged 16 years and 39 generate an income through SMMEs activity. Figure 5.3 below shows the age distribution of owners/managers of SMMEs in Mankweng Township.

Figure 5.3.: Age distribution of owners/managers of SMMEs



The majority of the owners/managers engaged in SMMEs are in the aged between 30 and 39 years old, which constitutes 36.8% of the total sample, followed by the owners/managers within the age category between 16 and 29. Only 27.6% represented the age category of 40 to 59, while

owners/managers in the age category between 60 and above constituted the smallest amount of the sample. It can be deduced that owners/managers between the age category of 30 and 39 and 16 and 29 have no hope or have previously had difficulties in getting employment opportunities in the formal sector and, as a result have resorted to the SMMEs sector to create jobs for themselves

#### **5.1.4. Educational status of the owners/managers of SMMEs**

SMMEs owner managers are usually characterised as possessing low entrepreneurial skills and inadequate education (Supra: 21). The literature on the relationship between ownership and management of SMMEs and educational status reveals that the majority of South Africans possess little education and training in business management. Therefore, individuals with at least primary, secondary and college education are much likely to engage in SMMEs activities than more highly educated individuals with tertiary education (Supra:16;17).

Figure 5.4.: Educational status of owners/managers of SMMEs

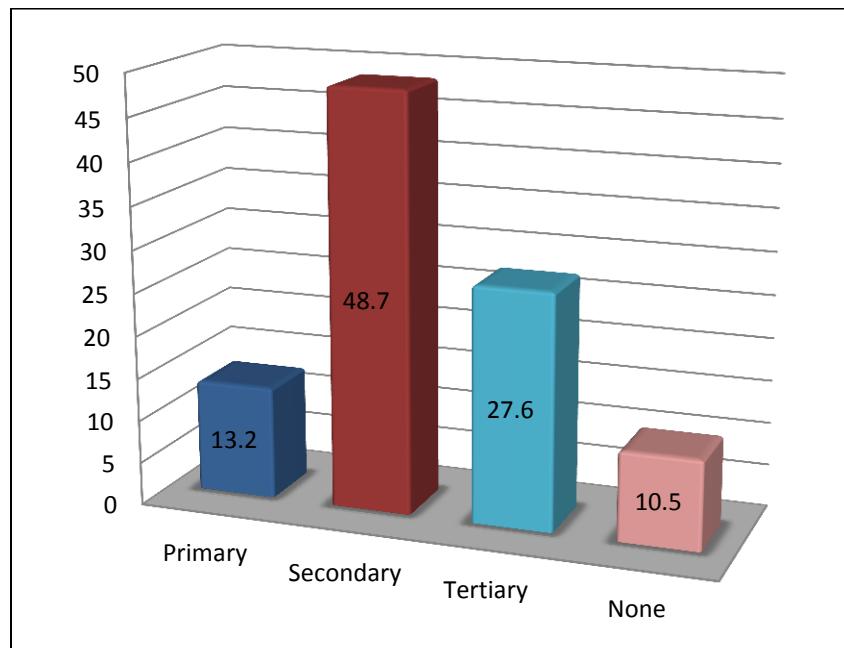


Figure 5.4 above demonstrates the educational status of the SMMEs owners/managers in the study area. From the illustration the majority of the owners/managers have acquired their

secondary education (48.7%) followed by owners/managers who have obtained tertiary education (27.6%). Owners/managers who have obtained their primary education represent only 13.2%, whereas those with no education constitute the smallest segment of the sample (10.5%). There is satisfactory number of respondents with tertiary education (27.8%), mostly because Mankweng Township has a number of educational institutions providing secondary and tertiary education.

### 5.3. The Nature of SMMEs in Mankweng Township

This section provides an analysis about the classification and characteristics of SMMEs in Mankweng Township. Therefore, the total number of employees and total annual turnover of the SMMEs were used to classify them. The analysis relating to the characteristics of the enterprise included issues such as the type of the enterprise, their sectoral distribution, qualification required for employment and motives for setting up the SMMEs in the area.

#### 5.3.1. The number of employees employed in the SMMEs

As explained in the literature review the number of employees in the SMMEs is one of the frequently used criteria to classify them. Thus, micro enterprises constitutes 0 to 5 employees (this group also includes the survivalist enterprises in this study), small enterprises have consist of between 6 and 49 employees, whilst medium enterprises consist 50 to 200 employees. Therefore, the numbers of employees employed in the SMMEs criteria was used as a criteria for categorising SMMEs in Mankweng Township.

Figure 5.5.: The number of employees employed in the SMMEs

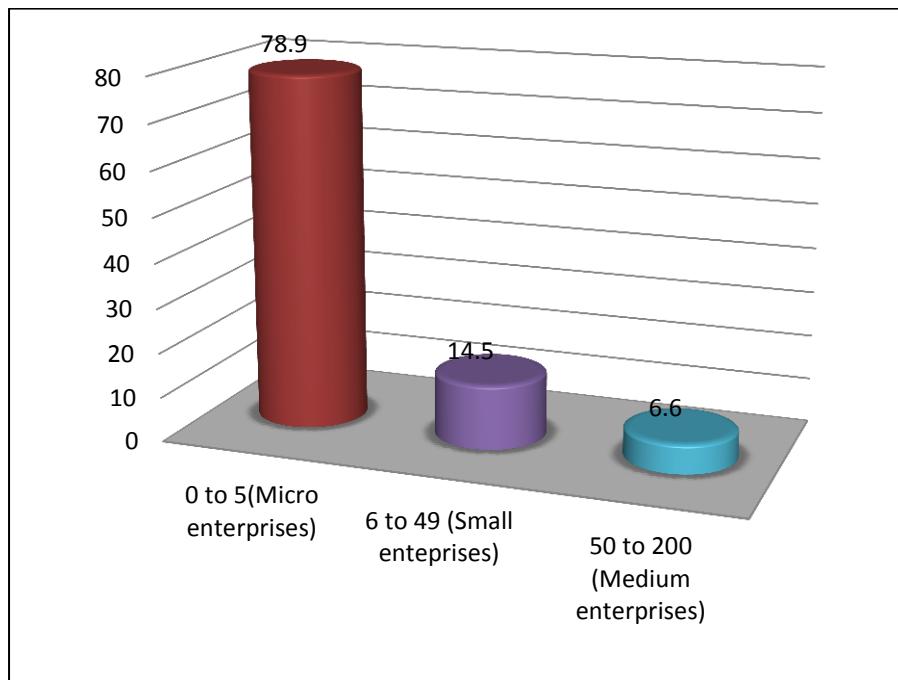


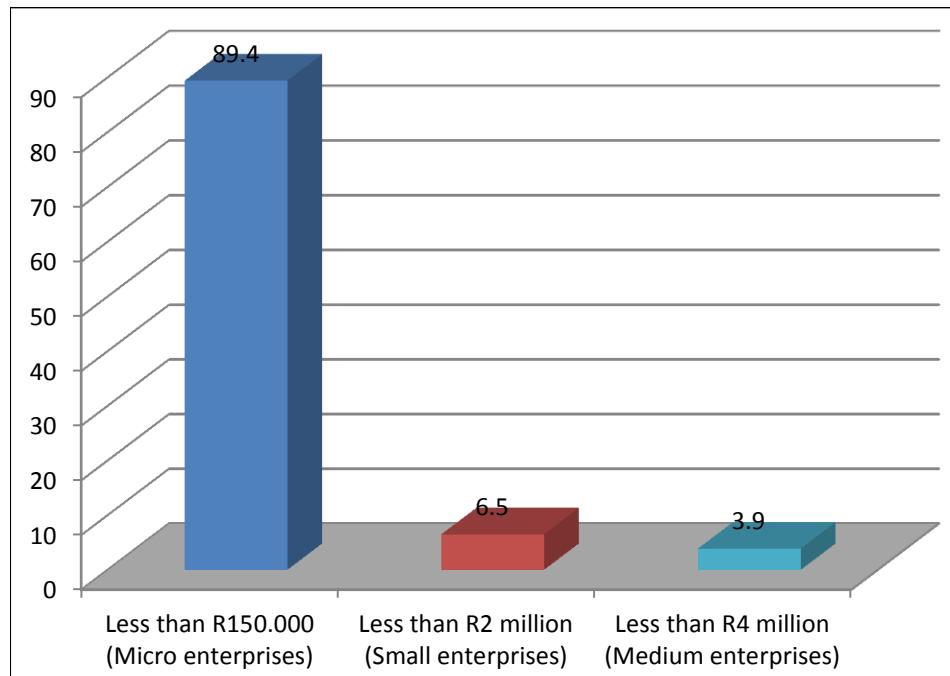
Figure 5.5 above demonstrate the number of employees employed in different classes of SMMEs. Most employees are employed in the micro or survivalist enterprises as opposed to small and medium enterprises. The figure demonstrates that the majority of the enterprises employed 0 to 5 employees (micro and or survivalists enterprises). This group of enterprises represents the highest proportion of the total sample and accounts for 78.9% of the SMMEs. The other group of enterprises employed 6 to 49 employees (small enterprises) and account for 14.5% of the total sample. The last group of enterprises comprise 50 to 200 employees (medium enterprises) and accounts for 6.6% of the total sample. Therefore, it can be concluded that most respondents are engaged in micro and/or survivalist enterprises which employ 0 to 5 employees, particularly family members.

### **5.3.2. Total annual turnover of SMMEs**

In accordance with the *Small Business Act 102 of 1996*, SMMEs can also be classified using the annual turnover and total cost of assets (Supra: 16). For this reason, the minimum standard of the total annual turnover was also considered to determine SMMEs sizes in this study. Therefore, micro enterprises are made up of enterprises with an annual turnover of less than R150.000,

small enterprises (less than R2 million of turnover annually) and medium enterprise (less than R4 million turnover annually). The figure below demonstrates the total annual turnover of the SMMEs in Mankweng Township.

Figure 5.6.: The total annual turnover of SMMEs



The majority of SMMEs earn a profit of less than R150.000 (micro enterprises) per annum, and this group of SMMEs accounts for 89.4% of the total sample, followed by SMMEs that make less than R2 million (small enterprises) per annum which constitute 6.5 %. Only 3.9% of the enterprises make less than R4 million (medium) annually. It can be concluded that most of the SMMEs in Mankweng Township are entirely micro enterprises which generate minimal profit annually as opposed to small and medium enterprises.

### **5.3.3. The types of SMMEs**

Research on the characteristics of SMMEs indicates that SMMEs are different types of enterprises in different economic sectors. The sector constitutes a wide range of small scale

manufacturing to service of all kinds enterprises (Supra: 17). The table below demonstrates the types of enterprises that exist in Mankweng Township.

Table 5.1.: The types of SMMEs

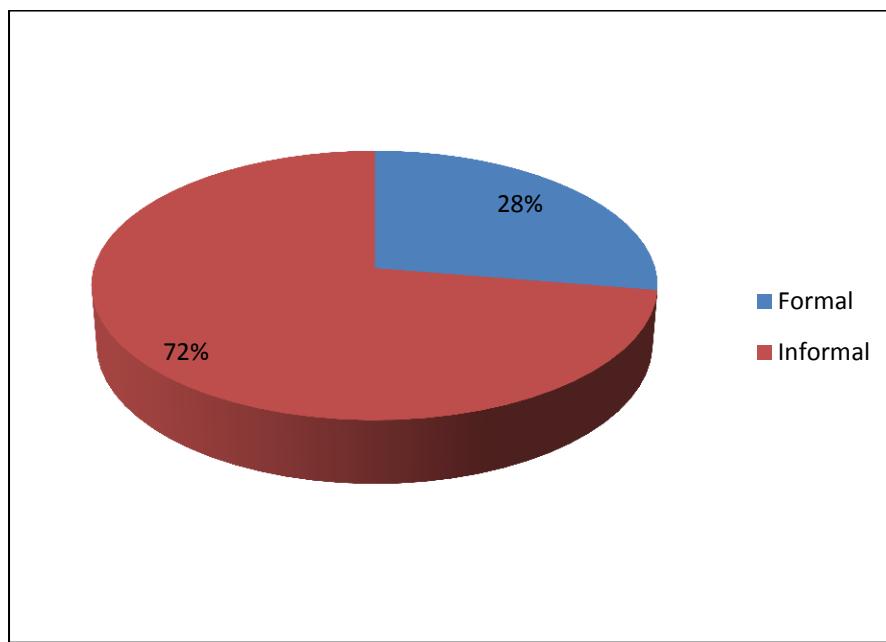
| Types of Enterprises   | Frequency | Percent | Valid Percent | Cumulative Percent |
|------------------------|-----------|---------|---------------|--------------------|
| Spaza shops            | 11        | 14.5    | 14.5          | 14.5               |
| Taverns                | 5         | 6.6     | 6.6           | 21.1               |
| Carpentry              | 5         | 6.6     | 6.6           | 27.6               |
| Restaurants            | 4         | 5.3     | 5.3           | 32.9               |
| Hair salons            | 10        | 13.2    | 13.2          | 55.3               |
| Hawkers/street vendors | 11        | 14.5    | 14.5          | 69.7               |
| Shoe makers            | 3         | 3.9     | 3.9           | 73.7               |
| Welding                | 4         | 5.3     | 5.3           | 78.9               |
| Dress makers           | 6         | 7.9     | 7.9           | 86.8               |
| General dealers        | 4         | 5.3     | 5.3           | 92.1               |
| Vehicle repairs        | 3         | 3.9     | 3.9           | 96.1               |
| Bricklaying            | 3         | 3.9     | 3.9           | 100.0              |
| Others                 | 7         | 9.2     | 9.2           | 42.1               |
| Total                  | 76        | 100.0   | 100.0         |                    |

It is evident that spaza shops and hawkers/street vendors are dominant business activities in the Mankweng Township, with shared 14.5% each, followed by hair salons which constitute 13.2% of the total sample. Dress makers constitute 7.8% of the total sample, while taverns and carpentries constitute 6.6 %. Restaurants, weldings and general dealers share the same percentage of the total sample with 5.3%. Shoe makers, vehicle repairs and bricklaying constitute the smallest section of the sample with 3.9%. Other business activities include car wash, public phones, electronics and mini bus taxis operations which constitute 9.2%. Therefore, it can be concluded that SMMEs in Mankweng Township falls into different types of sectors.

### **5.3.4. Sectoral distribution of SMMEs**

As explained in the literature review in chapter 2 SMMEs operate in both the formal and informal sectors of the economy. The formal sector SMMEs are usually registered, they pay tax and comply with legislation. Informal enterprises, as opposed to their formal counterparts are not registered, do not pay taxes and in most cases do not comply with labour legislation (Supra:13; 16). Table 5.7 below demonstrates the sectoral distribution of SMMEs in Mankweng Township.

Figure 5.7.: Sectoral distribution of SMMEs



The SMMEs that exist in Mankweng Township are in the informal sector of the economy as compared to the formal sector (72%). 28% of SMMEs operate within the formal sector economy. Therefore, it can be concluded that most of SMMEs in Mankweng Township, do not pay tax and do not comply to labour legislation.

### **5.3.5. Qualifications required for employment in SMMEs**

Education is seen as a contributor to SMMEs development as it can help to bring about competitive advantage. SMMEs cannot function effectively if they do not have skilled

employees. It is the duty of an entrepreneur to appoint and retain skilled labour. However, recruitment and retention of labour in the SMMEs sector is usually affected by different factors (Supra: 20; 21). These may include the inability of SMMEs to afford employees. SMMEs in this regard cannot provide equal employee benefits and wages as compared to the large businesses. Table 5.2 below illustrates the types of qualifications required by SMMEs for employment purpose in Mankweng Township.

Table 5.2.: The types of qualifications required for employment in SMMEs

| Types of Qualifications |                  | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------------------------|------------------|-----------|---------|---------------|--------------------|
|                         | Below grade 12   | 25        | 32.9    | 32.9          | 32.9               |
|                         | Grade 12         | 19        | 25.0    | 25.0          | 57.9               |
|                         | Diploma          | 3         | 3.9     | 3.9           | 61.8               |
|                         | Degree and above | 1         | 1.3     | 1.3           | 63.2               |
|                         | None             | 28        | 36.8    | 36.8          | 100.0              |
|                         | Total            | 76        | 100.0   | 100.0         |                    |

Most of the SMMEs owners/managers do not require any form of qualification. This group constitutes the highest proportion of the total sample with 36.8%, followed by those who require at least below grade 12, with 32.9%. Only 25.0 and 3.9% of the total sample indicated that one should have grade 12 and diploma respectively. The smallest proportion of the sample indicated that potential employees should have a degree and above in order to be employed in their enterprises. This group of respondents account for 1.3%. Other owners/managers indicated that potential employees should have at least identity documents or passports or any other form of identification to qualify for employment in their SMMEs. Therefore, it can be concluded that the majority of the SMMEs owners/managers do not require any form of qualification for employment in their SMMEs. However, individuals should be in possession of IDs or passports and be able to read and write.

### **5.3.6. Motives for setting up SMMEs**

The studies on SMMEs demonstrate that there are various reasons that force people to set up SMMEs (Supra: 17). These reasons include amongst others, low income, unemployment, retrenchments, market opportunity and inheritance from family. Table 5.3 illustrates motives that encourage people to set up SMMEs.

Table 5.3.: Motives for setting up SMMEs

| Motives    | Frequency | Percent | Valid Percent | Cumulative Percent |
|------------|-----------|---------|---------------|--------------------|
| Low income | 14        | 18.4    | 18.4          | 18.4               |
|            | 37        | 48.7    | 48.7          | 67.1               |
|            | 5         | 6.6     | 6.6           | 73.7               |
|            | 11        | 14.5    | 14.5          | 88.2               |
|            | 9         | 11.8    | 11.8          | 100.0              |
|            | 76        | 100.0   | 100.0         |                    |

The majority of the owners/managers indicated that unemployment was the main reason why they participated set up SMMEs (48.7%) and 18.4% of them indicated that low level of income motivated them to venture into these activities. Only a small proportion of the respondents indicated that market opportunities and business inheritance from family motivated them to venture into SMMEs (14.5% and 11.8%) respectively. Only 6.6% of the respondents indicated that they had started their enterprises because of retrenchments. It can therefore be deduced that respondents in the area engage in this kind of entrepreneurial activities to respond to various socio-economic challenges, including the ones provided in the table.

## **5.4. The Challenges Facing SMMEs in Mankweng Township**

The following section provides an analysis relating to the challenges facing SMMEs' contribution towards local economic development in Mankweng Township. The owners/managers in this regard were required to scale the level of impact of the type of the

challenge they encountered in the scale provided in the questionnaire, where low represented the least serious impact of the challenge on their SMMEs, medium represented moderate and high represented most serious impact of the challenge. The challenges included the lack of access to finance, market, business management skills, public infrastructure service, crime, government regulations, tax and lack of access to appropriate technology.

#### **5.4.1. Lack of access to finance**

The access to finance and the cost of financing are the major challenges to SMMEs start-ups and expansion, which has a negative consequence on the development of SMMEs in general, thus affecting negatively the local economy. The issue of access to finance is important, specifically for enterprises that show a great potential to develop. Access to finance facilitates SMMEs owners to secure essential skills and raw materials to put entrepreneurial ideas into practice, to be competitive, grow and survive (Supra: 19). Therefore, lack of access to finance will impede SMMEs to add more employees and growth. This will, inevitably, have an unconstructive contribution to the local economy (Supra: 20).

Figure 5.8.: Limited access to finance

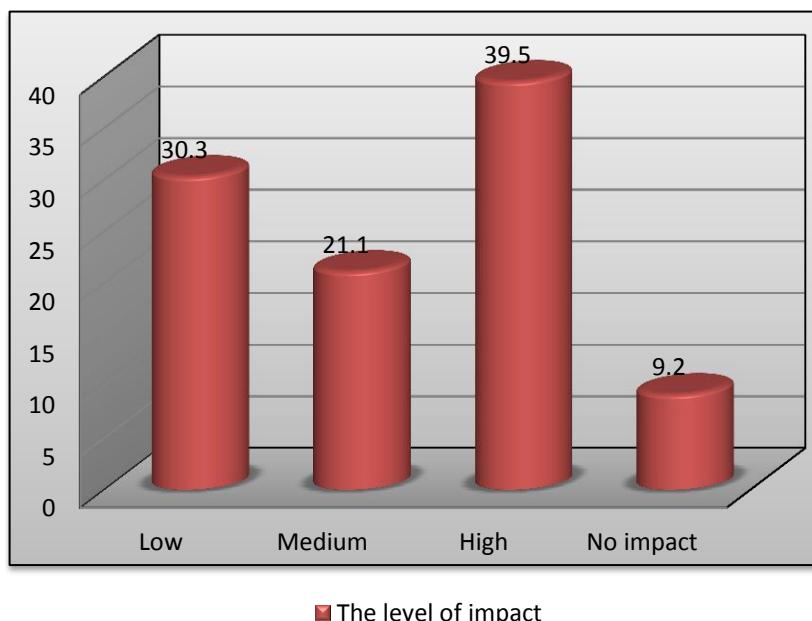


Figure 5.8 above demonstrates the level of impact of the lack of access to finance on SMMEs development in Mankweng Township. The figure clearly illustrates that a large number of the owners/managers rated the impact of the lack of access to finance high. This group of the owners/managers constitutes 39.9% of the total sample. About 30.3% of the owner/managers rated the impact low, and 21.1% of the respondents rated the impact of the lack of access on their enterprises medium. Only 4.2 % of the total sample indicated that they did not experience any form of impact on their enterprises with regard to this challenge. Therefore, it can be concluded that the majority of the owners/managers in Mankweng Township still have problems in obtaining finance, and this impacts negatively on the growth of their businesses. These challenges do not allow SMMEs to employ more people and expand, compromising the development of the local economy.

#### **5.4.2. Limited access to market**

Access to market is essential for business growth and development, and lack thereof will compromise the ability of SMMEs to contribute effectively to local economic development (Supra: 21). The problem of lack of access to market is usually caused by too many suppliers competing for too few customers and the difficulty of SMMEs to adequately innovate and market their products and services. Research studies conducted in South Africa shows that the productive activities of SMMEs will have little impact on the economy if their goods and services do not find adequate markets. Indeed, enterprise surveys commonly indicate that the lack of market demand, as perceived by them, is a key constraint to enterprise performance (Supra: 23).

Figure 5.9.: Limited access to market

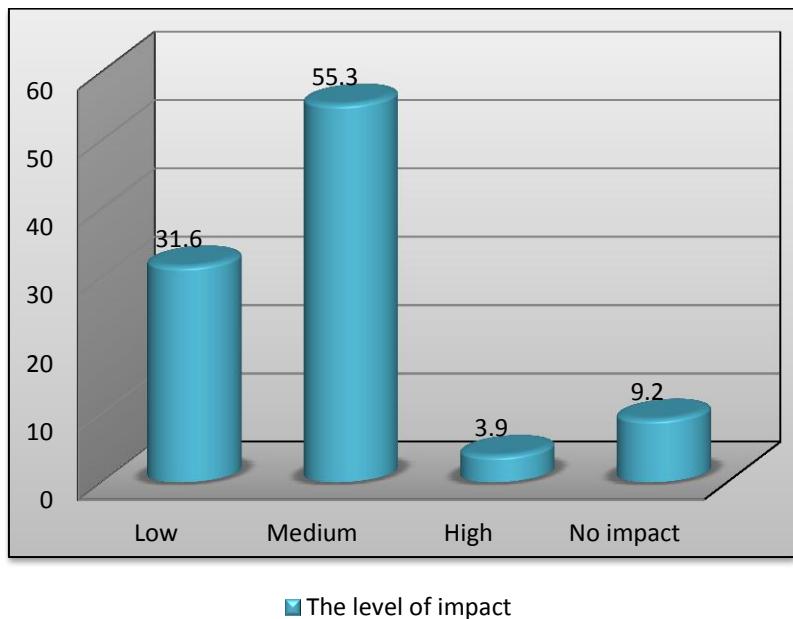


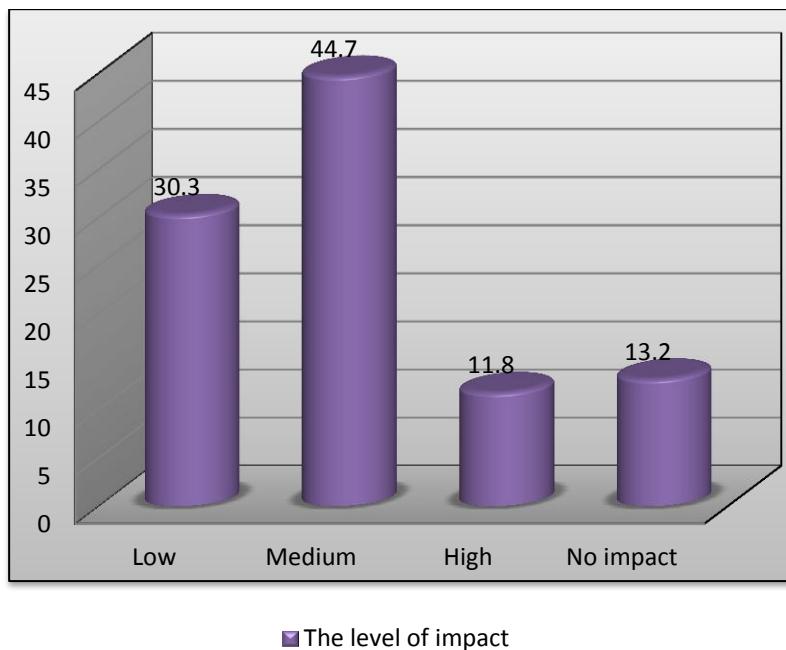
Figure 5.9 above demonstrates the level of impact of limited access to market on SMMEs growth and development in Mankweng Township. It is clear from the figure provided above that the majority of the owners/managers rated limited access to the market medium. This group of respondents accounts for 55.3% of the total sample, followed by those who rated the impact low with 31.1%. Only 3.9 % of the total sample has rated the impact of the limited access to market high, and 9.2% of the respondents indicated that they did not experience any kind of impact with regard to this challenge. Therefore, it can be deduced that the majority of SMMEs owner/managers in Mankweng Township do not experience severe impact with regard to access to market. However, respondents indicated that similar products and cheap import that satisfy the same market have a negative impact on their business expansion in Mankweng Township.

#### **5.4.3. Lack of business management skills**

Lack of business management skills is one of the frequently cited challenge facing SMMEs in the country. Small business owners in South Africa do not have requisite skills to operate their businesses (Supra: 20). As a result, a firm would not function fruitfully if it does not have productive human capacity. In addition, there are different factors that affect the inability of

SMMEs to provide skilled workers. This includes the failure of SMMEs to provide equivalent remuneration with employee benefits parallel to larger businesses and labour laws (26).

Figure 5.10.: Lack of business management skills



The figure above demonstrates the extent of the impact of this challenge to SMMEs in Mankweng Township. It is apparent from the figure provided above that most respondents have ranked the impact of the above mentioned challenge medium. This group of owners/managers account for 44.2% of the total sample, and 30.3% of the respondents has rated the impact low. Only 11.8% of the owners/managers have rated the challenge high and the smallest proportion of the owners/managers indicated that they were not experiencing any impact with regard to this challenge (4.5% of owners/managers). Therefore, it can be inferred that a large proportion of the sample experienced a least serious impact of this challenge with regard to enterprise growth. However, only a small proportion of the owners/managers are faced with the challenge of lack of business management skills and this impact negatively on their business progression.

#### **5.4.4. Lack of public infrastructural services**

The lack of access to public infrastructural services is viewed as a preventative factor for SMMEs' establishment (Supra: 21). The lack of access to public infrastructure services includes

issues such as electricity, roads, telecommunication, business premises, water and sanitation (Supra:23).The above mentioned challenge facing SMMEs is evidenced by the fact that the survival rate of SMMEs is relatively low in South Africa (Supra: 23). Therefore, it is reasonable to state that a business cannot operate effectively without the availability of critical infrastructural services in the area.

Figure 5.11.: Lack of Public Infrastructural services

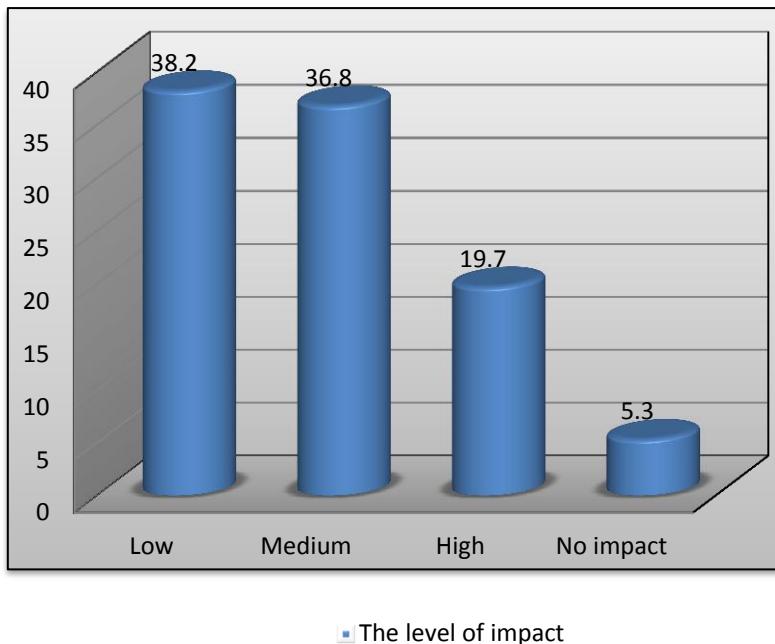


Figure 5.11above demonstrates the extent of impact of the lack of public infrastructural services within the SMMEs sector in Mankweng Township. It is clear from the figure provided above that the owners/managers have rated the impact of the lack of public infrastructure services low (38.2%), and 36.8% of the owners/managers rated the impact medium. Only 19.7% of the owners/managers rated the impact high, whereas 5.3% of them experienced no impact with regard to this challenge. Therefore, it can be deduced that public infrastructure in Mankweng is not a serious challenge. However, only the smallest proportion of the owners/managers experiences a challenge with regard to public services. This challenge is basically experienced by those enterprises that operate in areas where services such as business premises, water and electricity are not supplied and impact negatively on entrepreneurial development.

#### 5.4.5. Crime

Research on the challenges facing SMMEs also indicates that crime can also prevent business development, particularly in South Africa (Supra: 24). Crime affects business explicitly with the stealing of assets and money, resulting in diminishing enterprise confidence and loss of investment, upon which the local economy is built. Therefore, crime infested areas are not beneficial for small business development, and naturally small business owners are discouraged from establishing businesses in such areas.

Figure 5.12.: The level of crime

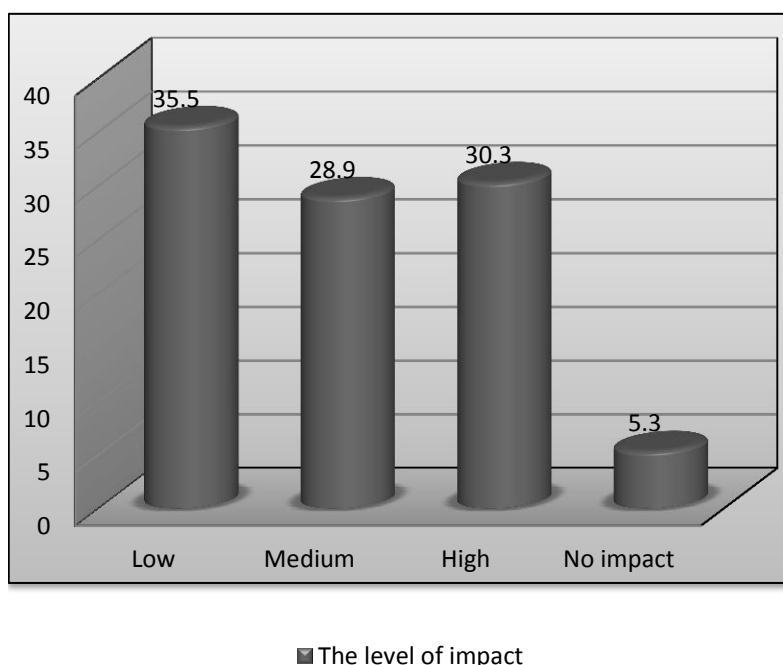


Figure 5.12 above illustrates the level of crime in Mankweng Township that impacts on SMMEs development and growth. The figure clearly demonstrates that crime in Mankweng area is not a serious issue on SMMEs. This is demonstrated by the figure above, where the majority of the owners/managers rated the impact of crime on their businesses as being low. This group of owners/managers constitutes 35.5% of the total sample, followed by 30.3% of the owners/managers who rated the impact of crime high. Only 28.9% of the owners/managers rated the impact medium. The smallest group of the owners/managers indicated that crime did not

have any impact on their enterprises. Therefore, it can be concluded that crime is a challenge to business growth and development; however, its impact is not that serious in the area.

#### 5.4.6. Government regulations

The literature on SMMEs indicates that government regulations may also discourage and negatively impact on entrepreneurship development (Supra: 21; 23; 25). SMMEs face problems with bureaucracy in the processing of permits and licenses, a process which is not transparent. It is also expensive and complicated, with levies that may hinder SMMEs growth. The regulatory conditions in which the enterprises operate have a huge impact on the country's competitiveness and capacity to create jobs as well as the wellbeing of SMMEs.

Figure 5.13.: Government regulation

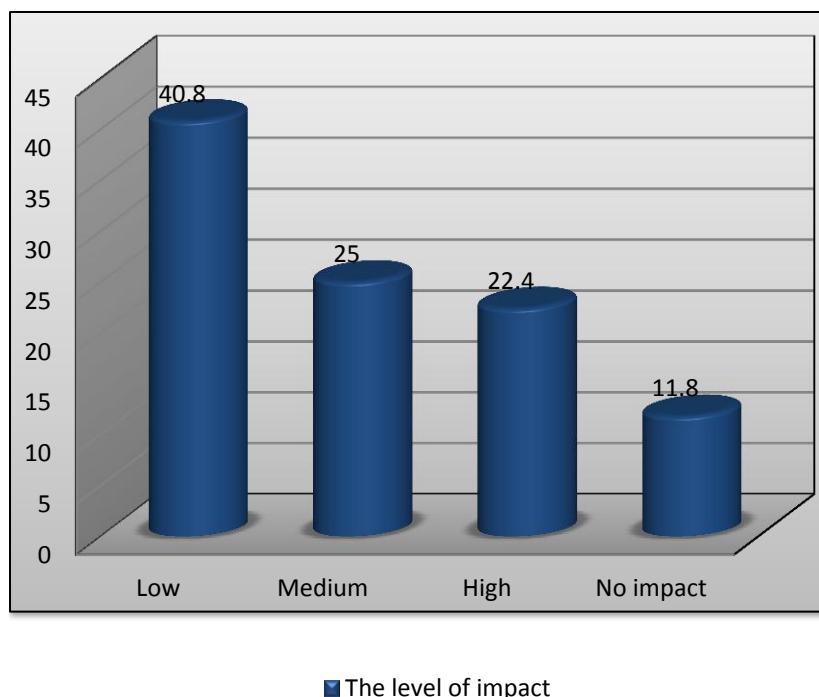


Figure 5.13 above illustrates the level of impact of government regulation on SMMEs in Mankweng area. It is apparent from the figure provided that the majority of the owner/managers have rated the impact of government regulation on their SMMEs low (40.8%), followed by 25.0% of the owner/managers who rated the impact medium, and 22.4% of them rated the impact high. However, 11.8% of the owner/managers indicated that they did not experience any impact

with regard to this challenge on their SMMEs. Since the large proportion of SMMEs in Mankweng Township function within the informal sector of the economy, one can conclude that the impact will be low because they are not registered or licensed and do not operate according to government legislative guidelines.

#### **5.4.7. Taxation**

Tax compliance cost is one type of regulatory costs that is often viewed to have a large negative impact on SMMEs. Taxes impact on small businesses development and growth in many ways. Small business owners can take too much time and resources sorting out their issues associated with tax and this can impact negatively on their businesses growth (Supra: 21; 25, 26)

Figure 5.14.: Taxation

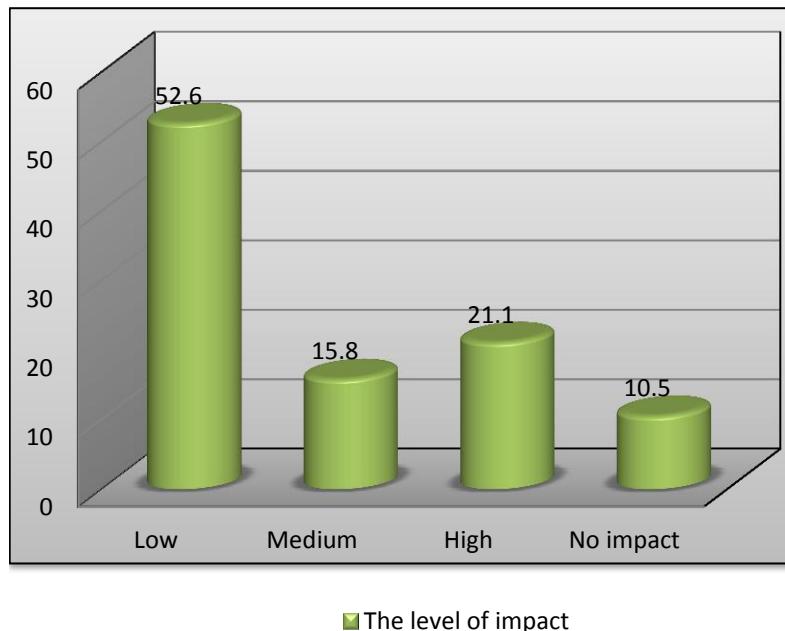


Figure 5.14 above illustrates the extent of impact of taxation on SMMEs in Mankweng area. Most of the owners/managers rated the impact of taxation on their SMMEs low (52.6%), followed by those who rated the impact of taxation high (28.9%). Only 15.8% of the owners/managers rated the impact medium. The smallest proportion of the sample is constituted by those who experience no impact of tax on their SMMEs (10.5%). Therefore, it can be concluded that most of the owners/managers who rated the impact of taxation low are

particularly those enterprises that operate within the informal sector of the economy and they are not registered with taxation.

#### **5.4.8. Lack of appropriate technology**

The growth potential of South African enterprises depends largely on the application of the latest technologies to their products and services. However, research studies have shown that many small business ventures find new technology inaccessible, owing to the cost involved or to a lack of knowledge and experience (Supra: 22; 26). Small businesses have difficulties in accessing, absorbing and exploiting new knowledge to create innovative products and services which impact negatively on their competitiveness in the local economy.

Figure 5.15.: Lack of appropriate technology

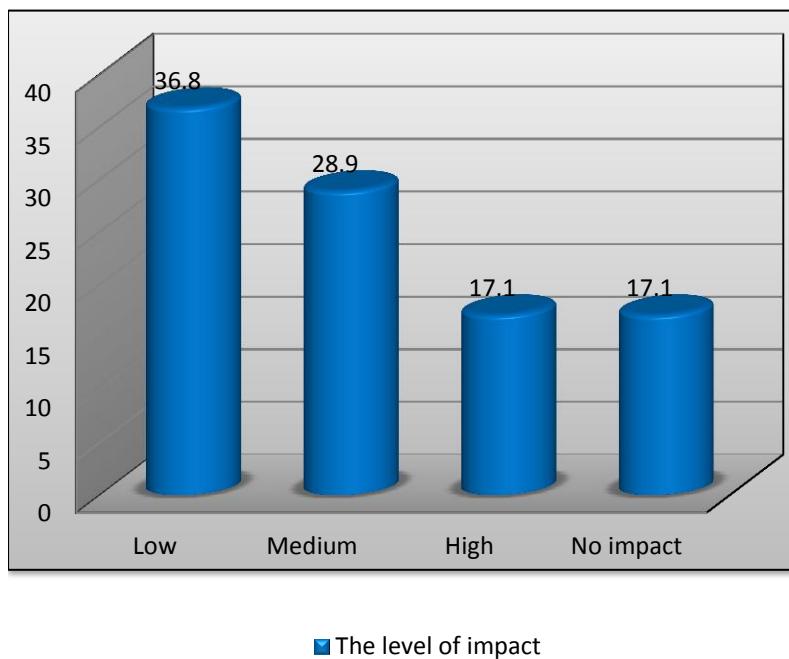


Figure 5.15 above illustrates the level of impact of the lack of appropriate technology on small enterprises in the area. The demonstration above clearly indicates that most of the owners/managers rated the impact of low (36.8%), followed by a slightly different proportion of those who rated the impact medium (28.9%). Only 17.7% of the owners/managers indicated that they experienced no impact with regard to this challenge. Therefore, it can be deduced that most of the owners/managers use affordable technological resources. However, a small proportion of

the owner/managers still use traditional means of production and this impact negatively on the growth of the SMMEs and the local economy.

## 5.5. Local economic development in Mankweng Township

This section provides an analysis of the application of the theory of local economic development in Mankweng Township. The analysis is based on the perception of the respondents towards LED, their participation in LED planning, kinds of support they receive from the municipality or government, partnership with other stakeholders, particularly large businesses and owners/managers' satisfaction with regard to procurement.

### 5.5.1. Owners/managers' perception towards LED

There exists much variation in defining local economic development globally and locally by different institutions and government. The absence of a single theory or understanding represents dynamism of LED, which comprises collection of elements. However, there is a broad agreement on what LED is, both as product and process, which mainly stresses the utilisation of local resources to promote development on a local level through the participation of stakeholders including private sectors such as SMMEs (Supra: 40; 43). Therefore, the figure below demonstrates the respondents' perceptions of local economic development as are the most important stakeholder in local economic development.

Figure 5.16.: owners/managers' perception towards LED

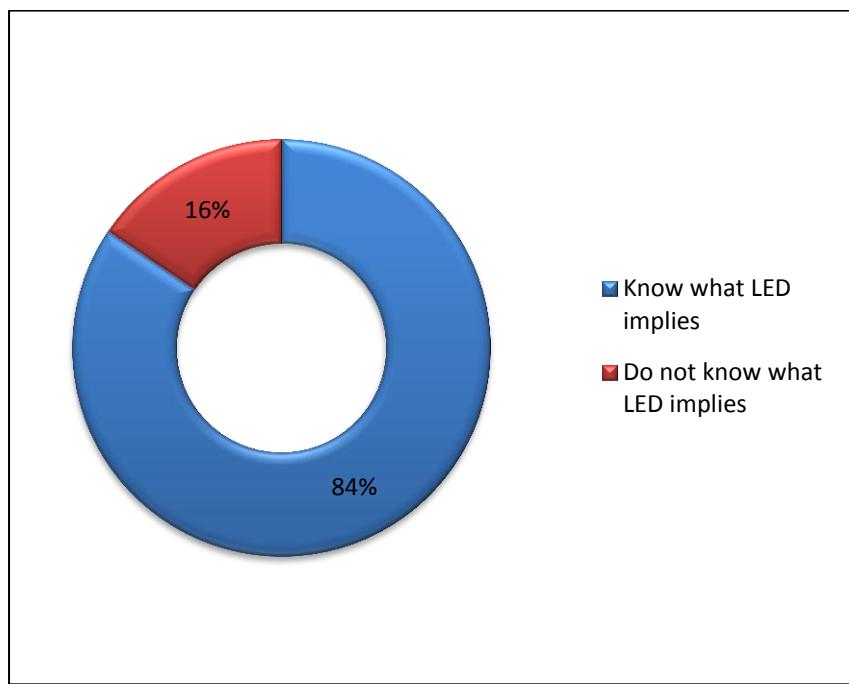


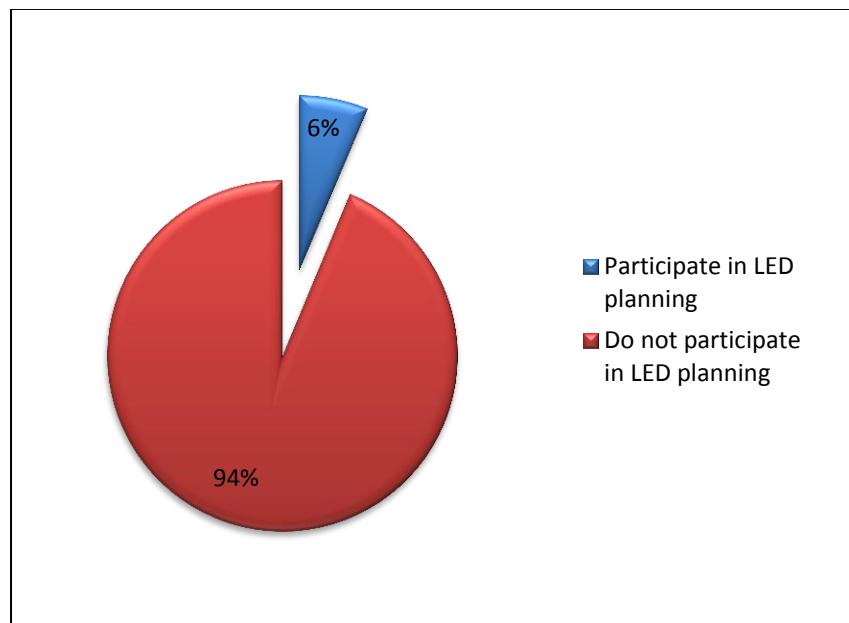
Figure 5.16 above illustrates the owners/managers' views towards local economic development in Mankweng Township. The figure basically demonstrates that most of the owners/managers do not understand or know what local economic development implies. This group of owners/managers constitutes 84% of the total sample. However, only 16% of the total sample has a vague understanding of what exactly local economic development is. The majority of the owners/managers define LED as "the improvement of the local economy through SMMEs development or the development of the economy in the community". Nonetheless, the lack of understanding of LED by the majority of respondents implies that many entrepreneurs have no idea that they contribute to the local economic development in the area. This group of people venture into SMMEs in order to survive and not to take advantage of the markets and promote the local economy.

### **5.5.2. Participation of the owners/managers in LED planning**

Since LED supports the participation of different stakeholders, SMMEs owners/managers and communities are required to participate in local economic planning processes (Supra: 52; 53). Participation in this context leads to greater control by the underprivileged (SMMEs

owners/managers) over their own situation. This is done through acquiring of knowledge and awareness, helping those involved to understand the situation better, therefore being in a better position to improve their situation. Participation in this regard can be seen not only as having the power to influence decision, but also the process and to participate fully in determining their own developmental needs. Therefore, the figure below shows the involvement of the respondents in LED planning.

Figure 5.17.: Participation of owners/managers in LED planning



The participation of SMMEs owners/managers in locally based planning is crucial for the development and improvement of the local economy. Figure 5.17 above demonstrates the engagement of the owners/managers in LED planning in the study area. The figure clearly indicates that the majority of the owners/managers do not participate in LED planning in the study area (94%). However, only a smaller proportion of the total sample indicated that they participated in LED planning (6 %). This suggests that the majority of the owners/managers do not interact with local municipalities in the area. The lack of participation has a negative impact on SMMEs development, as most of the respondents do not engage with their municipalities to acquire the necessary information that will be helpful in shaping SMMEs' support interventions in the study area.

### **5.5.3. The kinds of support received by owners/managers**

Municipalities are expected by their communities, particularly SMMEs' owner-managers to become major role players in LED by creating and encouraging policy environment that will facilitate the promotion of SMMEs through different support mechanisms (Supra: 34; 36). These support systems should target previously disadvantaged individuals and SMMEs to allow them to participate fully in the local economic activities. Furthermore, the national government through the DTI, has introduced measures that facilitate the growth of SMMEs. This includes a wide range of programmes aimed at fostering new business start-ups and building the capacity of existing ones (Supra: 50). They offer a variety of business development services such as financial and non-financial services through integrated support agencies.

Table 5.4.: Types of support received by owners/managers of SMMEs

| Types of Support   | Frequency | Percent | Valid Percent | Cumulative Percent |
|--------------------|-----------|---------|---------------|--------------------|
| Finance            | 1         | 1.3     | 1.3           | 1.3                |
| Marketing          | 1         | 1.3     | 1.3           | 2.6                |
| Skills development | 4         | 5.3     | 5.3           | 7.9                |
| Infrastructure     | 7         | 9.2     | 9.2           | 17.1               |
| Others             | 4         | 5.3     | 5.3           | 22.4               |
| None               | 59        | 77.6    | 77.6          | 100.0              |
| Total              | 76        | 100.0   | 100.0         |                    |

Table 5.4 above indicates the types of support received by owner/managers from government in Mankweng Township. It is comprehensible from the table provided above that the majority of the owners/managers do not receive any form of support from government. This group accounts for 77.6% of the total sample. Only 9.2% of the total sample indicated that they received infrastructural support (business premises) from government. The smallest proportion of the total sample indicated that they received support such as finance, marketing, skills development and other forms assistance such compilation of business plans and business advisory means. Therefore, it can be deduced that the lack of support by government institutions impact negatively on the development of SMMEs in the area, thus impacting unconstructively on the

development of the local economy. This is due to the fact that most of the owner-managers of SMMEs in the area are not aware of entrepreneurial support initiatives provided in all levels of government.

#### **5.5.4. Partnership between SMMEs and larger enterprises**

Partnerships have been deemed not only important, but an absolute necessity in LED initiatives. There is a high expectation that large businesses will partner with small businesses through supply chain to improve the local economy. Large businesses could support small businesses through advisory means, skills development and help to grow the economy by sub-contracting to and tendering to small businesses (Supra: 51; 53). The presence of larger business as partners of small enterprises provides an important role to strengthen the SMMEs capacity and enables them to grow independently. This section, therefore seeks to establish whether there is any form of partnership between small business and large businesses in Mankweng Township.

Figure 5.18.: Partnership between SMMEs and large enterprises

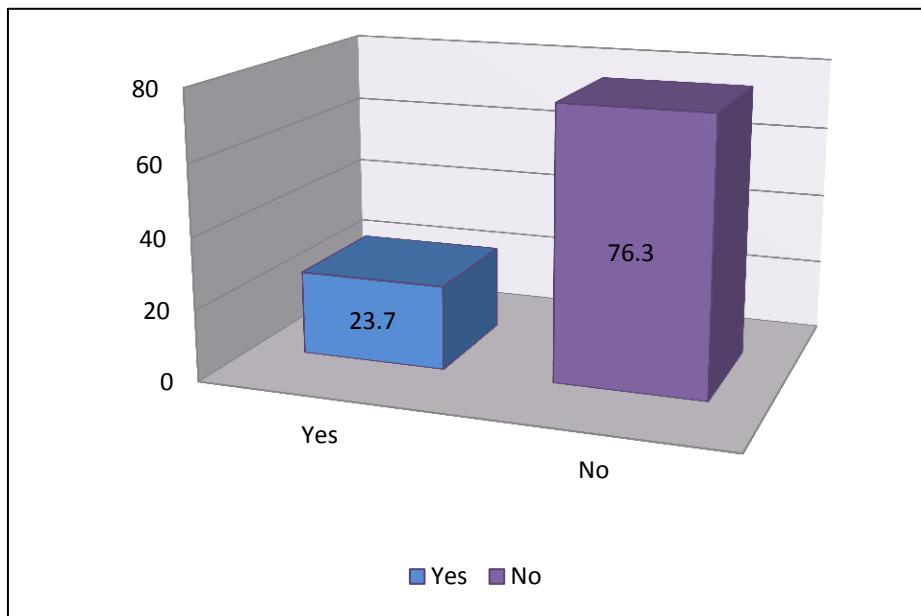


Figure 5.18 above demonstrates whether there is any form of partnership between SMMEs and larger businesses in Mankweng Township. The figure illustrates that 76.3% of the owners/managers indicated that they did not have any form of partnership with larger enterprises

in the study area. However, about 28.9% of the owners/managers indicated that they did have forms of partnership with big businesses in the study area. Therefore, it can be concluded that there is limited partnerships between larger businesses and SMMEs in the study area. Since most SMMEs are not registered, larger businesses are usually not eager to go into partnership with enterprises without legal business status.

#### **5.5.5. Municipal procurement policies**

Municipalities have the responsibility to ensure that business activities are generated and people are encouraged to start their own businesses. This can be achieved by giving small businesses municipal service contract, particularly local businesses. Municipal procurement policies are assumed to offer rewarding business opportunities for the SMMEs sector, with resultant beneficial outcomes such as economic growth and socio-economic development (Supra: 53). The figure below demonstrates the level of satisfaction of the respondents with regard to municipal procurement policies.

Figure 5.19.: The level of satisfaction with regard to municipal contraction

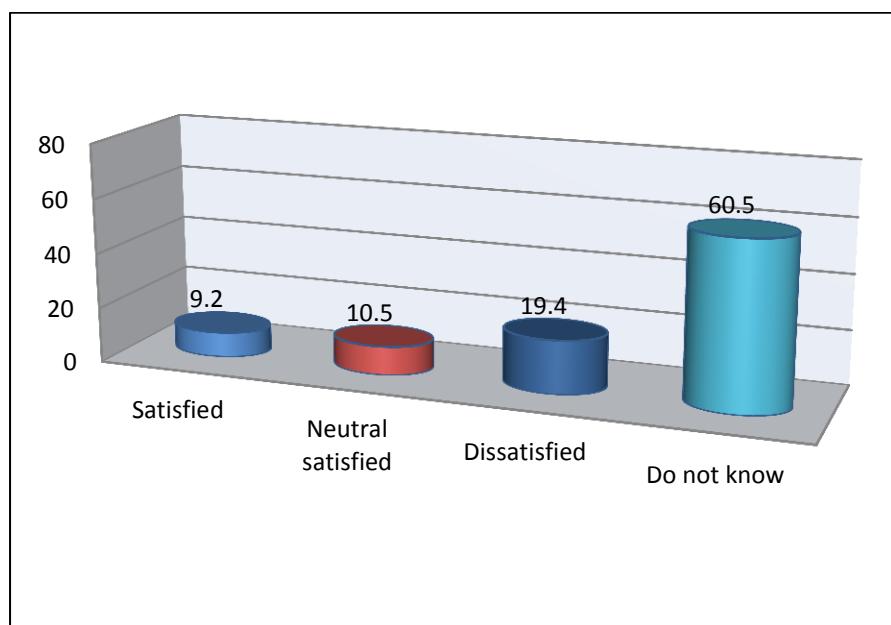


Figure 5.20 above demonstrates the owners/managers' satisfaction concerning municipal procurement policies in Mankweng Township. The figure demonstrates that 9.5% of the

respondents indicated that they were satisfied with municipal and government policies. Only 10.5% of the owners/managers indicated that were neutrally satisfied with regard to procurement policies. About 19.4% of them indicated that they were dissatisfied and 60.5% indicated that they did not know anything about procurement policies in the government sector and municipalities.

## 5.6. The Contribution of SMMEs to Local Economic Development

This section provides an analysis of the contribution made by SMMEs towards LED in Mankweng Township. The analysis is based on the perceptions of the owners/managers on the contribution of SMMEs towards LED. This was measured through various indicators such as employment creation, income generation, poverty reduction, local competitiveness and SMMEs as a means to economic redistribution.

### **5.6.1. Perception of the owners/managers about the contribution of SMMEs to employment creation**

SMMEs are inextricably linked to economic empowerment through job creation and employment within disadvantaged communities. Owing to slow economic growth and high unemployment in South Africa, SMMEs become critical solution for the creation of jobs and development of the local economy. These enterprises help to stimulate growth by providing employment opportunities to the poor and people without marketable skills in the local economy. They also create employment either through the start-up of new enterprises or the expansion of existing ones (Supra: 30; 56; 57). The review of literature on job creation suggests that small businesses at least account for a proportional share of employment creation in the local economy (Supra: 57).

Table 5.5.: Perception of the owners/managers about the contribution of SMMEs to employment creation

| The level of satisfaction | Frequency | Percent | Valid Percent | Cumulative Percent |
|---------------------------|-----------|---------|---------------|--------------------|
| Adequate                  | 25        | 32.9    | 32.9          | 32.9               |
|                           | 27        | 35.5    | 35.5          | 68.4               |
|                           | 24        | 31.6    | 31.6          | 100.0              |
|                           | 76        | 100.0   | 100.0         |                    |

Table 5.5 above demonstrates the owners/managers' views on the contribution made by SMMEs towards employment creation in Mankweng Township. It is apparent from the table that the majority of the owners/managers indicated that the contribution made by SMMEs to job creation was neutral. This group of respondents account for 35.5%. However, a slightly different number of owners/managers (32.9%) indicated that SMMEs contributed adequately towards employment creation. About 31.6% of the owners/managers indicated that the contribution made by SMMEs toward employment creation was inadequate. This suggests that the majority of the owners/managers view SMMEs as having potential to create jobs. This group of people venture into the SMMEs sector in order to create jobs for themselves. However, a different group of respondents stated that the quality of jobs created in terms of wage and work conditions are not as good as the larger enterprises.

### **5.6.2. Perception of the owners/managers about the contribution of SMMEs to income generation**

With the employment created, SMMEs are expected to generate income for the SMMEs' owners and employees in the local economy. The literature on small business indicates that SMMEs provide opportunities for individuals to generate and earn income (Supra: 57). They help individuals to generate income which would reduce their dependence on others and supplement household income. Evidently, SMMEs account for a large proportion of the total salaries and wages in South Africa (Supra: 30). Therefore, the table below demonstrates the perception of the respondents with regard to the contribution of SMMEs to local economic development.

Table 5.6.: Perception of the owners/managers about the contribution of SMMEs to income generation

| The level of satisfaction | Frequency | Percent | Valid Percent | Cumulative Percent |
|---------------------------|-----------|---------|---------------|--------------------|
| Adequate                  | 21        | 27.6    | 27.6          | 27.6               |
|                           | 35        | 46.1    | 46.1          | 73.7               |
|                           | 20        | 26.3    | 26.3          | 100.0              |
|                           | 76        | 100.0   | 100.0         |                    |

Table 5.6 above illustrates the views of the owners/managers with regard to the contribution of SMMEs towards income generation. It is comprehensible from the table provided above that the largest proportion of the owners/managers indicated that the contribution made by SMMEs towards income generation was neutral (46.1%). This group of respondents constitutes 46.1%. Only 27.6 and 26.3% of the owners/managers respectively indicated that the contribution made by SMMEs towards income generation was adequate and inadequate. This basically suggests that SMMEs in Mankweng Township are viewed as a means to income generation for those who do not have any other form of income generation activities. However, the income generated by these enterprises is low because most of the enterprises in the area are micro/survivalist enterprises which make limited amount on income.

### **5.6.3. Perception of the owners/managers about the contribution of SMMEs to poverty reduction**

SMMEs can have a significant role in the efforts to alleviate poverty within the local economy. These enterprises are assumed to create and sustain the jobs necessary for poor people to work and earn the income needed to purchase goods and services (Supra: 57). With its highly informal character, SMMEs are closely linked to poverty. Such closeness is attached in several ways (Supra: 55). First, micro and small enterprises are the type of businesses which are very likely to be operated by the poor groups. Secondly, the outputs produced by the micro and small businesses are most likely to be consumed by the poor. Thirdly, if entrepreneurs in micro and small enterprises hire employees, these workers are most likely to come from a poorer group. Therefore, these enterprises

are considered critical in the quest to improve the living standards of the poor in the local communities.

Table 5.7.: Perception of the owners/managers about the contribution of SMMEs to poverty reduction

| The level of satisfaction |            | Frequency | Percent | Valid Percent | Cumulative Percent |
|---------------------------|------------|-----------|---------|---------------|--------------------|
|                           | Adequate   | 24        | 31.6    | 31.6          | 31.6               |
|                           | Neutral    | 34        | 44.7    | 44.7          | 76.3               |
|                           | Inadequate | 18        | 23.7    | 23.7          | 100.0              |
|                           | Total      | 76        | 100.0   | 100.0         |                    |

Table 5.7 above indicates the owners/managers' views on the contribution of SMMEs towards poverty reduction in Mankweng Township. The majority of the owners/managers indicated that the contribution made by SMMEs towards poverty reduction was neutral (44.7%) and 31.6% of the owners/managers indicated that SMMEs contributed to poverty reduction adequately. However, the smallest proportion of the owners/managers indicated that SMMEs contributed inadequately towards poverty reduction (23.7%). This basically suggests that SMMEs plays an important role in improving the living standard of the majority of the owners/managers. Many people in the area make a living out of these entrepreneurial activities. One of the respondents indicated that "if it was not for the business they are operating they would be unemployed and having no income for their sustenance".

#### **5.6.4. Perception of the owners/managers about the contribution of SMMEs to local competitiveness**

SMMEs have often been acknowledged as important systems to promote innovation and productivity and hence, develop the economic competitiveness within the local economy (Supra: 31; 55). They advance local competition through the creation of markets, which later grow as they respond to demand changes and international competitiveness and growth. However, this sector needs to be adequately prepared to improve business performance in order to respond to

changes and competition within and outside the local market. This suggests that technology used and standards of production need to meet international requirements.

Table 5.8.: Perception of the owners/managers about the contribution of SMMEs to local competitiveness

| The level of satisfaction |            | Frequency | Percent | Valid Percent | Cumulative Percent |
|---------------------------|------------|-----------|---------|---------------|--------------------|
|                           | Adequate   | 14        | 18.4    | 18.4          | 18.4               |
|                           | Neutral    | 32        | 42.1    | 42.1          | 60.5               |
|                           | Inadequate | 30        | 39.5    | 39.5          | 100.0              |
|                           | Total      | 76        | 100.0   | 100.0         |                    |

Table 5.8 above demonstrates the views of the owners/managers with regard to the contribution made by SMMEs towards local competitiveness in Mankweng area. It is clear from the table provided above that a large number of the owners/managers indicated that SMMEs contributed neutrally towards local competitiveness (42.1%), followed by 39.5% of the owners/managers who indicated that SMMEs contributed inadequately towards local competitiveness. Only 18.4% of the owners/managers indicated that SMMEs contributed adequately towards local competitiveness. Therefore, it can be concluded that SMMEs in Mankweng Township are not performing well. This can be attributed to low productivity, skills and lack of innovation within these entrepreneurial activities. Therefore, this will have a negative impact on the development of the local economy.

### **5.6.5. Perception of the owners/managers about SMMEs as a means to economic redistribution**

SMMEs are regarded as the means by which the inequalities created during the apartheid period, in terms of patterns of economic ownership and restricted career opportunities for black employees, can be rectified (Supra: 31). SMMEs contribute to black economic empowerment by having these initiated, owned and controlled by those who were disqualified in the past. Therefore, SMMEs are considered as a strategy by which economically disadvantaged groups in

the communities have equal access to economic opportunities and earn income that will enable them to sustain and improve their living conditions (Supra: 31).

Table 5.9.: Perception of the owners/managers about SMMEs as a mean to economic redistribution

| The level of satisfaction | Frequency | Percent | Valid Percent | Cumulative Percent |
|---------------------------|-----------|---------|---------------|--------------------|
| Agree                     | 20        | 26.3    | 26.3          | 26.3               |
|                           | 29        | 38.2    | 38.2          | 64.5               |
|                           | 27        | 35.5    | 35.5          | 100.0              |
|                           | 76        | 100.0   | 100.0         |                    |

Table 5.9 above indicates the owners/managers' views with regard to SMMEs as a means to economic redistribution in the study area. It is clear from the table that the majority of the owners/managers consider SMMEs as a means of economic redistribution as neutral (38.2%). About 35.5% disagreed with the idea that SMMEs as a means to economic redistribution. However, only 26.3% of the owner/managers agreed with the idea. The majority of entrepreneurs in Mankweng Township do not consider SMMEs as a means to economic redistribution. This is because most black people believe that income that is generated through their enterprises differs greatly from enterprises operated by white people and Indians. Therefore, there is no equitable share of income and economic activities.

## 5.7. Conclusion

There can be slight uncertainty that SMMEs form part of an integral part of the local economies in Mankweng Township. A vibrant SMMEs development would be at the centre of progress, where employment, income earning opportunities, poverty reduction and higher productivity could be achieved. Evidence from this study suggests that SMMEs form an essential part of the local economic development in Mankweng Township. The majority of the respondents in the area view SMMEs as the mechanism towards employment creation, income earning, poverty reduction, local competitiveness and economic redistribution. Regardless of its commendable

contribution to local economic development, SMMEs are encountered with various challenges in the area; nonetheless, they remain an important source to economic growth and development.

The chapter that will follow concludes the study by presenting a summary of the research findings and, recommendations are also made. The recommendations in this regard are based on the research findings of SMMEs in Mankweng Township.

# **CHAPTER 6**

## **SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

### **6.1. Introduction**

This study sought to investigate the contribution made by SMMEs towards LED in Mankweng Township. The contribution of SMMEs was measured through several indicators i.e. employment, income, poverty reduction, local competitiveness and economic redistribution resulting from SMMEs development in the area. To this extent, specific objectives of this research were formulated and sought to study the nature of SMMEs, to identify the challenges facing SMMEs and to analyse the level of local economic development in the area. This chapter provides an overview of the preceding chapters and briefly summarises critical conclusions and deductions. Furthermore, the chapter recommends possible measures that can be used to strengthen the contribution of SMMEs towards LED in Mankweng Township.

### **6.2. Summary**

This study consists of six chapters. The first chapter provided the introduction and background of this study. This chapter served as a basis upon which other discussions are based. Amongst the topics that were discussed were the statement of the problem, the main research questions and objectives that guided this study and brief description of the study area. The research design and methodology were also described, and key concepts were defined. Lastly, the significance of the study and ethical considerations were explained.

Chapter 2 provided a review of literature pertaining to the nature and challenges of SMMEs by looking at both the global and the South Africa context. The literature revealed that there is no clear universality in classifying and characterising SMMEs. However, the majority of countries and different institutions internationally define SMMEs using the number of people employed in the enterprises criterion. This chapter also discussed the factors that influenced the start-up of

SMMEs. The review demonstrated that unemployment, necessity and market opportunities were the most common factors that led individuals to venture into these entrepreneurial activities. Additionally, the challenges faced by SMMEs were also discussed in this chapter; the focus was at the global perspective and in South Africa. It was revealed that there is commonality with regard to the challenges facing SMMEs in developed and developing countries, including South Africa. The challenges that are experienced by SMMEs owners/managers included a wide range of issues from lack of skills, access to finance, access to markets, appropriate technology, government regulations and public infrastructure services. Lastly, the chapter discussed government interventions that aimed at resolving these challenges.

Chapter 3 focused on the review of literature of SMMEs and LED in South Africa. It also described the concept of LED, the evolution of LED, approaches and its application in South Africa. Additionally, an overview of various policies and legislative background guiding LED implementation were discussed. This chapter also described the importance of partnerships in implementing LED. The last section of this chapter dealt with the role of SMMEs in economic development and local economy. In unpacking the role of SMMEs in the economy two tasks were undertaken, firstly, it was important to give an overview of the role that SMMEs play in the global economy and secondly, to note the role of SMMEs in the South African economy. Generally, it was accepted that SMMEs play an important role in the development of any country. Therefore, the promotion and development of this sector was viewed as crucial to achieve full LED potential. Municipalities as the agents of change should incorporate SMMEs into their LED strategies in order to develop their local economy.

Chapter 4 dealt mainly with the choice of methodology used to conduct the present research. This chapter provided a detailed description of the research design, target population, kinds of data required and unit of analysis, sampling design, the description of the study area, data collection methods and analysis procedures. Validity and reliability of the concept used as well as data collection and analysis methods were included. Lastly, the chapter provided a discussion on the limitations of the study and ethical considerations. The researcher in this regard used correlational research design for this study, however descriptive research design was also

considered. The range of methods and approaches that were applied fell within both the qualitative and quantitative research approaches.

Chapter 5 presented the research findings, analysis and interpretation. The analysis was based on the respondents' views about the contribution made by SMMEs towards local economic development in Mankweng Township. The information contained in this chapter was obtained through semi-structured questionnaires administered to a total sample of 80 SMMEs owner-managers in the area; nonetheless observations made by the researcher were also used. The findings are presented in tables and figures and are further deduced to provide a clear understanding of the phenomenon under study. Conclusions and deductions were made based on the respondents' demographical information, the nature of SMMEs, challenges facing SMMEs, an analysis of local economic development and the contribution made by SMMEs towards local economic development in Mankweng Township.

Chapter 6 provided an overview of the preceding chapters and briefly summarised critical conclusions and deductions. Furthermore, the chapter recommended possible measures that can be used to strengthen the SMMEs to make significant contribution to local economic development in Mankweng Township. The recommendations made were based on the researcher's observations and research findings.

### 6.3. Conclusion

The purpose of this study was to uncover the contribution made by SMMEs towards Local Economic Development in Mankweng. Nonetheless, specific working objectives of this study were formulated to operationalise the principal aim of this study, namely, to study the nature of SMMEs, the challenges they face, and to provide an analysis of local economic development and to investigate the contribution of SMMEs towards local economic development in Mankweng Township.

This study has reviewed various definitions of SMMEs and also discussed the characteristics of SMMEs. In analysing the definitions of SMMEs, it was concluded that there is no single and

universal acceptable definition of SMMEs. Several measures or indicators have been used to define the SMME sector. The most commonly used is the number of employees working for the enterprise. The definition was also used in the study area and, the characteristics of SMMEs within the context of Mankweng Township were also examined, given that this research focuses on the area. SMMEs often fall into two categories, that is, the informal and formal enterprises. Therefore, most SMMEs fell within the informal sector and these enterprises are not registered with taxation authorities (SARS) or licensed.

The study also revealed that SMMEs form a vital element of the local economic development process, and their contributions in terms of employment, income and poverty alleviation is commonly acknowledged. Despite the recognition, the development of SMMEs is always constrained by a number of factors such as, lack of access to appropriate technology, limited access to markets, the existence of laws, regulations and rules that hamper the development of the sector; weak institutional capacity and lack of management skills and training. However, access to finance remains the greatest concern for the majority of SMMEs. In an attempt to enable the sector to perform its role effectively, a number of technical and financial support mechanisms were introduced by government in South Africa. These ranged from government institutions, parastatals, private institutions and NGOs. Conversely, access to these support arrangements remains a challenge for most entrepreneurs as most of the SMMEs in the area operate within the informal sector.

## 6.4. Recommendations

Based on the researcher's observation and the findings of the study, the following issues are recommended to promote the development and success of SMMEs in Mankweng Township:

### 6.4.1. Information sharing

Information about the SMMEs support programmes offered by the national government must be disseminated to the local enterprises in Mankweng Township, since most of the entrepreneurs are not aware of these programmes. Local authorities should play a crucial role by assisting small

business owner-managers to gain access to this important source of support. Local authorities should be responsible for collecting and disseminating information on programmes, outsourcing opportunities from/or to SMMEs and tender processes. The information could be shared and circulated through the municipality, LED forums and structures, community centres, libraries and business service centres.

#### **6.4.2. Financial support to SMMEs**

SMMEs in Mankweng Township experience a major problem in accessing financial support. This is because most of the financial institutions require collateral for loan applications. Khula Finance and a number of NGOs have put into place a guarantee scheme to encourage major lending institution to make loans for small businesses. Local authorities could help local businesses by making them aware of the support available through these organisations. Since the current legislations prohibit local authorities from providing direct financial assistance, local municipalities can assist organisations engaged in funding by providing them with access to public facilities and other in-kind type of support.

#### **6.4.3. One-stop centre**

SMMEs constantly need information and support from municipalities on a wide range of issues including licensing, tendering, rates, permits, zoning and building approvals. Long delays and confusing procedures associated with these processes can create difficult challenges. One of the best ways which the local municipality could support SMMEs is to establish a central information centre that is key contact point between all types of businesses in Mankweng Township. This centre will basically simplify the contacts that small business need to have with government by streamlining and expediting approval process and other procedures.

#### **6.4.4. Open channels of communication**

It is important to suggest that there should be an open channel of communication between the entrepreneurs and government. When the government demonstrates more eagerness and

sensitivity to hear the entrepreneur's problems, the more the willing the entrepreneur will give suggestions to the problems they face. However, for small business owners to take full advantage of SMMEs support provided by government, it is critical for government to create awareness among small businesses about the existence of these opportunities and by way of providing a much needed financial and nonfinancial support. It is also suggested that information sharing networks and workshops should be encouraged to improve access to information in the area amongst SMMEs owners/managers.

#### **6.4.5. Future Research**

There have been several studies conducted in South Africa which provided crucial information on SMMEs and suggestions provided to improve these entrepreneurial activities. Regardless of these numerous suggestions for enhancing these enterprises at the moment, what is concerning is that since the studies and results are completed, are the findings and suggestions taken seriously and have they been introduced? Some improvements are clearly noticeable if one compares the present situation with the past; however, there is no concrete information on the impact of the studies. It was clear that entrepreneur had lost their hopes for any improvement suggested by different researches. This can therefore serve as a new direction for future research.

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Individual Survey Questionnaire for Mankweng Township 2011

**The questionnaire is designed to survey individuals for the research project entitled,  
“The Contribution of Small, Medium and Micro Enterprises toward Local  
Economic Development in Mankweng Township, Limpopo Province”**

**This research project is registered with the Department of Development Planning and  
Management, University of Limpopo, Turfloop Campus**

Please assist by providing information required in this questionnaire. The questionnaire is designed to collect information on the Opinions of the People.

We Guarantee You Anonymity.

*Please mark your selection with an X in the appropriate provided below*

**SECTION A: Demographic profile (SMMEs owners/managers)**

1. Please state your gender.

1. [ ] male      2. [ ] female

2. State your race category.

1. [ ] African  2.[ ] White  3. [ ] Coloured  4. [ ] Asian

3. 1. State your age category.

1. [ ] 16 to 29 years  2.[ ] 30 to 39 years  3.[ ] 40 to 59 years  4. [ ] above 69

4. Which of the following category best describe your educational status?

1. [ ] primary  2.[ ] secondary  3.[ ] tertiary  4. [ ] none

**SECTION B: The nature of small, medium and micro enterprises**

1. Please specify below the type of business you are engaged in.

1. [ ] spazashop  2.[ ] hair salon  3. [ ] hawker  4. [ ] shoe maker  5.[ ] welding  6.[ ] dress maker  7. [ ] general dealer  8.[ ] vehicle repair  9.[ ] bricklaying  10. [ ] tavern  
11.[ ] carpentry  12.[ ] restaurant  13.[ ] others (specify).....

2. Is the business formally registered?

1. [ ] Yes      2. [ ] No

3. What is the total number of people employed in your business?

1. [ ] 1-5      2. [ ] 6-9      3. [ ] 10-49      4. [ ] 50-100 5. [ ] above 100

4. According to your knowledge or experience, what qualification do you think is required to be employed in the business?

1. [ ] below grade 12  2. [ ] grade 12    3. [ ] diploma    4. [ ] degree and above  5. [ ]  
None

5. What is the total annual turnover of your business?

1. [ ] less than R150.000    2. [ ] R250.000-R450.000    3. [ ] R550.000- R750.000    4. [ ]  
R950.000-R1million and above

6. What are/ were the motives for setting up your own business?

1. [ ] low income    2. [ ] unemployment    3. [ ] retrenchments    4. [ ] market opportunities  
5. [ ] inherited from family    6. [ ] others (specify).....

### **Section C: Challenges facing small, medium and micro enterprises**

1. What is the impact of the types of challenges indicated below on your business in the scale provided, were low represent the least serious challenge, medium represent moderate and high represent most serious challenges? Check with an X, low to high depending upon your relative order in the table provided below.

| <b>Types of challenges</b>          | <b>Impact</b> |                  |                |
|-------------------------------------|---------------|------------------|----------------|
|                                     | <b>(1)Low</b> | <b>(2)Medium</b> | <b>(3)High</b> |
| Limited access to finance           |               |                  |                |
| Limited access to market            |               |                  |                |
| Lack of business management skills  |               |                  |                |
| Lack public infrastructure services |               |                  |                |
| Crime                               |               |                  |                |
| Tax                                 |               |                  |                |
| Government regulations              |               |                  |                |
| Cost of technology                  |               |                  |                |
| Others (specify).....               |               |                  |                |

## **SECTION D: The theory of local economic development**

1. Do you understand what do local economic development implies?

1. [ ] Yes 2.[ ] No

If yes, explain.....

.....

2. Do you participate in local economic planning forums within your municipality?

1.[ ] Yes 2.[ ] No

3. State the kind of support you receive from the government/municipality.

1.[ ] finance 2.[ ] marketing 3.[ ] skill development 4.[ ] public infrastructure 5.[ ] others (specify)..... 6. [ ] none

4. Does your business work in partnerships with other businesses or stakeholders in the area to improve its operations?

1.[ ] Yes    2.[ ] No

If yes, explain how .....

5. Do you agree that procurement policies within the municipality favour local businesses?

1.[ ] agree    2.[ ] neutral    3.[ ] disagree

Explain.....

#### **SECTION E: The contribution of SMMEs to local economic development**

1. Do you think that SMMEs contribute adequately to employment creation?

1.[ ] adequately    2.[ ] neutral    3. [ ] inadequately

2. Do you think that SMMEs contribute adequately to income generation?

1.[ ] adequately    2.[ ] neutral    3. [ ] inadequately

3. Do you think that SMMEs contribute adequately to poverty reduction?

1.[ ] adequately    2. [ ] neutral    3.[ ] inadequately

4. Do you think that SMMEs contribute adequately to local competitiveness?

1. [ ] adequately 2.[ ] neutral 3. [ ] inadequately

5. Do you agree that SMMEs serve as a means to economic redistribution?

1.[ ] agree 2.[ ] neutral 3.[ ] disagree

.....THE END.....