

The Role of Local Economic Development on Small, Medium and Micro Enterprises

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Abstract: This article aims at exploring the role of Local Economic Development (LED) in reshaping the economy of South Africa through the promotion of Small, Medium and Micro Enterprises (SMMEs) in local government. This paper is built on the post 1994 South African government concept of grassroots initiatives and community participation. With local government being viewed as a sphere of government, this meant that it is allocated a range of roles and responsibilities with respect to economic and social development. Therefore, the objective of the paper is to examine how the LED has contributed to reshape the grass root economy of South Africa. The research design used in this article was a mixed method approach. In the qualitative method, data were collected by means of an extensive review of government and public documents, academic books and articles. In terms of the quantitative method, SMME entrepreneurs in the Mbombela Local Municipality of the Mpumalanga Province, South Africa (SA) completed self-administered questionnaires. The findings point to the fact that South Africa needs to make the SMMEs environment conducive and favourable for business purposes. LED does contribute positively towards the growth of the economy of South Africa.

Keywords: local economic development; small, medium and micro enterprises; local municipality; local government; poverty

1. Introduction

Given the importance of LED, the South African local communities need to turn around their economic and development directions to one that is prosperous and beneficial to their communities and ultimately the country as a whole. LED can be used as one of the tools necessary for reversing the economic injustices imposed on some local communities by the previous apartheid state. Literature present that globally, LED is aimed at enhancing economic growth. However, in the African context, LED goes further than just enhancing economic growth, but prioritises

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poverty alleviation and greater inclusion of previously excluded groups. Furthermore, literature do acknowledge the distinct challenges in implementing LED in the African continent. The article argues that LED has a vital role to play in reshaping the economic make up of South Africa. Local communities have to be equipped with the means to turn around their economic and development direction to one that is prosperous and beneficial to their communities and ultimately the country as a whole.

LED is a concept that saw implementation in SA after the post-apartheid government took power in 1994. The apartheid state left a legacy of inequality and underdevelopment in some areas of South Africa using a centrally focused economic planning and development system. There was neglect in planning and development in some localities, and this led to the country having a dual economy. According to the then Department of Provincial and Local Government (DPLG) (2005:14), central to the design of apartheid economics was an enforced spatial development process that resulted in a well capitalized, relatively technologically advanced urban based first economy sector that relied on skilled labour and a second economy located in peri-urban and rural areas associated with low skill requirements, poor infrastructure and poor labour conditions. This systemic marginalization resulted in the intentional underdevelopment of the peri-urban and rural areas. This article aims to assess the role of SMMEs as a driver for LED in the identified local municipality. The article initiates discussion by presenting a definition of LED; thereafter follows an exploratory discussion of the LED legislative framework. Secondly, the approaches to LED in SA are explained. Thirdly, LED challenges in SA are discussed. Fourthly, the research methodology used in this article is explained briefly. Fifthly, an analysis and interpretation of the empirical findings are presented. Finally, the article provides concluding remarks.

2. Definition of LED

Scholars define the concept of LED differently, and the following definitions provide the context within which it is used in this article. Kanyane (2008:699) argues that LED is about local people working together to achieve sustainable economic growth that brings economic benefits and quality of life improvements for all in the community. Quality life improvements are achieved through creation of job opportunities for local people, poverty alleviation and redistribution of resources and opportunities to the benefit of all local residents. Rogerson (2013:641) concurs by

arguing that LED at the policy level is a bottom-up approach of government policy that was created to assist developing countries to deal with territorial challenges such as poverty, productive restructuring and increased competition accounted for by globalisation in the local territory. LED is a process in which local government and community based groups come together to manage their existing resources and enter into partnership arrangement with each other to create jobs and stimulate economic activity in an economic area. LED process provides an opportunity for government authorities in all spheres to enter into partnerships with organs of civil society to develop local solutions to local economic challenges and problems confronting society. Based on the above definitions, it can be argued that LED is concerned with enhancing available economic spaces of municipalities for the purpose of improving the efficiency of production processes, increase cost effectiveness, and access to markets to promote the utilisation of local labour for local benefit.

3. Legislative Framework

There are a number of legislation and policies that affect the LED initiative, and for the purpose of this article, only nine legislation and policies are discussed below.

The Constitution of the Republic of South Africa, 1996

Section 152 of the Constitution states the local government objects that mandate local municipalities. These objects include promoting democratic accountable government for local government, to ensure the provision of services to communities in a sustainable manner, to promote social and economic development, to promote safe and healthy environment and to encourage the involvement of communities and community organisation in the affairs of local government. The LED is mandated by the promotion of social and economic development constitutional object. Additionally, section 153 states that a municipality must structure and manage its administration and budgeting and planning process to give priority to the basic needs of the community, as well as, promoting social and economic development of the community and participate in the national and provincial government programmes.

National Development Plan 2030 (RSA, 2012)

The plan highlights the economic vision of South African people in 2030. According to the plan South Africans want to see themselves as investors, traders, workers living in the thriving economy that offers opportunities. The objective of the plan is to set domestic economy targets aimed by all three spheres of government to achieve

within a specified period. The plan sets a target for domestic economy, for instance, unemployment rate should be down to 6 percent in 2030, Gross Domestic Product (GDP) should grow at 2.7 percent giving the average growth rate of 5.4 percent, people from previously disadvantaged groups must have adequate access to resources, to own assets, attract investment and broaden Employment Public Works Programme (EPWP) to reach two million people by the year of 2030.

National Spatial Development Perspective (NSDP) (RSA, 2006)

The NSDP identified five principles that government needs to uphold in order to create a conducive environment and alleviate poverty. The NSDP argues that government must identify areas with economic potential and invest in human capital, infrastructure and address spatial disparities owed to apartheid. Furthermore, ensure that people are developed through educational programmes, projects and training and they should not be denied access to these initiatives, therefore, local authorities must ensure that people in local communities have access to information of these initiatives; the argument is that a success of any economy is achieved through focused investment. In other words, since the Mbombela Local Municipality is strong in tourism sector, an investment in developing skills of local people together with infrastructure will ultimately lead to GDP growth. Meyer and Meyer (2015) support this argument by saying that the role played by tourism in local economic development is vital. Given the fact that tourism has a potential to grow the economy and open global market for domestic products. Locally produced products are bought by tourists during holiday season and then return home with the products that create a demand in other part of the world, consequently, more people are employed to meet the international demand.

Accelerated and Shared Growth Initiative-South Africa (ASGISA) (RSA, 2006)

The aim of ASGISA is to promote an inclusive economic environment that produces diverse goods and services. Several key strategies were identified by ASGISA that need government in all spheres to intervene in order to accelerate growth. These strategies include; infrastructure investment, investment in tourism, small businesses, skills development initiatives and programmes, and youth and women empowerment projects. However, ASGISA was well received by South Africans but it never realised its aim fully and it collapsed.

Integrated Enterprise Development Strategy (RSA, 2005)

The vision of the policy is to provide access to support and development services to those who were excluded in full participation of the economy, by integrating them into the South African economy. Consequently, municipalities are required by this statute to target a certain groups in the local areas when supporting SMMEs. This policy statutory mandates a municipality to support SMMEs through its LED strategy. Therefore, a municipality must support local SMMEs by engaging on the following strategic pillars identified by the policy: promoting entrepreneurship through campaigns, leadership training and awards, strengthening the enabling environment through more flexible regulations, better access to finance and markets, improved infrastructure facilities and business support, enhancing competitiveness and capacity at the enterprise level through skills training, more focussed quality, productivity, and competitiveness support and the facilitation of technology transfer and commercialisation of incubation.

Furthermore, the strategy stipulate that people in local communities are resourceful, skilled and entrepreneurs who are creative and innovative to produce goods and services that meet the needs of poorer communities. However, Rogerson (2006) argues that government does not support macro enterprises and businesses in an informal sector, the national government leave that responsibility to municipalities through changing regulations, access to urban market and agricultural development. Consequently, the local talent, potential and creativity mentioned by COGTA are not unleashed. On the contrary, the LED less impact on SMMEs is owed to ineffective communication, many local businesses are clueless about the existence of many government supporting SMMEs incentives (Integrated Enterprise Development Strategy, 2005:8). Moreover, Phago and Tsoabisi (2010) argue that the role of municipalities in supporting SMMEs is not clearly stated, yet limited given the fact that municipalities are unable to be more than facilitators of economic and social development. Furthermore, municipalities do not have the capacity to offer for instance, financial incentives to the local businesses, hence the establishment of national agencies such as Small Enterprise Development Agency (SEDA) and National Youth Development Agency (NYDA) amongst the few.

The LED National Framework (RSA, 2006)

The framework aims to support the development of sustainable local economies through integrated government action. This action is developmental and stimulates the heart of the economy, which compromises those enterprises that operate in local

municipal spaces. The framework identified the following three roles that must be played by local government to promote LED: to provide leadership and direction in policy making (through bi-laws and processes that regulate land in a manner that reduces the cost of doing business and maximises the involvement of people in the local economy); to administer policy, programme and projects that maximise impact to growth and development; and to be the main initiator of economic development programmes through public spending, regulatory powers, and in the case of larger municipalities promote industrial, small business development, social enterprises and cooperatives.

The LED framework makes a provision for the establishment of LED forum. The forum has a mandate to improve the performance of local government with respect to all aspects of local economic development, assist local government in identifying and capitalising on local competitive advantage for territorial economic and social development, and ensure the participation of previously disadvantaged groups and individuals in communities in realising opportunities offered by local economic development.

The Broad-Based Black Economic Empowerment Amendment Act (BBBEE) (Act 46 of 2013)

Section 1 (c) of the Act identifies and covers women, workers, youth, people with disabilities and people living in rural areas, therefore, these groups must be integrated and included in integrated socio-economic strategies developed by any organ of state or public institution. Section (2) (a) (b) and (c) clearly outlines how abovementioned groups can be integrated in socio-economic strategies developed by public institutions and other organs of state. The following are key objective areas of integrated socio-economic strategies: empowering rural and local communities by enabling access to economic activities, land, infrastructure, ownership and skills; promote access to finance for black (Africans, Coloureds and Indians) start-ups, small, medium, and micro enterprises, co-operatives and black entrepreneurs, including those in the informal business sector; and increase effective economic participation and black owned and managed enterprises, including small, medium, micro enterprises and co-operatives and enhancing their access to financial and non-financial support.

Mpumalanga Economic Growth and Development Strategy (RSA, 2010-2015)

The province formed the Mpumalanga Economic Growth Agency and its mandate is to provide funding to and promote foreign trade and investment in Mpumalanga,

for the benefit of Historically Disadvantaged Individuals (HDIs). The vision of MEGA is to be a capable, credible and resilient institution that stimulates growth and development in Mpumalanga, to reduce unemployment, poverty and inequality. The economic development strategy of MEGA speaks to the funding role of SMMEs on agro projects and farming; housing; and for promoting trade and investment in Mpumalanga. Furthermore, the Agency invests in strategic projects that require an equity partner, like Tekwane Citrus, Nkomati Anthracite, Loopspruit Wine Estate and Highveld Fruit Packers – all of which have benefited from MEGA’s experience in commercialising start-ups.

White Paper on Local Government of (RSA, 1998)

The aim of the White Paper on Local Government (1998) was to determine developmental municipalities after 1994, and provide characteristics of a developmental local government that offers a distinction between local government in democracy and local authorities in apartheid era. The White Paper on Local Government (1998) identified a municipality as a developmental local government. Furthermore, as a municipality with a responsibility of working together with local communities to find sustainable ways to meet their needs and improve the quality of their lives. The White Paper on Local Government (1998) further states the outcomes of a developmental local government, namely; provision of household infrastructure and services, creation of liveable, integrated cities, towns, and rural areas and local economic development. It should be mentioned that the role of a municipality in a local area is not to create jobs, however, to create and promote a conducive environment that will eventually lead to creation of employment. A municipality can create a conducive environment through good governance, upholding democratic principles, administrative functions, and the rule of law. Phago and Tshoabisi (2010:157) support the above statement by arguing that a municipality is not responsible for job creation; however, it is responsible to facilitate an overall economic and social environment that promotes the creation of jobs and opportunities for local communities.

Local Government: Municipal Systems Act (RSA, 32 of 2000)

Chapter 5, section 23 (1) of the Act makes provision for municipal planning. According to section 23 (1) (a) and (b) a municipality must develop a strategic plan to achieve its constitutional objects and this municipal planning must be developmentally oriented. Section (24) urges municipalities to align their development plans and strategies with those of other organs of state. It further states

that development planning of municipalities must be within the requirements of the national or provincial legislation. Section 25 of the Act is specifically adapted for municipal Integrated Development Plan (IDP). The IDP as a strategic plan must reflect the vision and goals of the municipal council. It must include integrated links, plans and proposals that give effect to the development of the municipality. Additionally, the IDP must also align the resources and capacity of the municipality with implementation. The Act further states that local communities must participate in the strategic planning development of municipalities, and be consulted on regular basis on issues that affect local development. The LED is the core function of IDP and it clearly states the council's vision and goals of local economic development and how it is going to benefit the local communities (Rogerson, 2006). However, IDP and LED are two separated developmental tools that share common characteristics and power influence on municipal operations (Malefane and Mashakoe, 2008).

4. Approaches to LED in SA

The following are the pro-growth LED approaches.

Pro-growth LED

According to Abrahams (2003:191), the objective of the pro-growth LED approach is to make urban localities more competitive, focus on entrepreneurship and poverty reduction. The generally weaker infrastructure and capacity of rural localities means that some of the objectives of pro-growth LED would face great difficulty when applied in this context. In South Africa's leading cities, the mainstream LED practice has been dominated by market-led approaches that have been increasingly geared towards achieving competitiveness and sustainable high economic growth rates (Nel and Rogerson, 2005 in Rogerson, 2011:159). According to Rogerson (2011) Johannesburg, Cape Town, Durban, Pretoria and Ekurhuleni pioneered LED activities, which were targeted at building local competitiveness. These cities aimed at responding to situations of weak demand and of micro-economic constraints on local productive capacity. Rogerson (2011) further argues that in the quest to create more productive and competitive cities, notable LED pro-growth interventions have been innovated in the form of, among others, initiatives for enhancing institutional efficiency reducing the local cost of doing business in a particular locality or of improving local logistical pathways in order to strengthen the relationship between economic growth and infrastructure investment.

Moreover, Rogerson (2003:53) states that overall, the four leading foci of urban LED interventions are seen as concerning the promotion of the competitiveness of localities, particularly through the attraction of inward investment, the enhancement of growth through implementing property-led city improvements, supporting job creation from the inside in terms of business retention or assisting small enterprise development and, finally, supporting a range of community development initiatives, including community enterprises or cooperatives. What can be learned from the above is that the pro-growth approach is more suited for urban cities, which already have established infrastructure and capacity to carry out initiatives aimed at being competitive and achieving sustainable high economic growth rates. The lack of adequate infrastructure and capacity at more rural localities therefore call for an alternative approach to LED.

Pro-growth LED approaches can be associated with initiatives aimed at increasing economic and business activity in localities as indicated above. Place marketing and formation of partnerships can be viewed as pro-growth approaches to LED. Place marketing according to Binns and Nel (2002a:186) can be regarded as a locality based strategy to re-image and restructure local economies. It is argued that service-based economic sectors have received significant impetus from altered consumer preferences, choices, wealth and location mobility. Binns and Nel (2002a) further argue that tapping into economic shifts such as these can have significant potential for areas that are seeking to re-orientate their local economies. They state that one sector that has performed particularly well in this context is tourism, which has become one of the most critical forces shaping the world's economy and has been recognized as having a key developmental impact.

Binns and Nel (2002a:188) suggests that the primary goal of place marketing is to construct a new image of a place, and to replace either vague or negative images previously held by current or potential investors. In this connection, place marketing is a strategic choice and involves actively publicising a town's assets, both imagined and real, to external investors and tourists, based on the belief that the resulting investment will catalyse an economic revival. Place marketing plays an important role in LED that of attracting investments and partnerships and of promoting tourism. The following paragraphs show how partnerships are vital to LED.

Rogerson (2010a:441) states that academic and policy discourse around LED has placed a high value on the development of partnerships. Partnerships are defined as collaborations between municipalities, the private sector, and the civil society to commit to working together on a project or programme in order to pursue common

goals and in which the different partners bring complementary resources, contribute to the design of the programme, and share risks and benefits (Rogerson, 2010a:442).

Marias (2011:ii51) argues that partnerships can be divided into four distinct elements. These are public-private partnerships; North-South relationships that are mainly dependent on donor arrangements, either state to state, state to NGO or NGO to NGO partnerships; the third and fourth types of partnerships are partnerships between large and micro enterprises at the base of the economic pyramid. Marias (2011) is however of the opinion that embarking on partnerships to achieve LED has not been without its problems in the context of South Africa. First the problem of public-private partnerships include among others, the exclusion of community based organisations, increased local tensions, an over emphasis of infrastructure development and property boosterism and arguments that not everybody benefits from such arrangements. Nel and Rogerson (2007) states that true partnerships are limited; there are limited guidelines on how to manage public-private partnerships and too little room for role players from the non-public sector.

According to Rogerson (2010a:443), partnerships offer the advantages of the private sector including dynamism, access to finance, knowledge and technologies, managerial efficiencies and the entrepreneurial spirit which are combined with the social responsibility, environmental awareness, local knowledge and job generation concerns of the public sector. Rogerson (2010a:443) states that the benefits of partnerships are multiple, *inter alia*:

- that they can lever innovative approaches to LED;
- easy to establish and equally can be closed down with little administrative cost or expense;
- harness the power of different sectors to provide the opportunity to do LED better;
- offer a mechanism to enable each partner to share its own specific competencies and capacities to achieve common and complementary goals more effectively;
- provide access to more resources from technical knowhow, human resources, social capital as well as financial resources;
- offer a platform for increasing and improving the participation of civil society and business in local affairs;
- improve transparency and accountability between partners;
- allow partners to gain a better understanding of each other in terms of building bridges between each other;

For the above reasons it is evident that embarking on partnerships has the potential to enhance LED for areas concerned.

Marias (2011) refers to a case where the Kwa-Zulu Natal (KZN) Provincial Government and the European Commission embarked on a programme called Gijima, to promote LED in the wider province outside the main metropolitan area of Durban. The focus of the programme was to bring about a more effective implementation of LED in order to achieve equitable economic growth in KZN. Marias (2011:ii55) states that the programme had three main objectives: to promote pro-poor interests, build management capacity of LED and ensure local competitiveness through partnerships. Marias points to a number of challenges facing this programme, which can be used as learning opportunities for future partnerships for LED, and shows that these partnerships are likely to improve the viability of community based LED.

Pro-poor LED

The above approaches to LED have mainly focused on aspects that are geared towards making localities and institutions competitive and more productive, mainly focused on the market side of LED. Pro-poor LED proves to be more people centred. Rogerson (2003:54) states that in the developing world, the extent, depth, and growth of poverty inevitably forces questions of poverty alleviation much higher onto the LED policy agenda. As a result, this means there is a need to adopt LED strategies that are more inclined towards the pro-poor approach.

According to Abrahams (2003:191), pro-poor LED that is people centred and favours a bottom up approach to development is a favourite for South African rural areas. Abrahams states that the critics of orthodox approaches to LED are of the opinion that investment attraction and place marketing alone have not succeeded in creating sustainable employment in the local economy over the long run. Abrahams (2003) further states that the contention is that the returns on investment as envisaged in the pro-growth approach do not usually trickle down to the neediest, who rarely benefit from these investments. The proponents of the pro-poor approach argue that community based LED strategies are more sustainable and through having communities actively participating in the planning and implementation of new developments, the benefits will be greater.

Rogerson (2003) argues that the literature on LED has accorded limited attention to the role of the construction sector. The construction can be an efficient industry for generating employment and can thus be a useful tool for poverty alleviation. Thus, it can be argued that the above assertion is of the contention that the infrastructure

and construction sector are an important catalyst of employment intensive growth. The construction sector for the above reason can be viewed to be a vital part to the promotion of pro-poor LED since it addresses the problem of employment and poverty alleviation. The only problem with the construction sector is that it is not able to provide sustainable long lasting employment since infrastructure and construction projects usually have a start and end date.

According to Binns and Nel (2002a:238), within South Africa, in addition to longstanding popular tourist destinations such as Kruger Park, Golden Route and Cape Town, a wide range of other localities are now seeking to drive development through tourism promotion, often as an explicit part of their LED programmes. Furthermore, such interventions tend to have a community/pro-poor focus. In addition, Forstner (2004: 497) states that in order to realize potential gains from tourism for local communities, it is contended that tourism development needs to be reoriented according to the interests of local stakeholders, in particular poor people. It is evident that tourism is a vital tool for LED and it even has a pro-poor element to it.

According to Rogerson (2006: 44), at least five advantages inherent in tourism make it an attractive sector with considerable potential for promoting pro-poor growth. First, it is a diverse industry offering wide scope for participation, including very importantly the participation of the informal sector. Second, the customer comes to the product, providing considerable opportunities for linkages with other sectors. Third, tourism is highly dependent upon natural capital such as wildlife, scenery, and culture, which are assets, that some of the poor have. Four, tourism can be more labour intensive than manufacturing. Finally, compared with many other economic sectors, a higher proportion of the benefits from tourism, in terms of jobs or entrepreneurship opportunities, accrue to women.

There is a clear distinction in terms of the nature of pro-growth and pro-poor LED approaches. In as much as the distinction exists, a factor that remains is that both these approaches are in place to ultimately achieve a similar goal, which is economic development and economic equity across South Africa. A factor that is also evident is that different approaches are applicable in different areas. It is important for this reason to be aware of what approach to apply in what situation in order to reap the utmost benefits out of it. Abrahams (2003:191) states that, despite the differences between rural and urban areas and between market-led and pro-poor approaches, there is indeed synergy between the different approaches to LED. The underlying principles of both market-led and pro-poor approaches include self-reliance,

employment creation, participation, local co-operation and environmental sustainability, which are relevant in both urban and rural contexts. This synergy needs to be maximised and applied in a manner that will reap benefits in both rural and urban contexts.

5. LED Challenges in SA

For the purpose of this article, the following are the common LED challenges in SA:

Poor Leadership

One of the LED challenges experienced by many South African municipalities is poor leadership. This is illustrated by municipal policy role-players who are failing to integrate community participation mechanisms, processes and procedures in LED processes. Literature has shown that policies that are not informed by community needs are less likely to achieve a positive impact on intended groups. Another leadership matter is poor planning. Municipal councils develop LED strategies that are within outcome parameters of national policies. This makes LED a poverty alleviation tool, instead of a tool used for sustainable economic growth. Politics dominate LED projects especially those that are labour intensive. Councillors determine areas where LED projects will be implemented, without proper assessment of areas with potential. Moreover, during election period, LED projects are irrationally prioritised, for example, funding local community garden, instead of developing financial management skills of local small business owners. Consequently, LED projects and strategies are not sustainable (Maxegwana Theron and Draai, 2015).

Lack of LED funding

Many municipalities regard LED as unfunded mandate. Though there is LED fund offered by COGTA, the fund alone is inadequate. Many municipalities have limited revenue capacity to carry out LED projects and programmes. Especially, small municipalities that face difficulty to secure loans with private banks, due to limited internal capacity constraints that affect their credit rating and weak revenue base. Adequate funding assist municipalities to drive LED process independently and promote effective implementation of LED initiatives (Khambule, 2018)).

Lack of LED knowledge, networking and effective implementation

There is no common LED understanding between provincial, district and local municipalities, even though the legislation demands alignment of strategies and policies. As a result, there are unclear roles and responsibilities between mentioned

parties, rural local municipalities implement basic service (housing, water, electricity, etc.) delivery focussed projects, and they fail to identify key role players of poverty alleviation and job creation. They have the inability to establish LED networks (SALGA, 2010). Khambule (2018) argue that LED governance cannot be pinned on stakeholder participation via LED networks and coordinated efforts, without addressing an issue of institutionalism. There has to be a unified LED agency that represents values, goals and interests of private sector, municipalities and civil society organisations. Participation is less likely to take place, if different organised institutions with unrelated (goals, values and interests) are expected to join efforts and promote coordination.

Lack of Capacity

Many municipalities make use of external consultants to assist them with LED. This is due to lack of skilled officials who have LED expertise, caused by the service delivery traditional role of municipalities (Khambule, 2018). Consequently, LED plans are characterised by focussed projects, unrealistic targets and inability to recognise drivers of the economic development and opportunity (SALGA, 2010:16). Appointing private LED consultants are less expensive than establishing LED units. The argument is that private consultants offer access to skills and expertise at a lower cost, moreover, the service is terminal depending on stakeholder satisfaction on outcomes. In 2007, Rogerson wrote a paper on LED, according to the author capacity building at the local level must be emphasised on rural local authorities. The argument was that the gap between big and small municipalities LED successful implementation is owed to lack of skilled LED officials in small municipalities. Furthermore, the author suggested that COGTA, Department of Trade and Industry and Universities must work together to develop the capacity of local authorities (Rogerson, 2007). Donors and/or investors allocate funds to people with adequate skills who will give effect to value for money. The idea is that entrusted officials have a knowledge and expertise that will foster required service delivery and outcomes. Lack of capacity means poor policy implementation, and poor policy implementation means poor service delivery and poor service delivery means negative policy impact on local communities.

6. Research Methodology

As alluded to above, the mixed research methodology was utilised in this study. A sample of 99 questionnaires from a population of approximately 220 was distributed to SMMEs operating within the Mbombela Local Municipality geographic area during the third term of the year 2017. The sample was not manipulated, that is, it used variables such as years in business, gender, age, qualification, etc. A purposive sampling design (known as non-probability sampling) was adopted and used for the survey. Mcmillan and Schumacher (2001) argue that in purposive sampling, the researcher identifies participants based on their knowledge of the phenomenon under investigation. The researcher adopted the same design for this article. In this instance, only SMMEs who had registered with the local municipality under study participated in this research project. Statistics were used to analyse the data with a specific focus on the basic descriptive frequencies and percentages of the responses to the various questions in the questionnaire.

7. Analysis of Results

The summary of the findings from the SMMEs survey, which was conducted in the Mbombela Local Municipality during the second term of 2017 are presented below. Each graph and table presented is complemented with a short narrative of the respective finding.

According to the survey results and given the sample size, 74% of the respondents were females SMMEs with 26 percent being male as depicted on Figure 1 below. This is an interesting finding in view of the increasing number of female SMMEs in the business sector. Figure 2 on the following page presents the age group categories. It was surprising to observe that the youth participate as a minority in the SMME initiatives with 5%, while they make up to 66% of the South African population and 53% of the unemployment (Statistics South Africa, 2011).

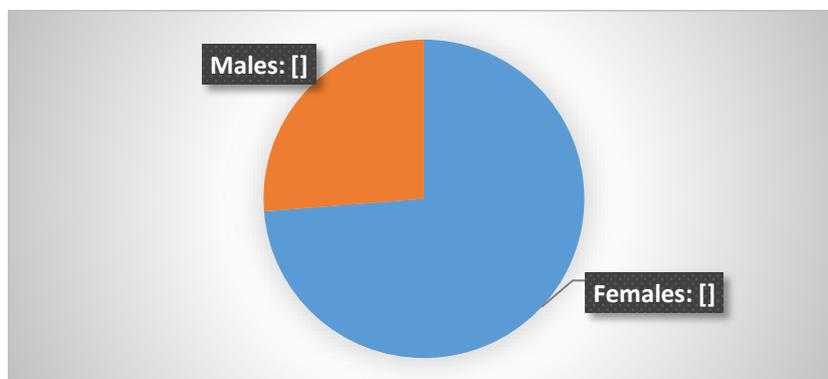


Figure 1. Gender Composition of the Respondents

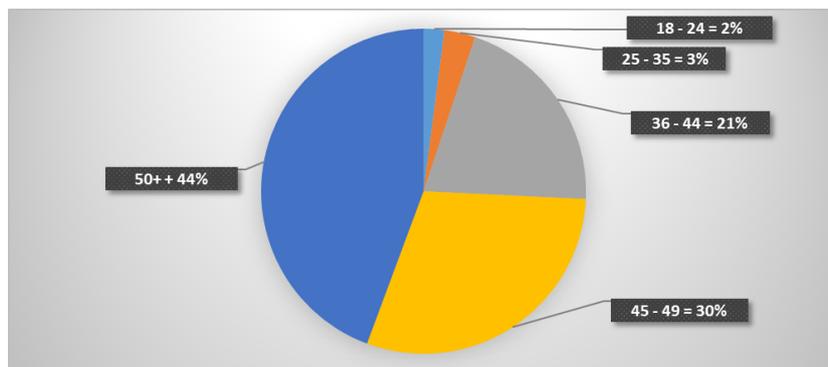


Figure 2. Age of the Respondents

Figure 3 below illustrates the respondent’s categories in terms of youth, the elderly, the disabled, unemployed or other. As alluded to above, the youth were not in the majority in the SMME initiatives in this research project with only 22% of the youth being active in the SMMEs, which is just below with 2% from the unemployed community members. The unemployed registered a 24%. The disabled people and the other categories shared the lowest percentage of 4% each. The highest active category is the elderly (which includes pensioners) with 33%. It was worth noting the disabled people do participate in SMME initiatives in the Mbombela Local Municipality, with a concern about the percentage of participation with 4%.

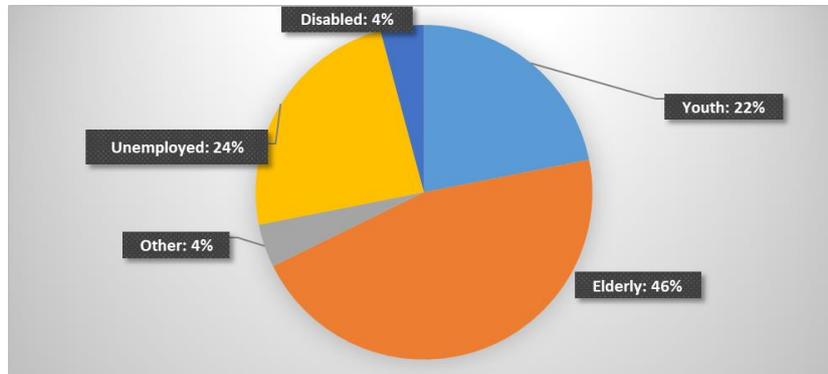


Figure 3. Categories of Respondents

Figure 4 below serves to indicate the marital status of the respondents. It was interesting to observe that the lowest active SMMEs were the divorced people with 2% followed by the widows with 6% and people who never married became the next with 10%. The highest marital status of the SMMEs with 42% were the participants falling under the category of being single, and was followed by the married participants with 40%. This shows that the single and married categories of SMMEs in the Mbombela Local Municipality do play a significant role in the LED.

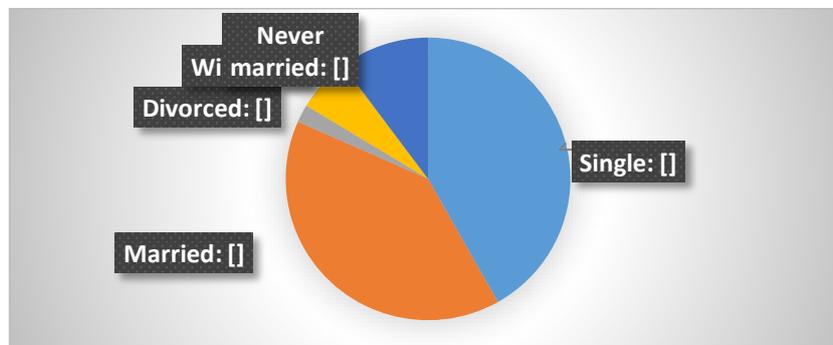


Figure 4. Marital Status

Figure 5 on the next page shows that the SMMEs demonstrate a minimal level of skills and understanding as many of them never obtained Grade 12 qualification. Only 12% SMME participants with Grade 12 qualifications, 30% with Grade 12 – 11 and 20% with primary school education while 25% never attended school. From this survey, only 6% had certain qualifications, broken down as only 1% SMMEs with certificate, 1% with degree and 4% with diploma. This kind of a situation is concerning since all businesses including the SMMEs should be able to adapt,

analyse, focus and position themselves according to the changing environment. The opportunities that present themselves to local communities require a certain level of skills.

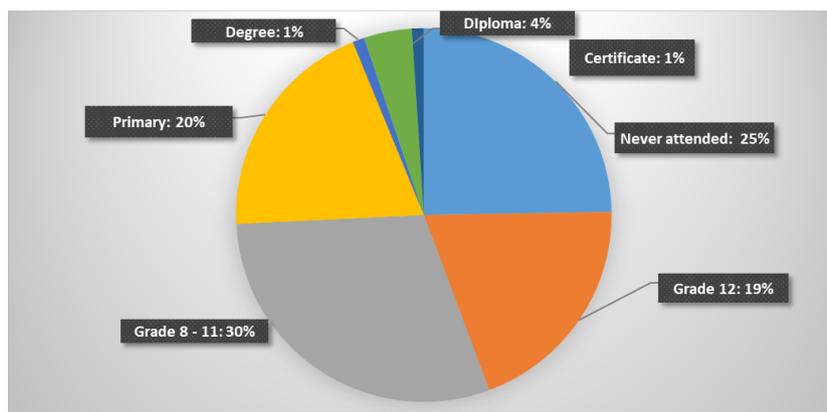


Figure 5. Educational Qualifications

Figure 6 below presents the type of residents that the participants live in. All of the participants reside in the low-income housing of the Mbombela Local Municipality, except the 3% that stays in the informal resident (shacks). Most of these living patterns are government support model programmes, especially low-income households. Some of these households are used as the participants ‘business operations.

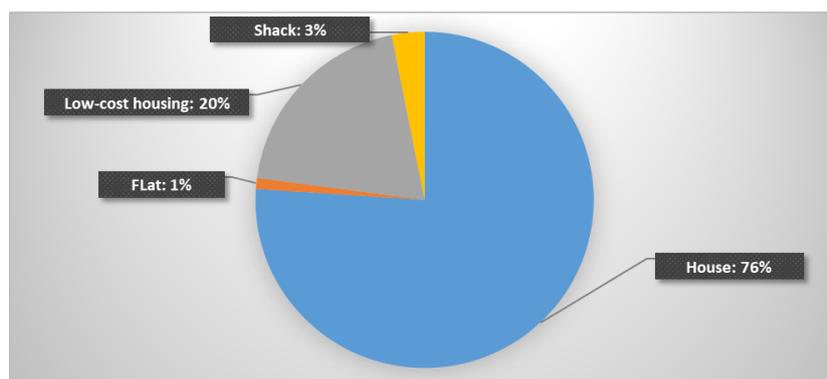


Figure 6. Type of Residents

Figure 7 below shows the that 8% of the SMME owners, who were samples in the article, have more than 10 years in business and are still doing well. Moreover, 2% have between 6 and 9 years of experience, while the other 10% have been in business

for 4 to 5 years. Furthermore, 18% of these SMMEs were in business for 2 to 3 years and the majority were established less than a year with 62%. This figure shows that it can be very difficult in starting a business.

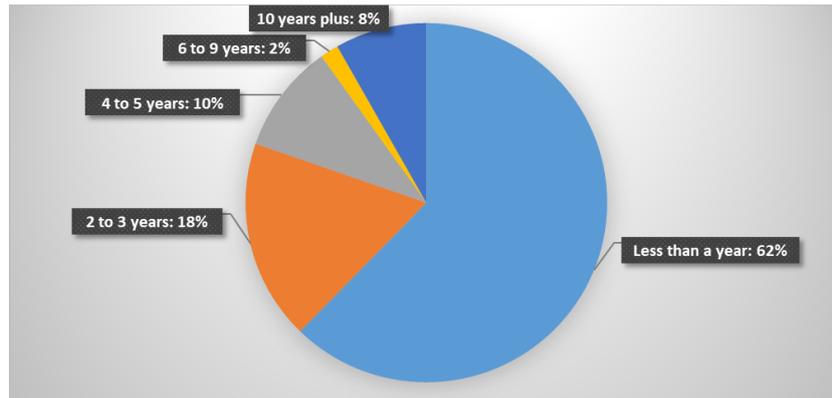


Figure 7. Number of Years in Business

Figure 8 below provides the reasons why the participants decided to establish their businesses. Out of all 99 participants, 38% cited unemployment as the main reason for establishing a business, 32% cited poverty and 20% felt that there is a need to support communities. It was interesting to observe that owning a business was given as a reason for opening a business with 5%, while the other 5% was for the eradication of poverty. It should be noted that businesses are passion and commitment driven; hence, such opportunities require certain level of competencies.

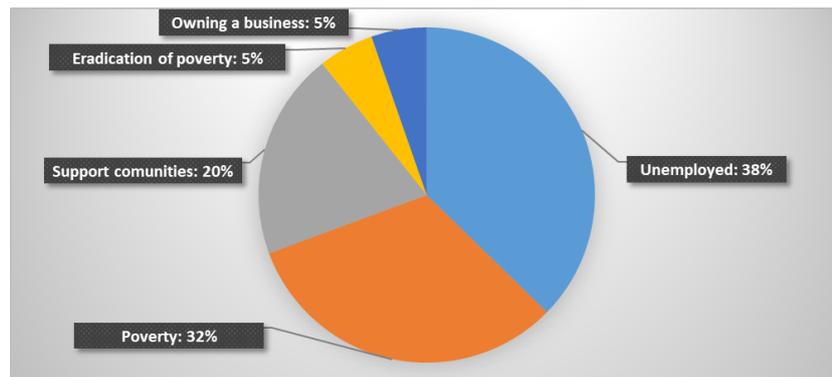


Figure 8. Reasons for Establishing Business

Table 1 below serves to indicate the SMME fields that participated in this research project. It should be noted that there are many fields in SMMEs. The leading field is self-catering with 52%, followed by Information and Communication Technology

(ICT) with 16%. Both craft and curio sales and retail at tourism locations came in next with 7% each. The rest, namely; entertainment, sport venues and performances, taverns/shebeens, bars and breweries, tourism guides and travel agencies had 3% each. It was evident from this research project that self-catering is popular and very dominant in the Mbombela Local Municipality.

Table 1. SMME Fields

SMME fields	Percentage
Entertainment	3%
Sport venues and performances	3%
Tarvens/Shebeens	3%
Bars and breweries	3%
Tourist guides	3%
Craft and curio sales	7%
Retail at tourism locations	7%
Travel agencies	3%
Self-catering facilities	52%
ICT	16%
	100%

Figure 9 demonstrates that 80% of SMME owners reported that their source of funding to start their businesses was their own funds. It is interesting to observe that only 3% got funding from commercial banks. The respondents expressed frustrations with the commercial banks and the government agencies, which also only 3% provided funding to SMMEs. The frustrations arise when banks ask for documentations that the participants do not have, and with regards to the development agencies, the paper work and the many forms needed to fill in which are not user-friendly.

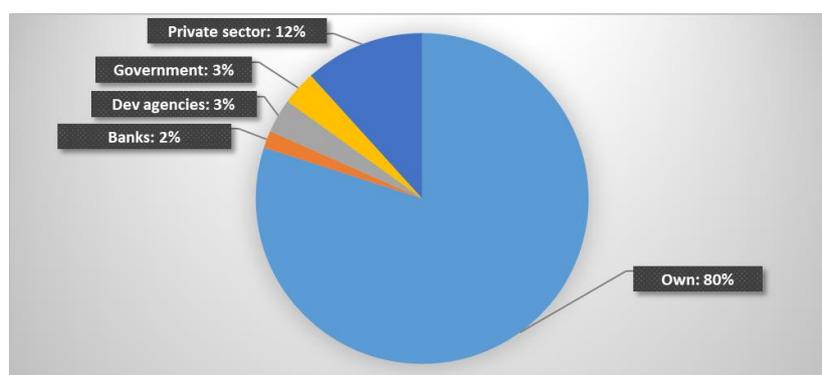


Figure 9. Sources of Funding

Figure 10 on the next page shows that 74% of the businesses operated from homes/residential areas, followed by 16% that were located in the designated areas by the local municipality, while 3% were operated on street corners and in a mobile format such as door-to-door, taxis, and buses. Furthermore, 2% of the businesses were located in shopping complexes and the other 2% represented other locations.

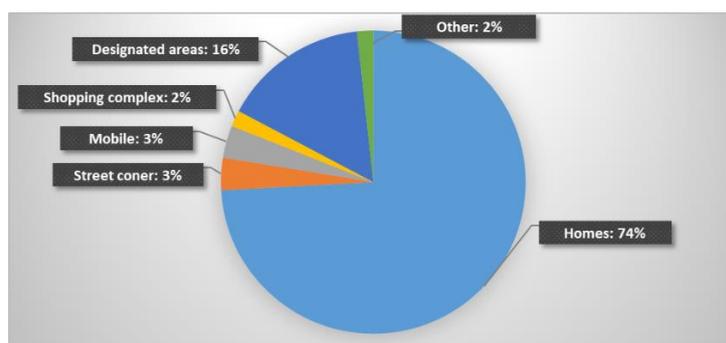


Figure 10. Business Location

The questionnaire had an open-ended section comprising of two questions. This section gave SMMEs an opportunity to raise the challenges they face on a daily basis and give suggestions on how to improve their working environment. Below is the summary of the responses by participants to these questions.

Table 2 below serves to illustrate the challenges confronting participants as they conduct their businesses. Fifty seven percent of the participants pointed to funding/finances as the main challenge in running their businesses, while 16% indicated the access and shortage of materials as a challenge confronting them on a daily basis. In addition, 8% identified branding and poor planning, while 5% reflected on the business owner being late and/or absent. The rest of the 8% identified various issues ranging from small space, communication/consultation by the local municipality on decisions that affect SMMEs, lack of commitment as well as low profits and product brands quality.

Table 2. Challenges Confronting SMMEs

Challenges	Percentages
Small space	2%
Being late and/or absent	5%
Branding and poor planning	8%
Communication/consultation	2%
Materials access and shortage	16%
Funds/Finances	57%
Lack of commitment	2%
Low profits and product brands quality	2%
Risk management and first aid programme emergency	25
water	4%
	100%

As far as the suggestions for the improvement of SMMEs working environment is concerned, Table 3 below depicts that 54% of the SMME owners needed to create and follow business plans for their businesses and be submitted to the local municipality. It is interesting to observe that the participants themselves suggested training with 17%, followed by education with 5% and certain skills such as branding and marketing with 2%. Furthermore, quality service delivery was suggested with 7%. Moreover, the participants of this research project with 2% raised the issue of bigger space. Finally, the SMMEs want the local municipality to build own market centres, without disregarding the existence of marketing stalls in some areas.

Table 3: Suggestions for Improved SMMEs Working Environment

Suggestions	Percentages
Get a bigger space	2%
Branding and marketing skills	2%
Business plan and submission	54%
Consulting and be consulted by municipality	11%
Quality service delivery	7%
Help build own market centres	2%
Education	5%
Training	17%
	100%

8. Contribution and Implications of this Research

As far as the literature of South Africa is concerned, there is no research as yet that has studied the contribution of local economic development programme at the grass root level of the Mbombela Municipality. This research therefore makes a new contribution to the South African literature by unravelling the contribution of LED to the grass root SMMEs.

This research offers implications at three different levels, namely the academics, research and public policy administrators. For the academia, the article provides a new teaching case study for teaching at the postgraduate level public policy analysis and local economic development. It contributes to the existing research literature by providing a new knowledge and further implication for future researchers to explore this research finding in other municipalities in South Africa. It offers practical implication for public policy administrators to boost the funding and administrative machinery for improving the grass root development of local SMMEs through the LED programme.

9. Conclusion and Recommendations

The researcher observed that the role played by LED in local communities do contribute in reducing unemployment and poverty and is evident through the findings of this research project. The findings have pointed to the fact that indeed LED does contribute positively towards the growth of the economy of South Africa. Furthermore, the article has made it clear that South Africa needs to make the SMMEs environment favourable for business for growth purposes and by doing that, it will be dealing with the socio-economic challenges confronting the country. The research project has shown that LED can be geared towards achieving steady economic growth and an overall competitive stance in the market for a concerned jurisdiction (pro-growth LED); it has also been shown that LED serves another purpose, which is more focused on improving people's livelihoods, and geared towards creating employment and alleviating poverty. In view of the discussion on the nature of LED, and based on the findings above, the article concludes by providing the following recommendations: (1) the Local Government in the Mbombela Local Municipality should invests in improving the infrastructure in the municipality and works in collaboration with the other spheres of government to improve infrastructure beyond the provision of basic utilities such as water and electricity services. (2) The local municipality should carry out place marketing in

order to attract businesses and customers for its SMMEs gain. (3) Finally, the researcher recommend that the local municipality should establish skills development programmes for SMMEs. This should be a long-term initiative aimed at equipping current and potential people for SMMEs with skills on how to improve their current and dominant businesses. This programme may also strive to equip the locals with other skills to aid local development.

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