

UNIVERSITY OF KWAZULU-NATAL

INVESTIGATING THE CONTRIBUTIONS OF SMMES TOWARD
ECONOMIC DEVELOPMENT IN NONGOMA LOCAL
MUNICIPALITY

VUSIMUZI PATRIC ZULU

2017

UNIVERSITY OF KWAZULU-NATAL

INVESTIGATING THE CONTRIBUTIONS OF SMMEs TOWARD
ECONOMIC DEVELOPMENT IN NONGOMA LOCAL
MUNICIPALITY

A dissertation submitted in partial fulfilment of the degree of
Master of Public Administration

College of Law and management
School of Management, IT and Governance

Supervisors: Dr. SI Zondi and Prof. TI Nzimakwe

March 2017

DECLARATION

I, **Vusumuzi Patrick ZULU**, declare that

- (i) The research reported in this dissertation, except where otherwise indicated, is my original research.
- (ii) This dissertation has not been submitted for any degree or examination at any other university.
- (iii) This dissertation does not contain any other person's data, pictures, graphs or other information, unless specifically acknowledged as being sourced from other persons.
- (iv) This dissertation does not contain any other person's writing, unless specifically acknowledged as being sourced from other researchers. Where other written sources have been quoted, then:
 - a) their words have been re-written but the general information attributed to them has been referenced;
 - b) where their exact words have been used, their writing has been placed inside quotation marks, and referenced.
- (v) This dissertation does not contain text, graphics or tables copied and pasted from the Internet, unless specifically acknowledged, and the source being detailed in the dissertation and in the bibliography section.

Signature-----

Date:-----

DEDICATION

I would like to dedicate my work to the entire Kwa-Hlalangomusa family for their support and words of encouragement when the journey got tough.

A special gratitude to my wife, Nonhlahla Ngidi, for her support and understanding when I was away on numerous occasions pursuing this research project.

A special dedication to the Adams family, especially Mrs G Adams who has been a pillar of strength, and has often compromised things to ensure that I further my studies. Their words of encouragement have never gone unnoticed.

Finally, this dissertation is written in honour of my late parents, Prince Elias Phoqizwe Zulu and Ndlunkulu Doris T. Zulu; may their souls rest in peace.

ACKNOWLEDGEMENTS

This dissertation would not have been a success without the undying support, encouragement and inspiring words from the following people:

My supervisors Dr SI Zondi and Prof TI Nzimakwe of the Discipline of Public Governance at the University of KwaZulu-Natal, for their most valuable and constructive academic input during the development of this dissertation. They were always willing to dedicate time to ensure that I obtained proper mentorship.

I am indebted to the Municipal Manager of the Nongoma Local Municipality, Mr Bonga Ntanzu for granting me permission to conduct this research within the municipality, and for his willingness to offer support wherever necessary despite his busy schedule. I would also like to express my appreciation for the contributions made by Mr Smanga Gazu from the Tourism section in the Nongoma Local Municipality. I also express my gratitude to the many political leaders of the municipality for the unwavering support which they have offered during this journey.

I extend further words of appreciation to the community members of Nongoma, particularly those selected as respondents for this research. Thank you for your active and positive participation. I am thankful for the professional support rendered by the language editor, Mrs Catherine Eberle, and the statistician, Nontuthuzelo Sogoni.

My fellow colleagues/business partners in Isidingo Trading, Pastor Daven Govender and his wife Pastor Roxanne Govender and Dazzil Reddy, may Almighty God bless you and your families. I am, and will forever be grateful to my entire family who have been my pillar of strength throughout this journey. Finally, this has not been an easy journey and I have received support and inspiration from various experts and individuals who never hesitated to offer support whenever I needed it. I wish to say thank you very much and may the Almighty God bless you all.

ABSTRACT

Since 1994, the South African government has recognised the important role of fostering an enabling environment for the creation and growth of the Small, Medium and Micro Enterprises (SMMEs). The purpose has been to ensure that small businesses progressively increase their contribution to economic growth, and strengthen the South African economy in critical areas such as job creation, equity and poverty alleviation. In light of this background, this study is designed to determine the extent to which the Small, Medium and Micro Enterprises (SMMEs) contribute to the economic development of local communities in the Province of KwaZulu-Natal in general, and more specifically in the Nongoma Local Municipality. Although SMMEs are regarded as an economic breakthrough for local communities and the backbone of a second economy, the contemporary literature on economic development is awash with topics detailing challenges affecting the survival and sustainability of this economic development strategy. Despite the challenges facing SMMEs, this study argues that job creation through SMMEs is particularly important for South African communities which are plagued by high levels of unemployment. However, a concerted effort should be made in this regard to uplift their influence at community levels. Furthermore, the literature review has described SMMEs as efficient and prolific job creators, the seeds of big businesses and the fuel of national economic engines. Even in developed industrial economies, it is the SMME sector rather than the multinationals that is the largest employer of workers.

In conducting this study, the researcher used a mixed methods approach to solicit information about factors affecting SMMEs, from the emerging entrepreneurs as well as the officials of the Nongoma Local Municipality. The qualitative study was conducted with the municipal officials who provided their input in terms of developing entrepreneurial skills with the Nongoma Municipal Area. In addition, the quantitative study was conducted with the members of the community who participate in one or more entrepreneurial activities. The research findings point to a need for active engagement between various municipal stakeholders and communities in cementing a role that can be played by the SMMEs in creating maximum employment

opportunities. Since funding is the main factor affecting the sustainability of SMMEs, the study recommends a financial support model which will be sensitive to the needs of the SMMEs, which should be coordinated by National Department of National Department of Economic Development

TABLE OF CONTENTS

DECLARATION	i
DEDICATIONS	ii
ACKNOWLEDGMENTS	iii
ABSTRACT	iv
TABLE OF CONTENTS	v-x
LIST OF FIGURES	xi-xii
LIST OF TABLES	xii
LIST OF ANNEXURES	xiii

CHAPTER ONE: INTRODUCTION AND OVERVIEW OF THE STUDY

1.1 INTRODUCTION-----	1
1.2 PROBLEM STATEMENT-----	1
1.3 BRIEF BACKGROUND INFORMATION -----	4
1.4 OBJECTIVES OF THE STUDY-----	5
1.5 KEY QUESTIONS GUIDING THE STUDY-----	6
1.6 CONTRIBUTIONS/SIGNIFICANCE OF THE STUDY-----	7
1.7 LITERATURE REVIEW-----	8
1.7.1 THE ROLE AND CONTRIBUTIONS OF SMMES IN ECONOMIC DEVELOPMENT-----	9
1.8 THEORETICAL FRAMEWORK-----	11
1.9 RESEARCH METHODOLOGY-----	12
1.9.1 RESEARCH DESIGN-----	12
1.9.2 RESEARCH SAMPLING-----	13
1.9.3 STUDY SITE-----	13
1.9.4 DATA COLLECTION INSTRUMENTS-----	15
1.9.4.1 RESEARCH QUESTIONNAIRES-----	15
1.9.4.2 INTERVIEW SCHEDULES-----	15
1.10 THE ANALYSIS OF DATA-----	16
1.10.1 THEMATIC DATA ANALYSIS (QUALITATIVE DATA)-----	16
1.10.2 STATISTICAL PACKAGE FOR SOCIAL SCIENCES (QUANTITATIVE DATA ANALYSIS)-----	17
1.11 TESTING VALIDITY AND RELIABILITY-----	17
1.12 ETHICAL CONSIDERATIONS-----	18

1.13	STRUCTURE OF THE DISSERTATION-----	18
1.14	CONCLUSION-----	20
CHAPTER TWO: LITERATURE REVIEW		
2.1	INTRODUCTION -----	21
2.2	THE DEFINITION OF CONCEPTS-----	21
2.3	THE CATEGORISATION OF SMMEs IN SOUTH AFRICA-----	23
2.4	HISTORICAL OVERVIEW OF THE SOUTH AFRICAN ECONOMY UNDER THE APARTHEID REGIME-----	26
2.5	THE ECONOMIC RESTRUCTURING OF SOUTH AFRICA IN THE POST APARTHEID ERA-----	27
2.6	THE DESCRIPTIVE OVERVIEW OF THE INFORMAL ECONOMY IN SOUTH AFRICA-----	28
2.7	THE ROLE OF SMMEs IN PROMOTING ECONOMIC GROWTH AT LOCAL GOVERNMENT LEVELS-----	31
2.8	THE SOUTH AFRICAN GOVERNMENT’S INITIATIVES TO SUPPORT SMMEs-----	35
2.8.1	THE LEGISLATIVE AND POLICY FRAMEWORK -----	36
2.8.1.1	THE WHITE PAPER ON DEVELOPMENT AND PROMOTION OF SMALL BUSINESSES IN SOUTH AFRICA (1995)-----	36
2.8.1.2	THE INTEGRATED SMALL BUSINESSES DEVELOPMENT STRATEGY-----	37
2.8.1.3	THE INTEGRATED STRATEGY ON THE PROMOTION OF ENTREPRENEURSHIP AND SMALL ENTERPRISES (2005) -----	39
2.8.1.4	THE SMALL BUSINESS ACT-----	39
2.8.1.5	THE SMALL ENTERPRISE DEVELOPMENT AGENCY (SEDA)-----	39
2.8.2	THE ESTABLISHMENT OF THE MINISTRY OF SMALL BUSINESS DEVELOPMENT-----	40
2.8.3	THE MACRO REGULATORY FRAMEWORK FOR SMMEs-----	41
2.8.3.1	THE RECONSTRUCTION AND DEVELOPMENT PROGRAMME (1994 – 1999) -----	42
2.8.3.2	THE GROWTH, EMPLOYMENT AND REDISTRIBUTION (1994-2004)-----	43
2.8.3.3	THE ACCELERATED GROWTH INITIATIVE OF SOUTH AFRICA (2005)-----	43
2.8.3.4	THE JOINT INITIATIVE ON PRIORITY SKILLS ACQUISITION (2006)-----	44
2.8.3.5	THE NEW GROWTH PATH (2010)-----	45
2.8.3.6	THE NATIONAL DEVELOPMENT PLAN: VISION 2030-----	46
2.8.4	THE NEED OF THE SMMEs TO ADVANCE ON THE SUSTAINABILITY PATH-----	47
2.9	CONCLUSION-----	49
CHAPTER THREE: THEORY AND PRACTICE OF ECONOMIC DEVELOPMENT THROUGH SMMEs		

3.1 INTRODUCTION	51
3.2 THE PRACTICE OF SMMESs IN THE NONGOMA LOCAL MUNICIPALITY.....	51
3.3 BASIC PRINCIPLES UNDERPINNING ECONOMIC DEVELOPMENT IN THE ZULULAND DISTRICT MUNICIPALITY.....	54
3.4 THE THEORIES OF ECONOMIC DEVELOPMENT.....	58
3.4.1 THE LINEAR STAGES OF ECONOMIC GROWTH THEORIES.....	59
3.4.2 THE STRUCTURAL CHANGE MODELS OF ECONOMIC DEVELOPMENT.....	62
3.4.3 THE NEO COLONIAL DEPENDENCE THEORY.....	63
3.5 CONCLUSION	63

CHAPTER FOUR: RESEARCH DESIGN AND METHODOLOGY

4.1 INTRODUCTION.....	65
4.2 RESEARCH DESIGN AND METHODOLOGY.....	65
4.3 RESEARCH.....	66
4.4 RESEARCH DESIGN.....	66
4.5 RESEARCH PROCESS.....	67
4.5.1 RATIONALE FOR RESERCH PARADIGM IN THE STUDY.....	67
4.5.2 THE POSITIVIST RESEARCH PARADIGM.....	68
4.6 RESEARCH APPROACH.....	69
4.6.1 MIXED METHOD APPROACH.....	69
4.6.1.1 QUANTITATIVE RESEARCH METHODOLOGY.....	70
4.6.1.2 QUALITATIVE RESEARCH METHODOLOGY.....	71
4.7 DATA COLLECTION PROCEDURES.....	71
4.7.1 RESEARCH INTERVIEWS.....	71
4.7.1.1 STRUCTURED INTERVIEWS.....	72
4.8.2 RESEARCH QUESTIONNAIRES.....	73
4.9 SAMPLING PROCEDURES.....	73
4.9.1 NON-PROBABILITY SAMPLING.....	74
4.9.2 PROBABILITY SAMPLING.....	74
4.10 DATA ANALYSIS.....	75
4.10.1 THEMATIC ANALYSIS FOR QUALITATIVE STUDY.....	77
4.10.2 STATISTICALPACKAGE FOR THE SOCIAL SCIENCES FOR QUANTITATIVE DATA.....	77

4.11 ENSURING VALIDITY AND RELIABILITY-----	77
4.12 ETHICAL CONSIDERATIONS-----	78
4.12.1 PERMISSION TO CONDUCT A STUDY-----	79
4.12.2 CONFIDENTIALITY AND PRIVACY-----	79
4.12.3 VOLUNTARY PARTICIPATION AND INFORMED CONSENT-----	79
4.13 CONCLUSION -----	80

CHAPTER FIVE: DATA PRESENTATION, ANALYSIS AND INTERPRETATION

5.1 INTRODUCTION-----	81
5.2 DATA PRESENTATION-----	81
5.3 THE PRESENTATION OF QUANTITATIVE DATA-----	82
5.3.1 THE PRESENTATION OF QUALITATIVE DATA-----	82
5.4 DATA ANALYSIS AND INTERPRETATION-----	83
5.5 RELIABILITY AND VALIDITY OF RESULTS-----	83
5.6 QUANTITATIVE DATA ANALYSIS-----	84
5.6.1 AGE DISTRIBUTION OF RESPONDENTS-----	84
5.6.2 GENDER REPRESENTATION OF THE RESPONDENTS WHO PARTICIPATED IN THE STUDY-----	85
5.6.3 RACIAL COMPOSITION OF THE RESPONDENTS-----	86
5.6.4 EDUCATIONAL BACKGROUND OF THE RESPONDENTS-----	87
5.6.5 EMPLOYMENT STATUS OF THE RESPONDENTS-----	88
5.6.6 NATURE OF BUSINESS OWNERSHIP-----	89
5.6.7 CATEGORIES OF BUSINESSES IN NONGOMA LOCAL MUNICIPALITY-----	90
5.6.8 THE DURATION OF THE OPERATION OF SMMEs IN NONGOMA LOCAL MUNICIPALITY-----	91
5.6.9 THE IMPORTANCE OF BUSINESS EXPERIENCE IN BUSINESS MANAGEMENT IN THE SMMEs SECTOR-----	92
5.6.10 EMPLOYMENT OPPORTUNITIES PROVIDED BY SMMEs IN NONGOMA LOCAL MUNICIPALITY-----	93
5.6.11 PROFESSIONAL HELP FOR SMMEs IN NONGOMA LOCAL MUNICIPALITY-----	94
5.6.12 THE ROLE OF BUSINESS PLANS IN THE SMME SECTOR-----	95
5.6.13 THE ACCESSIBILITY OF FUNDING FOR SMMEs-----	96
5.6.14 THE ALTERNATIVE SOURCES OF FUNDING FOR SMMEs-----	97
5.6.15 THE RELATIONSHIP BETWEEN FINANCIAL INSTITUTIONS AND SMMEs-----	98

5.6.16 SMMEs WHO HAVE BEEN DENIED FUNDING BY FINANCIAL INSTITUTIONS-----	99
5.6.17 REASONS AFFECTING SMMEs’ ACCESS TO FINANCIAL SUPPORT-----	100
5.6.18 FUTURE PROSPECTS OF THE SMMEs IN NONGOMA LOCAL MUNICIPALITY-----	101
5.6.19 PLANS TO EXTEND BUSINESSES TO OTHER TOWNS, CITIES AND PROVINCES-----	102
5.6.20 WILLINGNESS TO SOLICIT PROFESSIONAL HELP FROM BIG BUSINESSES AND FINANCIAL INSTITUTIONS-----	103
5.7 QUALITATIVE DATA ANALYSIS -----	103
5.7.1 THE ROLE OF THE MUNICIPAL OFFICIALS IN ASSISTING THE DEVELOPMENT OF SMMEs IN NONGOMA COMMUNITIES-----	104
5.7.2 TYPES OF EDUCATIONAL TRAINING PROVIDED BY NONGOMA MUNICIPALITY TO THE SMMEs-----	104
5.7.3 TYPES OF FINANCIAL SUPPORT PROVIDED BY THE MUNICIPALITY TO THE EMERGING ENTREPRENEURS-----	105
5.7.4 THE MONITORING AND EVALUATION OF THE SMMEs NONGOMA LOCAL MUNICIPALITY-----	105
5.7.5 THE CONTRIBUTIONS OF THE SMMEs IN THE ECONOMIC GROWTH IN NONGOMA LOCAL MUNICIPALITY -----	105
5.7.6 FACTORS AFFECTING THE DEVELOPMENT OF SMMEs IN NONGOMA LOCAL MUNICIPALITY-----	106
5.7.7 THE AVAILABLE STRUCTURES NURTURING AND MENTORING EMERGING ENTREPRENEURS IN THE NONGOMA LOCAL MUNICIPALITY-----	106
5.7.8 THE ROLE OF INNOVATION AND TECHNOLOGICAL ADVANCEMENT IN THE SMMEs SECTOR-----	106
5.7.9 CONCLUSION -----	107
CHAPTER SIX: CONCLUSIONS AND RECOMMENDATIONS	
6.1 INTRODUCTION -----	108
6.2 GENERAL CONCLUSIONS-----	108
6.2.1 THE ROLE OF THE GOVERNMENT AND DIFFERENT STAKEHOLDERS IN PROMOTING SMMEs-----	110
6.2.2 CONTRIBUTION OF SMMEs TO ECONOMIC DEVELOPMENT IN THE LOCAL COMMUNITIES-----	111
6.2.3 SKILLS DEVELOPMENT AND CAPACITY BUILDING IN THE SMME SECTOR-----	111

6.2.4 BUSINESS MENTORING AND SUPPORT FOR THE SMMEs-----	111
6.3 RECOMMENDATIONS OF THE STUDY-----	111
6.3.1 RECOMMENDATIONS EMANATING FROM THE LITERATURE-----	112
6.3.1.1 RECOMMENDATION ONE: NEED FOR EMPWERMMENT PROGRAMMES FOR THE SMMEs-----	112
6.3.1.2 RECOMMENDATION TWO: NEED FOR THE REDEFINITION OF THE ROLE OF LOCAL GOVERNMENT IN SOCIAL AND ECONOMIC DEVELOPMENT-----	112
6.3.1.3 RECOMMENDATION THREE: PUBLIC PARTICIPATION IN LOCAL ECONOMIC DEVELOPMENT STRATEGIES -----	112
6.3.1.4 RECOMMENDATION FOUR: RELATIONSHIPS BETWEEN FINANCIAL INSTITUTIONS AND SMMEs-----	113
6.3.2 RECOMMENDATIONS EMANATING FROM THE EMPIRICAL SURVEY-----	113
6.3.2.1 RECOMMENDATION FIVE: THE NEED FOR EDUCATION AND TRAINING FOR THE EMERGING ENTREPRENEURS -----	113
6.3.2.2 RECOMMENDATION SIX: THE NEED TO ENHANCE SMMEs' ABILITY TO ABSORB UNEMPLOYMENT -----	114
6.3.2.3 RECOMMENDATION SEVEN: THE NEED FOR THE DEVELOPMENT OF THE FINANCIAL SUPPORT MODEL FOR THE SMMEs-----	114
6.4 CONCLUSION -----	114
BIBLIOGRAPHY-----	115- 125

LIST OF FIGURES

FIGURE: 1.1 TOPOGRAPHICAL MAP SHOWING NONGOMA LOCAL MUNICIPALITY WITHIN THE ZULULAND DISTRICT MUNICIPALITY-----	14
FIGURE 2.1: THE CATEGORIES OF SMMEs-----	25
FIGURE 2.3: EMPLOYMENT RATE IN THE SMME SECTOR-----	30
FIGURE 2.4: EMPLOYMENT CONTRIBUTION OF THE SMME SECTOR-----	35
FIGURE 2.5: COOPERATIVE SOCIAL RESPONSIBILITY CURVE-----	48
FIGURE 3.1: THE SPATIAL PRINCIPLES OF ECONOMIC DEVELOPMENT OF NONGOMA LOCAL MUNICIPALITY -----	55
FIGURE 4.1: THE ILLUSTRATION OF A RESEARCH PROCESS-----	67
FIGURE 4.2: DATA ANALYSIS PROCESS-----	76

FIGURE 5.1: GENDER REPRESENTATION OF THE RESPONDENTS WHO PARTICIPATE IN THE SMMES ACTIVITIES-----	85
FIGURE 5.2: RACIAL COMPOSITION OF THE RESPONDENTS-----	86
FIGURE 5.3: EDUCATIONAL BACKGROUND OF THE RESPONDENTS-----	87
FIGURE 5.4: EMPLOYMENT STATUS OF THE RESPONDENTS-----	88
FIGURE 5.5: NATURE OF BUSINESS OWNERSHIP-----	89
FIGURE 5.6: CATEGORIES OF BUSINESSES IN NONGOMA LOCAL MUNICIPALITY-----	90
FIGURE 5.7: THE DURATION OF THE OPERATION OF SMMES IN NONGOMA LOCAL MUNICIPALITY-----	91
FIGURE 5.8: THE IMPORTANCE OF PREVIOUS EXPERIENCE OF BUSINESS MANAGEMENT IN THE SMMES SECTOR-----	92
FIGURE 5.9: EMPLOYMENT OPPORTUNITIES PROVIDED BY SMMES IN NONGOMA LOCAL MUNICIPALITY-----	93
FIGURE: 5.10: PROFESSIONAL HELP FOR SMMES IN NONGOMA LOCAL MUNICIPALITY-----	94
FIGURE: 5.11: THE ROLE OF BUSINESS PLANS IN THE SMMES SECTOR -----	95
FIGURE: 5.12: THE ACCESSIBILITY OF FUNDING FOR SMMES-----	96
FIGURE 5.13: THE ALTERNATIVE SOURCES OF FUNDING FOR SMMES-----	97
FIGURE 5.14: THE RELATIONSHIP BETWEEN FINANCIAL INSTITUTIONS AND SMMES-----	98
FIGURE 5.15: SMMES WHO HAVE BEEN DENIED FUNDING BY FINANCIAL INSTITUTIONS-----	99
FIGURE 5.16: REASONS AFFECTING SMMES ACCESS TO FINANCIAL SUPPORT -----	100
FIGURE 5.17: FUTURE PROSPECTS OF THE SMMES IN NONGOMA LOCAL MUNICIPALITY-----	101
FIGURE 5.18: PLANS OF EXTENDING BUSINESS TO OTHER CITIES, TOWN AND PROVINCES-----	102
FIGURE 5.19: WILLINGNESS TO SOLICIT PROFESSIONAL HELP FROM BIG BUSINESSES AND FINANCIAL INSTITUTIONS-----	103

LIST OF TABLES

TABLE 5.1: THE CRONBACH'S ALPHA-----	83
TABLE 5.2 AGE DISTRIBUTION OF RESPONDENTS -----	84

LIST OF ANNEXURES

ANNEXURE 1: PERMISSION LETTER TO CONDUCT A STUDY

ANNEXURE 2: RESEARCH QUESTIONNAIRES FOR THE EMERGING ENTREPRENEURS

ANNEXURE 3: INTERVIEW SCHEDULES FOR THE MUNICIPAL OFFICIALS

ANNEXURE 4: LETTER OF INFORMED CONSENT

ANNEXURE 5: LANGUAGE CERTIFICATE

ANNEXURE 6: ETHICAL CLEARANCE LETTER

ANNEXURE 7: TURN IT IN REPORT

ANNEXURES

**ANNEXURE 1: LETTER FROM THE MUNICIPALITY GRANTING A
PERMISSION TO CONDUCT A STUDY**



Umkhandlu wakwa - **NONGOMA** - Local Municipality

Tel: (035) 831 7500|Fax: (035) 831 3152|P.O. Box 84|Nongoma 3950

18 March 2016

The Academic Leader: Higher Degrees
School of Management, IT and Governance
University of Kwa Zulu-Natal, Westville Campus
Durban, 4000

TO WHOM IT MAY CONCERN

Re: Masters in Public Administration, Mr. VP Zulu

Student Number: 215079991

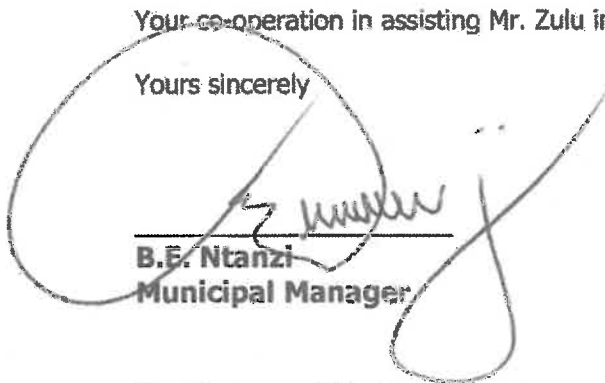
Research Topic: The Study Investigating the Contributions of the SMMEs towards
Economic Development in Nongoma Local Municipality

This letter serves to confirm that Mr. V.P. Zulu, a registered student at the University of Kwa Zulu-Natal is currently conducting an academic research in the field of local government with focus on the roles of Small, Medium and Micro Enterprises (SMMEs) toward economic development in Nongoma Local Municipality. This research is a requirement to complete the Masters Programme in Public Administration.

It is hereby confirmed that Mr. Zulu has been granted permission to conduct his study and to access council information regarding the above mentioned research topic. In addition, Mr. Zulu has also been granted permission to interview relevant officials and utilize, where necessary reasonable council resources.

Your co-operation in assisting Mr. Zulu in his research endeavors would be highly appreciated.

Yours sincerely



B.E. Ntanzu
Municipal Manager

EXECUTIVE COMMITTEE : (Hon Cllr J.B. Mavundla-Mayor ; Hon T.B. Nyoka -Deputy Mayor; Hon A.N Mchunu-Speaker (EX -Officio) ; Mr B.E Ntanzu -Municipal Manager (EX- Officio) ; Cllr S.C Mataba ; Cllr M.E. Ndwandwe ; Cllr S.M. Zulu ; Cllr W.S. Zungu).

ANNEXURE 2: LETTER OF INFORMED CONSENT



Dear Respondent,

(MPA) Research Project
Researcher: Name (Telephone number)
Supervisor: Name (Office Telephone number)
Research Office: Ms. M Snyman (031 260 8350)

I, (Vusi Patric Zulu) a Master of Public Administration (MPA) student, at the School of Management, IT and Governance, of the University of Kwazulu Natal. You are invited to participate in a research project entitled 'the study investigating the contributions of SMMEs toward economic development in Nongoma Local Municipality'. The aim of this study is to: explore the relevance of the role of the SMMEs in creating stable and sustainable economic growth which creates employment opportunities, reduces poverty and eliminates economic inequality for the citizens of Nongoma Local Community.

Through your participation I hope to understand the potential of informal economy, especially the SMMEs in eliminating poverty and reduce inequality, and accelerate employment opportunities. The results of the survey are intended to contribute in bridging the gap between theory and practice of informal economy in South Africa. Furthermore, the recommendations of the study will reflect the realities of the endeavours of the government and community stakeholders to fulfil the mandate for more efficient and effective mechanisms to support the development of the SMMEs.

Your participation in this project is voluntary. You may refuse to participate or withdraw from the project at any time with no negative consequence. There will be no monetary gain from participating in this survey. Confidentiality and anonymity of records identifying you as a participant will be maintained by the School of Management, IT and Governance, UKZN.

If you have any questions or concerns about completing the questionnaire or about participating in this study, you may contact me or my supervisor at the numbers listed above.

CONSENT

I Vozumazi Patrick Zulu.....(full names of participant) hereby confirm
that I understand the contents of this document and the nature of the research project, and
I consent to participating in the research project.

**I understand that I am at liberty to withdraw from the project at any time, should I
so desire.**

SIGNATURE OF PARTICIPANT

DATE



04/05/2016

The survey should take you about 10 minutes to complete. I hope you will take the time to complete this survey.

Sincerely

Investigator's signature

A handwritten signature in black ink, appearing to read "William F. Williams". The signature is written over a horizontal line.

Date

04/05/2016

**ANNEXURE 3: RESEARCH QUESTIONNAIRES FOR THE EMERGING
ENTREPRENEURS**



UNIVERSITY OF
KWAZULU-NATAL
INYUVESI
YAKWAZULU-NATALI

SCHOOL OF MANAGEMENT, IT AND GOVERNANCE

MPA RESEARCH PROJECT

STUDENT NAME: MR VUSI PATRIC ZULU (STUDENT NUMBER: 215079991)

QUESTIONNAIRE FOR EMERGING ENTREPRENEURS

**PROJECT TITLE: THE STUDY INVESTIGATING THE CONTRIBUTIONS OF SMMES TOWARDS
ECONOMIC DEVELOPMENT AT NONGOMA LOCAL MUNICIPALITY**

(Please tick with an X in the appropriate box)

1. Age in years

20 – 30		30 – 40		40 - 50		50 - 60	60+	
---------	--	---------	--	---------	--	---------	-----	--

2. Gender

Male	1
Female	2

3. Race

African	1
Coloured	2
Indian	3
White	4

4. Educational Background

No education	1
Primary Education	2
Secondary Education	3
Post metric education	4
Other	5

5. Employer, if employed

Public Sector	1
Private	2
Business Sector	3
Self-Employed	4
Unemployed	5
Other	6

SECTION B: GENERAL INFORMATION OF THE BUSINESS

6. What is the nature of your business?

Private business	1
Partnership	2
Sole proprietor	3
Family owned business	4
Others (specify)	5

7. What is the category of your business?

Retail trading	1
Manufacturing	2
Real estate	3
Transport industry	4
Farming	5
Other (specify)	6

8. For how long has your business been in operation?

Less than one (1) year	1
Between 1 and 5 years	2
Between 6 and 10 years	3
Between 11 and 15 years	4
Over 15 years	5
Other (specify)	6

9. How many people (staff) are employed in your business

1	1
2	2
3	3
4	4
5	5
More than five (specify)	6

10. Do you have a professional personnel who manage the operations of your business?

Yes	1
No	2
Other (specify)	3

11. Did you receive any type of support from a professional personnel to run your business?

Yes	1
No	2
Other (specify)	3

12. If your answer to the above question is yes, what type of qualification do they possess?

Senior Certificate (Grade 12)	1
Post Grade 12 certificate	2
Junior Degree	3
Postgraduate Qualification	4
Other (specify)	5

13. Does your business have an existing business plan?

Yes	1
No	2
Other (specify)	3

SECTION C: BUSINESS FINANCING INFORMATION

14. Has your business ever applied for funding/loan from a financial institution?

Yes	1
No	2
Other (specify)	3

15. If the answer in question number 14 is no, where did you get funding/capital to start your business

Personal savings	1
Pension fund	2
Informal money laundering system	3
Other (specify)	4

16. If the answer in question number 14 is yes, how do you rate your relationship with that financial institution?

Excellent	1
Good	2
Average	3
Poor	4

17. Have you ever been refused or denied credit/loan from the financial institution?

Yes	1
No	2

18. If your answer in question number 12 is yes, what was the reason for the financial institution to decline your application?

Default on previous loans	1
Risk associated reasons	2
Unaffordability reasons	3
Other (specify)	4

SECTION D: FUTURE BUSINESS PLANS/GOALS

19. I would like to employ more people/staff to assist in the business.

Strongly Agree	1
Agree	2
Not sure	3
Disagree	4
Strongly disagree	5

20. I would like to extend my business to another city, town, province.

Strongly Agree	1
Agree	2
Not sure	3
Disagree	4
Strongly disagree	5

21. I would like to solicit professional help from big business and financial institutions.

Strongly Agree	1
Agree	2
Not sure	3
Disagree	4
Strongly disagree	5

22. I would like to identify goods/services that customers want.

Strongly Agree	1
Agree	2
Not sure	3
Disagree	4
Strongly disagree	5

SECTION E: BUSINESS SUCCESS FACTORS

23. What is your perception regarding the following factors in managing a business?

Key: NVI= not very important, NI = not important, I = important, VI = very important, N = neutral

POSSIBLE FACTORS		NVI	NI	I	VI	N
1	Educational level of the Entrepreneur					
2	Previous work experience of managing a business					
3	Geographical area of the business					
4	Technology					
5	External Support (Municipality, SEDA, financial institutions)					
6	Financial resources					
7	Good public infrastructure					
8	Customers					
9	Good management competencies					
10	Competitive advantage					
11	Economic status of the geographical area of the business					

ANNEXURE 4: INTERVIEW SCHEDULES FOR THE MUNICIPAL OFFICIALS



UNIVERSITY OF
KWAZULU-NATAL
INYUVESI
YAKWAZULU-NATALI

SCHOOL OF MANAGEMENT, IT AND GOVERNANCE

MPA RESEARCH PROJECT

STUDENT NAME: MR VUSI PATRIC ZULU (STUDENT NUMBER: 215079991)

INTERVIEW SCHEDULES FOR SMMES OFFICIALS

PROJECT TITLE: THE STUDY INVESTIGATING THE CONTRIBUTIONS OF SMMES TOWARDS ECONOMIC DEVELOPMENT AT NONGOMA LOCAL MUNICIPALITY

Date of the Interview

		2016
--	--	------

Interview Number

--

1. Age in years

20 – 30		30 – 40		40 - 50		50 - 60	60+	
---------	--	---------	--	---------	--	---------	-----	--

2. Gender

Male	1
Female	2

3. Race

African	1
Coloured	2
Indian	3
White	4

4. Educational Background

No education	1
Primary Education	2
Secondary Education	3
Post metric education	4
Other	5

5. Employer, if employed

Public Sector	1
Private	2
Business Sector	3
Self-Employed	4
Unemployed	5
other	6

6. What is the role of your office in assisting the development of SMMEs in Nongoma communities?

7. What type of support is required by the emerging entrepreneurs in developing SMMEs?

8. What type of support do you offer to the emerging entrepreneurs who have small businesses in the communities of Nongoma Local Municipality?

9. What type of training do you offer to the emerging entrepreneurs in the Nongoma Community?

10. What are the types financial support service from government that could benefit the emerging entrepreneurs

11. What type of mechanisms do you practice to monitor and evaluate progress of the SMMEs which are funded by the government?

12. Why do you think SMMEs are important for economic growth in the communities of Nongoma Local Community?

13. What do you think are the factors affecting the sustainability of the SMMEs in the communities of Nongoma Local Municipality?

14. Beside the role of your office in supporting SMMES, what are other available structures in government or private sector that mentor the emerging entrepreneurs?

15. Why do you think innovation and technological advancement is essential for the success of the SMMES?

16. According to your understanding, what are the perceptions of the unemployed people of this community towards embarking on SMMES projects for the creation of employment opportunities and alleviation of poverty?

17. What comments do you have regarding the role of the SMMES towards economic development in the communities of Nongoma Local Municipality?

ANNEXURE 5: LANGUAGE CERTIFICATE



7 Woodlands Rd
GLENWOOD
DURBAN
4001
083 415 2531

2 December 2016

Reg. No. 2006/156780/23

Vusimuzi Patrick Zulu

EDITING OF RESEARCH DISSERTATION OF VUSIMUZI PATRICK ZULU

I have an MA in English from University of Natal (now UKZN) and have been performing editing services through my company for eleven years. My company regularly edits the research dissertations, articles and theses of the School of Nursing, Environmental Studies and various other schools and disciplines at the University of KwaZulu-Natal and other institutions, as well as editing for publishing firms and private individuals on contract.

I hereby confirm that Barbara Dupont edited the research dissertation of **Vusimuzi Patrick Zulu** titled "A STUDY INVESTIGATING THE CONTRIBUTION OF SMALL, MEDIUM AND MICRO ENTERPRISES (SMMES) TOWARDS ECONOMIC DEVELOPMENT IN THE NONGOMA LOCAL MUNICIPALITY" on behalf of WordWeavers cc and commented on the anomalies she was unable to rectify in the MS Word Track Changes and review mode by insertion of comment balloons prior to returning the document to the author. Corrections were made in respect of grammar, punctuation, spelling, syntax, tense and language usage as well as to sense and flow.

Please note that the Reference section and any Appendices or Annexures were not edited and that Figures were not listed and labelled and Acronyms were unlisted at time of edit.

I trust that the document will prove acceptable in terms of editing criteria.

Yours faithfully

C Eberle

Catherine P. Eberle (MA: University of Natal)

ANNEXURE 6: TURN IT IN REPORT

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CHAPTER ONE INTRODUCTION AND OVERVIEW OF THE STUDY 1.1 INTRODUCTION This study is designed to determine the extent to which the Small, Medium and Micro Enterprises (SMMEs) contribute to the economic development of local communities in the province of KwaZulu-Natal in general, and more specifically in the Nongoma Local Municipality. Although SMMEs are regarded as an economic breakthrough for local communities and the backbone of a second economy, the contemporary literature on economic development is awash with topics detailing challenges affecting the survival and sustainability of this economic development strategy. Hence, in light of these challenges, the study is designed to provide an in-depth analysis and a deeper insight into the role of SMMEs in creating employment opportunities for the poor people. Furthermore, the study aims to assess the impact of the support mechanisms provided by the South African government to rescue the SMMEs. 1.2 PROBLEM STATEMENT Since the introduction of a democratic state in 1994, South Africa has been faced with the challenge of re-integrating into world markets as a role player in the global

ANNEXURE 7: ETHICAL CLERANCE LETTER

26 July 2016

Mr Vusumuzi Patrick Zulu (215079991)
School of Management, IT & Governance
Westville Campus

Dear Mr Zulu,

Protocol reference number: HSS/1108/016M

Project title: Investigating the contribution of SMMEs toward economic development in Nongoma Local Municipality

Full Approval – Expedited Application

In response to your application received on 21 July 2016, the Humanities & Social Sciences Research Ethics Committee has considered the abovementioned application and the protocol have been granted **FULL APPROVAL**.

Any alteration/s to the approved research protocol i.e. Questionnaire/Interview Schedule, Informed Consent Form, Title of the Project, Location of the Study, Research Approach and Methods must be reviewed and approved through the amendment/modification prior to its implementation. In case you have further queries, please quote the above reference number.

PLEASE NOTE: Research data should be securely stored in the discipline/department for a period of 5 years.

The ethical clearance certificate is only valid for a period of 3 years from the date of issue. Thereafter Recertification must be applied for on an annual basis.

I take this opportunity of wishing you everything of the best with your study.

Yours faithfully

.....
Dr Shenuka Singh (Chair)

/ms

Cc Supervisor: Professor TI Nzimakwe and Dr SI Zondi
Cc Academic Leader Research: Professor Brian McArthur
Cc School Administrator: Ms Angela Pearce

Humanities & Social Sciences Research Ethics Committee

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CHAPTER ONE

INTRODUCTION AND OVERVIEW OF THE STUDY

1.1 INTRODUCTION

This study is designed to determine the extent to which the Small, Medium and Micro Enterprises (SMMEs) contribute to the economic development of local communities in the province of KwaZulu-Natal in general, and more specifically in the Nongoma Local Municipality. Although SMMEs are regarded as an economic breakthrough for local communities and the backbone of a second economy, the contemporary literature on economic development is awash with topics detailing challenges affecting the survival and sustainability of this economic development strategy. Hence, in light of these challenges, the study is designed to provide an in-depth analysis and a deeper insight into the role of SMMEs in creating employment opportunities for the poor people. Furthermore, the study aims to assess the impact of the support mechanisms provided by the South African government to rescue the SMMEs.

1.2 PROBLEM STATEMENT

Since the introduction of a democratic state in 1994, South Africa has been faced with the challenge of re-integrating into world markets as a role player in the global economy. This coincides with a period in which the nation strives to realise the high expectations of its populace regarding a successful transition towards a more democratic order (Berry, Blottnitz, Cassim, Kesper, Rajaratnam and Seventer, 2002:1). For Maas and Herrington (2006) cited in Agbenyegah (2013), the frequency with which entrepreneurial activities have failed in South Africa has been well documented in Global Entrepreneurship Monitor (GEM) reports, for some years now. According to the GEM report (2006), entrepreneurial activities in South Africa have shown a gradual decline over the years compared to other developing countries. Due to the rampant failure of entrepreneurial activities, it was impossible to sustain the existing level of economic growth and job opportunities of the country. With the

global economic meltdown in 2009 and the persisting challenges of development, namely unemployment, poverty and inequality, South Africa's economy is in a state of distress. The depth of the extreme poverty is evidenced by a lack of income and productive resources to ensure sustainable livelihoods; hunger and malnutrition; ill health; limited or lack of access to education and other basic services; increased morbidity and mortality from illness; homelessness and inadequate housing; unsafe environments and social discrimination and exclusion (Gordon, 2010). In light of these poor socio-economic conditions, Rogerson (2009) further notes that the recent economic crises have revealed and often widened inequalities within countries. With the weakening of traditional sources and patterns of work, and the expansion of the informal economy, bottom-up interventions responding to local needs emerge as key strategies for creating decent jobs where they are most needed. Additionally, the possibility for South Africa's economy to be downgraded to junk status is another worrying factor necessitating the role of economic development through SMMEs.

In response to the above mentioned challenges, the South African government has introduced a number of corrective measures to bring about economic relief and prosperity for local communities previously excluded by the apartheid regime from economic participation. Among these corrective measures is the role of SMMEs, in which local government has been given a mandate to provide a strategic position which can ensure equitable access to socio-economic opportunities for local communities (Pretorius & Shaw, 2004:222). Furthermore, in the State of the Nation Address (SONA) of 2015, President Zuma, announced the *Nine Point Plan* initiative to respond to the ailing economic growth of the South Africa. The plan includes the urgent need to unlock the potential of SMMEs, co-operatives and township and rural enterprises (RSA, 2015).

However, despite the clear objectives of creating the country's economic independence through SMMEs, poverty and unemployment continue to affect the majority of South African citizens. Basically, SMMEs across the world, and in SA in particular, are still faced with numerous challenges that inhibit entrepreneurial growth. The Global Entrepreneurship

Monitor (GEM) Report (2001-2010) noted that South African SMMEs also suffer from poor management skills which are a result of lack of adequate training and education. This results in high rates of business failure (SA has one of the lowest SMMEs survival rates in the world). This view is also articulated in the Western Cape Economic Review and Outlook (2007:33) which expresses that several key issues inhibit the performance of SMMEs and the informal economy. These include access to finance, skills training, physical infrastructure and basic services and a business-related infrastructure and the impact of regulations. Additionally, Suh (2011:90) observes that:

The SMMEs sector is not only the most dynamic one in economic development, but it is the first to be hit by any serious external shock. SMMEs are now considered the most sensitive sector and worst affected by the economic environment. The economic crises have a diverse impact on most SMMEs, reducing volume of sales and increasing the number of bankruptcies.

This statement sheds light on some of the realities facing SMMEs that prevent them from growing, and which cause a large percentage of SMMEs to shut down in their first two years of operation (Nkonde, 2011:3).

Being a rural and poverty-stricken municipal area, Nongoma is highly affected by cases of poverty and the researcher of the current study postulates that this local authority would benefit significantly should SMMEs be properly structured and capacitated to boost its economic base. The Nongoma Municipality is situated in the North of the Province of KwaZulu-Natal and is one of five local municipalities that make up the Zululand District. The other four municipalities include Ulundi, uPhongolo, eDumbe and AbaQulusi Local Municipalities (IDP, 2015-2016). It is the most populated municipality in the Zululand region and the second largest in terms of its area. This mainly relates to the four tribal authorities of this local municipality, namely, Njampela, Ogedleni, KwaMandlakazi and Sovane. The research sample was drawn from these authorities.

1.3 BRIEF BACKGROUND INFORMATION

In line with the escalating levels of global poverty, unemployment and social exclusion, The World Bank (2014) poses the question as to what it will take to end poverty and improve the lives of the poor. Various authors in the field of economic development believe that economic growth will prove paramount, but, beyond growth itself, there is a need to ensure that all members of society share in the benefits of that growth (Malan, 2010:9). This view is also shared by Ladzani and Van Vuuren, (2004:154) who state that the small business sector is recognised as a key driver of job opportunities and a provider of linkages between the first and second economies (the latter is commonly known as the informal economy), with the main objectives being to create wealth among rural entrepreneurs and to solve the immense challenges of growing unemployment.

With regard to the Nongoma Local Municipality, poverty, unemployment and the lack of opportunities for sustainable economic growth in the near future are some of the economic barriers hindering the capacity of the citizens from participating effectively in the economic affairs of the municipality (IDP, 2015-2016). In addressing this challenge within the municipality and elsewhere in the country, the government has introduced a number of economic interventions for the acceleration of economic growth. One example of such an intervention includes the commitment towards economic restructuring and poverty alleviation which is manifested in the formulation of the Local Economic Development (LED) programme which typifies SMMEs as the catalyst for economic growth.

The White Paper on National Strategy for the Development and Promotion of Small Business in South Africa (1995) highlights the fact that SMMEs represent an important vehicle to address the challenges of job creation, economic growth and equity in South Africa. Most recently, the National Development Plan – Vision 2030 also mentions the need for the rejuvenation of SMMEs towards eradicating poverty and unemployment (RSA, 2015). Furthermore, the country's first socio-economic policy, Reconstruction and Development Programme (RDP) advocated support for small and medium enterprises for

the purpose of employment creation, income distribution and growth (Amra, Hlatshwayo and McMillan, 2013:2). Based on the potentiality for SMMEs to steer economic growth, there has been a growing consensus among policy-makers, economists and business experts that SMMEs are the drivers of economic growth (Mahembe, Chiumya and Mbewe, 2011:10). Fourie (2012) also notes that a healthy SMME sector contributes prominently to the economy through creating more employment opportunities, generating higher production volumes, increasing exports and introducing innovation and entrepreneurship skills.

Since the formulation of the Small Business Act 1996 (Act 102 of 1996) which provides guidelines and procedures for different organs of state in order to promote the SMMEs, there has been a wide range of policies, programmes and projects implemented by the national government to rationalise the roles of the SMMEs in poverty alleviation. Hence the main purpose of the SMMEs in South Africa is to act as an engine for economic growth. The undertaking to locate SMMEs within the broader economic strategy of the South African government is indicated in the objectives guiding the current study, which are outlined below.

1.4 OBJECTIVES OF THE STUDY

The specific objective of the study is to explore the relevance of the role of the SMMEs in creating stable and sustainable economic growth which creates adequate employment opportunities, reduces poverty and eliminates economic inequality for the citizens of the Nongoma Local Community. Hence, the general objectives of the current study are detailed as follows:

- To determine the significance and roles of the SMMEs in contributing to the economic growth and entrenching the culture of entrepreneurship within local communities;

- To understand the roles of the Nongoma Local Municipality and its external stakeholders, such as SEDA in supporting the development of the SMMEs in the Nongoma municipal area;
- To evaluate whether SMMEs are the sustainable mechanisms to cope with economic challenges facing local communities, particularly the poor and rural communities;
- To investigate the institutional challenges encountered by the Nongoma Local Municipality in implementing economic generating strategies such as SMMEs and to propose solutions thereof; and
- To draw conclusions and submit proposals and recommendations for efficient local government policies within the broader context of economic development strategies.

To achieve the above mentioned objectives, the study employed an extensive literature and theoretical review to develop a broad understanding of the SMMEs as an economic generation strategy. Furthermore, the study used empirical surveys guided by the tenets of a mixed-method approach – a research methodology that is qualitatively and quantitatively grounded. This type of methodology was deemed necessary to reach concrete conclusions and draw consistent recommendations.

1.5 KEY QUESTIONS GUIDING THE STUDY

In line with the proposed objectives, this study aims to respond to the following key questions:

- What is the significance and role of SMMEs in accelerating economic growth and entrenching the culture of entrepreneurship within the local communities?
- What is the role of the Nongoma Local Municipality and its external stakeholders, such as SEDA, in supporting the development of SMMEs in the Nongoma municipal areas?

- To what extent are SMMEs a sustainable mechanism to cope with economic challenges facing local communities, particularly the poor and rural communities?
- What are the main institutional challenges encountered by the Nongoma Local Municipality in implementing economic generating strategies such as the SMMEs, and what solutions can be proposed in this regard?
- What conclusions, proposals and policy recommendations can be drawn from the study of the SMMEs and how effective are these in boosting local economies?

These key questions signify that SMMEs are critical to the development of any economy as they usually form the bulk of the economic activities (Kayanula and Quartey, 2000) especially in the developing world.

1.6 CONTRIBUTION/SIGNIFICANCE OF THE STUDY

The study is essential for *inter alia*, the following reasons:

- SMMEs account for 60 to 70 per cent of jobs in most Organisation for Economic Co-operation and Development (OECD) countries, with a particularly large share in the most developed countries, and a relatively smaller share in the underdeveloped and developing nations (OECD, 2001).
- In light of the current triple challenges of development (poverty, unemployment and inequality) facing South Africa, SMMEs represent the basis of economic development particularly for rural communities.
- To eliminate poverty, reduce inequality, and accelerate employment opportunities, South Africa requires much higher levels of economic growth strategies – such as the promotion of SMMEs, supported by accelerated implementation of structural reforms identified in the National Development Plan.

- In addition, SMMEs are outlined in the *Nine-Point Plan* of the government which is aimed at rebuilding the country's economy.

Against this background, it is anticipated that the insight derived from this research will contribute to bridging the gap between theory and practice. The recommendations of the study will reflect the realities of the endeavours of the government and community stakeholders to fulfil the mandate for more efficient and effective mechanisms to support the development of SMMEs.

1.7 LITERATURE REVIEW

This section provides a brief overview of the literature of the economy and of SMMEs in the South African and global contexts. The broad discussions of the literature are explored in chapter two. A literature review is the text in a scholarly paper which includes current knowledge comprised of substantive findings, as well as theoretical and methodological contributions to a particular topic (ais.up.ac.za/med/tnmwritingliteraturereviewlie.htm). This assertion links to the view of Bless, Higson-Smith and Kagee (2006:24) that a literature review can be defined as a critical evaluation of previous scholarly writings that are relevant to the research topic. According to Mouton (2001: 86) it is of paramount importance that every research project begins with a review of the existing literature in its particular field of study.

A good literature review makes the researcher aware of what has already been written, in order to avoid duplication of study and unnecessary repetition (White, 2014:2). Such a review helps the researcher to consolidate the theoretical foundation of the study. It is also through a literature review that a researcher discovers whether the study has significance or whether it will lead to new knowledge (Hofstee, 2006:91). Moore (1995:9) also agrees that a study of literature forms a fundamental and integral part of the planning and undertaking of a research project.

In a broader context, Hart (1998) lists the following purposes of the literature review:

- Distinguishing what has been done from what needs to be done;
- Discovering important variables relevant to the topic;
- Synthesising and gaining a new perspective;
- Identifying relationships between ideas and practice;
- Establishing the context of the topic or problem;
- Rationalising the significance of the problem;
- Enhancing and acquiring the subject vocabulary;
- Understanding the structure of the subject; and
- Relating ideas and theory to applications.

The section below reviews the existing literature evidence as to whether SMMEs boost growth and reduce poverty.

1.7.1 THE ROLE AND CONTRIBUTIONS OF SMMEs IN ECONOMIC DEVELOPMENT

To accelerate growth and reduce poverty, the World Bank Group and other international aid agencies such as the OECD and the International Labour Organisation (ILO) provide targeted assistance to small, medium and micro enterprises (SMMEs) in developing economies. For example, the World Bank Group has provided financial assistance to support SMMEs since 1998 (World Bank, 2009).

This pro-SMMEs financial support policy is based on three core arguments (World Bank, 1994, 2002, 2004).

- Firstly, SMME advocates argue that SMMEs enhance competition and entrepreneurship and hence have external benefits on economy-wide efficiency, innovation, and aggregate productivity growth. From this perspective, direct government support of SMMEs will help countries exploit the social benefits from greater competition and entrepreneurship.

- Secondly, SMME proponents frequently claim that SMMEs are more productive than large firms, but that financial markets and other institutional failures impede SMME development. Thus, pending financial and institutional improvements, direct government financial support to SMMEs can boost economic growth and development.
- Thirdly, some argue that SMME expansion boosts employment more than large firm growth because SMMEs are more labour intensive. From this perspective, subsidising SMMEs may represent a poverty alleviation tool.

While the international community channels a large amount of aid into subsidising SMMEs, four sceptical views question the efficacy of this policy, for example:

First, some authors stress the advantages of large firms and challenge the assumptions underlying the pro-SMME's views. Specifically, large enterprises may exploit the 'economies of scale' and may more easily undertake the fixed costs associated with research and development (R&D) with positive productivity effects (Pagano and Schivardi, 2001; Pack and Westphal, 1986). Also, some hold the view that large firms provide more stability and therefore perform higher quality jobs than small firms, with positive ramifications for poverty alleviation (Rosenzweig, 2008; Brown *et al.*, 2013).

A second set of sceptical views directly challenges the assumptions underlying pro-SMME arguments. In particular, some research finds that SMMEs are neither more labour intensive, nor better at job creation than large firms (Little *et al.*, 1987). Furthermore, recent work finds that under-developed financial and legal institutions hurt many types of firms besides SMMEs. Indeed, research finds that under-developed institutions constrain firms from growing to their efficient sizes (Beck *et al.*, 2003; and Kumar *et al.*, 2001).

A third set of sceptical views questions the validity of considering firm size as an exogenous determinant of economic growth. From the industrial organisation literature, natural

resource endowments, technology, policies, and institutions help determine a nation's industrial composition and optimal firm size (Kumar *et al.*, 2001). For instance, some countries may have endowments that give the country a comparative advantage in the production of goods that are produced efficiently by large firms, while other countries will have a comparative advantage in goods produced most economically by small firms (Young, 2013).

A fourth sceptical view regarding the efficacy of pro-SMME policies, which is termed the business environment view, doubts the crucial role of SMMEs, but instead, stresses the importance of the business environment encompassing all firms, big and small. Low entry and exit barriers, well-defined property rights and effective contract enforcement characterise a business environment that is conducive to competition and private commercial transactions.

In Sub-Saharan Africa, Biggs and Shah (1998) find that large firms are the dominant source of net job creation in the manufacturing sector. Furthermore, empirical evidence suggests that firm size is not a good predictor of labour intensity, and that labour intensity varies more across industries than across firm-size groups within industries. Many small firms are more capital intensive than large firms in the same industry (Little *et al.*, 1987; Snodgrass and Biggs, 1996). This suggests that SMMEs are not necessarily more suitable to the labour abundance and capital shortage characteristics of developing countries.

1.8 THEORETICAL FRAMEWORK

Economies of the underdeveloped, developing and developed countries have, at some stage, undergone restructuring processes and there have been various theories formulated to give both descriptive and predictive explanations (Hunter, 2013:23). Against this background, the study will be guided by the Linear Stages of Economic Development, Structural Change Model and Neo-colonialism Theories which suggest that poor and underdeveloped countries may improve their economies through the sequence of stages. The theoretical orientation of the study also argues that, for economies to prosper and

satisfy the needs of the citizens, the right conditions for such economic prosperity would have to undergo a total paradigm shift of growth, and adopt new economic models, ownership structures and innovative ways to measure impact (McHugh, 2014:596).

Against this background, this study explored the significance of these paradigm shifts in facilitating economic growth of the communities of the Nongoma Local Municipality. These theories were selected on the basis that they link to the specific objective of the study which is to explore the relevance of the role of the SMMEs in creating stable and sustainable economic growth which creates adequate employment opportunities, reduces poverty and eliminates economic inequality for the citizens of the Nongoma local community.

1.9 RESEARCH METHODOLOGY

Research methodology, in common parlance, refers to the active search for knowledge. It can also be defined as an academic, scientific activity and systematic search for pertinent information on a specific topic. According to Engels (2014:187), research methodology comprises defining and redefining problems, formulating hypotheses or suggested solutions, collecting, organising and evaluating data, making deductions and reaching conclusions, and finally carefully testing the conclusions to determine whether they fit the objectives of the study.

1.9.1 RESEARCH DESIGN

In order to reach concrete conclusions and propose recommendations for future studies on SMMEs, the current study uses the mixed method approach, which is defined by Creswell (2009:206) as the methodology that focuses on combining both quantitative and qualitative research methods in a single study. Johnson and Onwuegbuzie (2007), cited in Creswell (2009:204) highlight the reasons why researchers employ a mixed methods design (e.g. to broaden understanding by incorporating both quantitative and qualitative research, or to use one approach to

better understand, explain or build on the results from the other approach (Bryman, 2006; Tashakkori, 2006; Teddlie, 2003).

The research design of the study (see chapter four) also applies the paradigms (positivist, interpretive and critical postmodernist) which are synonymous with the qualitative research design.

1.9.2 RESEARCH SAMPLING

According to Whitley and Kite (2013: 486), the research sample refers to the group of people to whom we want the results of our research to apply. The target population for this study was thirty participants who are emerging entrepreneurs and who are engaged in one of the forms of the SMMEs, and six municipal officials (Municipal Manager, LED, IDP, Public Participation and two officials from SEDA).

As far as research sampling is concerned, Graff (2009:45) warns that mixed method sampling requires an understanding and acknowledgment of the sampling strategies that occur in quantitative and qualitative research. Probability sampling techniques are used most often in quantitative research to obtain a sample that most accurately represents the entire population (Graff, 2009:45). Purposive sampling techniques are used mainly in qualitative research to select participants or other units of study who can provide or yield data that will address the research questions (Creswell, 2009). Due to the nature of the current study which employs both qualitative and quantitative methods, the researcher used probability (quantitative) and purposive (qualitative) sampling frames.

1.9.3 STUDY SITE

The study site refers to the physical place where the research is going to be conducted. This study will be conducted in the Nongoma Local Municipality which is situated in the Northern part of the province of KwaZulu-Natal (see below a topographical map showing the Nongoma Local Municipality). This municipality is selected on the basis that it is a rural

area which is highly affected by poverty and unemployment. The study of SMMEs is therefore a perfect fit in this area where SMMEs are widely used as a coping mechanism for economic challenges facing local communities.

Figure 1.1: A topographical map showing Nongoma Local Municipality within the Zululand District Municipality



Source: (www.gov.za)

According to Whitley and Kite (2013: 486), the research sample refers to the group of people to whom we want the results of our research to apply. The target population for this study will include 30 participants who are emerging entrepreneurs and who are engaged in one of the forms of the SMMEs, the Municipal Manager of the Nongoma Local Municipality, the manager of the Economic Development Unit of the municipality and two senior officials from SEDA (officials dealing with SMME development in the Nongoma area).

1.9.4 DATA COLLECTION INSTRUMENTS

Since the study adopted a mixed method approach, it utilises both research questionnaires and interview schedules.

1.9.4.1 RESEARCH QUESTIONNAIRES

According to Bless and Higson-Smith (1999:102), a questionnaire is constructed for collecting and recording information about a particular issue of interest. It is mainly made up of a list of questions, but should also include clear instructions and space for answers or administrative details. In line with this explanation, the researcher designed and administered a questionnaire to the general public (community members of the Nongoma Local Municipality), particularly those who participate in the SMME's activities. The purpose of the questionnaires was to provide a quantitative description of the impact for SMMEs in generating employment opportunities for community members.

1.9.4.2 INTERVIEW SCHEDULE

The researcher used structured interviews to solicit information from six municipal officials such as the Municipal Manager, LED, IDP, and Public Participation managers. The purpose of interviewing these officials was to understand the plan of the municipality for supporting the existing SMMEs and mentoring the emerging entrepreneurs. The decision to use structured interviews for this study stemmed from Newman's (2004:88) recommendations that interviews are useful for the following reasons:

Easy correction of speech: Any misunderstanding and mistake can be rectified easily in an interview because of the close interaction between the interviewer and interviewee.

Development of relationship: A relationship between the interviewer and interviewee can be developed through an interview. It increases mutual understanding and co-operation between the parties.

Selection of suitable candidates: Suitable candidates can be selected through interviews because the interviewer can learn a lot about the candidate through this process.

Collection of primary information: Interviews can help to collect fresh, new and primary information as needed.

Sufficient information: Sufficient information can be collected through the interview process because the interviewer can ask any questions to the respondent.

Through interviews, the officials can provide valuable views to assist the researcher in drawing concrete conclusions regarding the future plans of the Nongoma Municipality in supporting the existing SMMEs and the development of entrepreneurial skills within the municipality.

1.10 THE ANALYSIS OF DATA

Qualitative data collection is usually dependent on interpretation. This means that the data requires several explanations. This is because huge amounts of qualitative evidence are often collected. Additionally, there is no distinction between data collection and its analysis (Cassell and Symon 1994), as supported by Cohen (2011:78), who said that data analysis in qualitative research is distinguished by a merging of analysis and interpretation, and often by the merging of data collection with data analysis. This means that there is an overlap of analysis and interpretation to reach a conclusion.

1.10.1 THEMATIC DATA ANALYSIS (QUALITATIVE DATA)

Thematic Analysis was considered the most appropriate technique for this study because it sought to discover the role of SMMEs in economic development using interpretations. In this manner, it allowed the researcher to associate an analysis of the frequency of each theme throughout the entire study. Thematic Analysis is a type of qualitative analysis which is used to analyse classifications and present themes (patterns) that relate to the data. It illustrates the data in great detail and deals with diverse subjects via interpretations

(Boyatzis, 1998). Thematic Analysis allows the researcher to determine precisely the relationships between concepts, and compare them with the replicated data. By using thematic analysis there is a possibility to link the various concepts and opinions of the respondents and compare these with the data that has been gathered in different situations at different times during the project. All possibilities for interpretation are possible (Cohen, 2011:83).

1.10.2 STATISTICAL PACKAGE FOR SOCIAL SCIENCES (QUANTITATIVE DATA)

The quantitative data gathered from the members of the community will be analysed through the Statistical Package for the Social Sciences (SPSS). Newman (2009) notes that quantitative methods of data analysis can be of great value to the researcher who is attempting to draw meaningful results from a large body of qualitative data. The main beneficial aspect is that it provides the means to separate out the large number of confounding factors that often obscure the main qualitative findings (Creswell, 2009). Quantitative analytical approaches also allow the reporting of summary results in numerical terms to be given with a specified degree of confidence (Creswell, 2009).

1.11 TESTING VALIDITY AND REALIABILITY

Stainback and Stainback (cited in Welman, Kruger and Mitchell, 2007:9) note that qualitative and quantitative researchers aspire to realise outcomes that are reliable and valid. According to Babbie and Mouton (2002:119), reliability is a matter of whether particular techniques, applied repeatedly to the same object, will yield the same results each time. On the other hand, validity of results is deemed preferable by qualitative researchers, because the outcomes of the study must signify what the study is seeking to investigate. For the purpose of this study, the statistician will conduct a reliability test before and after the survey has been conducted. It will then be concluded that the data collection instrument selected for the study is reliable and is able to produce similar results if tested again with the same or similar sample groups, in the same or similar circumstances.

1.12 ETHICAL CONSIDERATIONS

With regards to the importance of ethical guidelines of the research, Teddlie and Tashakkori (2009:45) state that human research may be conducted only with ethical approval. Therefore, ethical clearance for this study was obtained from the University of KwaZulu-Natal, School of Management, IT and Governance. The researcher was also granted permission by the Nongoma Local Municipality to conduct a study about SMMEs in its area of jurisdiction. The respondents (emerging entrepreneurs, municipal officials and SEDA officials) gave consent to participate in the study by signing a consent form. The respondents were given all the relevant information in advance which assisted them to decide whether to take part in the research or not. Furthermore, respondents were informed of their rights during the study, which included their right to withdraw from the study at any point if they felt uncomfortable participating, since the study is voluntary; their right to confidentiality and anonymity (records identifying them as a participant will be maintained by the researcher).

1.13 STRUCTURE OF THE DISSERTATION

Chapter One introduces the study and provides a broad overview of the role of SMMEs in their stride for economic development as well as their potential in creating employment opportunities for local communities of the Nongoma Local Municipality. Due to the geographical location of the municipality and the scarcity of resources to support entrepreneurship opportunities, the majority of SMMEs in the Nongoma area are struggling, and lack resources. The chapter further provides objectives and key questions of the study. Research methodology and design are indicated and rationalised.

Chapter Two deals with the literature review. The literature explored in the study will be guided by the study objectives. For example, it investigates the significance of SMMEs in creating employment opportunities in the Nongoma Local Municipality, the role of the municipality in supporting the development of SMMEs, and it also gauges whether SMMEs are sustainable structures in dealing with poverty and unemployment in the area. The literature for the study also indicates the government attempts, since 1994, to support

economic development through SMMEs. The legislative and policy framework has played a crucial role in institutionalising various economic activities of the SMMEs.

Chapter Three blends theory and practice of SMMEs in the Nongoma Local Municipality. The application of the theory in this study is informed by the researcher's point of view that, a theory is a systematic explanation of the interrelationships among economic variables, and its purpose is to explain the causal relationship between these variables. The theories applied in this study include the stages of economic development, structural change models and the neo-colonial dependence theories.

Chapter Four presents the methodological approach underpinning the study. The researcher uses a mixed method approach. This methodology is deemed relevant due to its potential for collecting sufficient data through qualitative and quantitative paradigms. A total of 30 questionnaires will be administered to the emerging entrepreneurs, while structured interviews are to be conducted with the municipal officials. The researcher uses simple random and stratified samples. These samples are selected on the basis of their flexibility in reaching a sufficient number of subjects in an unbiased manner.

Chapter Five deals with data analysis and interpretation. Since the study adopted the mixed method approach, the analysis and presentation of the data is two-fold, namely qualitative and quantitative data analysis. The quantitative data analysis represents the experiences and views of the 30 emerging entrepreneurs who participated in the study. The quantitative data analysis indicates that, while SMMEs are alternative mechanisms to deal with unemployment, they experience challenges in accessing finance. This makes SMMEs unsustainable and on the verge of collapse within five years of establishment. The qualitative analysis indicates that municipal officials of the Nongoma Local Municipality are actively promoting economic development through SMMEs in the municipal area.

Chapter six draws conclusions from the themes that emerge from the literature and empirical survey. The research findings point to some critical questions regarding the sustainability of the SMMEs, hence appropriate recommendations are provided for future studies.

1.14 CONCLUSION

This chapter argues that, in light of the global economic challenges which result in cases of poverty and unemployment for local communities, the promotion of the entrepreneurial skills and small businesses (SMMEs) should remain an important priority for the Nongoma Local Municipality. The chapter also presented the problem statement, study objectives, as well as the key questions guiding the study. In an attempt to investigate the role of SMMEs in promoting economic growth for the rural communities of the Nongoma Local Municipality, the current study utilises a mixed method approach which allows the researcher to undertake an extensive empirical survey by administering the questionnaires to the emerging entrepreneurs of the Nongoma community and conducting face to face interviews with the municipal officials. This methodological approach was deemed necessary to answer the study questions. The next chapter presents the literature review which is aligned with the objectives and the methodology of the study.

CHAPTER TWO

LITERATURE REVIEW

2.1 INTRODUCTION

Although the participation in SMMEs, co-operatives and other forms of informal entrepreneurship is practiced by the majority of entrepreneurs at local, regional and global levels, research by various authors indicates that there is poor or insufficient knowledge about these economic development initiatives. Against this background, this chapter reviews the existing literature of the SMMEs with the purpose of identifying the factors hindering their prosperity and proposes solutions. This is essential to assist the government and various stakeholders in formulating comprehensive policies for the sustainability of this economic sector. The chapter is designed in a manner that addresses the objectives of the study and further aligns with the theoretical and methodological approach of the study. For ease of understanding, the chapter begins with the clarification of the key concepts (terminology) of SMMEs and then explores the roles and contributions of this sector in the economic development of local communities. It concludes by providing a broad discussion of the government's support for the SMMEs in the form of legislative and policy framework.

2.2 THE DEFINITION OF CONCEPTS

For the purpose of this study, the following concepts are clarified, thus imparting knowledge about the various mechanisms which are applicable to the environment of SMMEs and other livelihood strategies for local communities. These concepts also signify the ways in which citizens can complement government's formal employment endeavours. Such understanding would enable scientists, practitioners, and policy-makers to formulate a sound support base for these economic strategies and to guide the government regarding the areas that still need intervention.

Co-operative: co-operatives play an increasingly significant role in helping people from poor socio-economic backgrounds to find solutions as to how to cooperate out of poverty by

tapping into their own resources, knowledge and strengths (SALGA, 2011). They are also regarded as an autonomous association of people united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled business (Department of Trade and Industry, 2012).

Co-operative Social Responsibility: is the continuing commitment by businesses to behave ethically and to contribute towards economic development while improving the quality of life of the workforce and their families, as well as of the local community and society at large (Turkel and Akan, 2013).

Economic growth: economic growth refers to an increase in the productive capacity of an economy as a result of which the economy is capable of producing additional quantities of goods and services (Palmer, 2012).

Formal economy: is the sector which encompasses all jobs with normal hours and regular wages and which comprises jobs recognised as income sources on which income taxes must be paid (ILO, 2011).

Informal sector, informal economy, or grey economy: is the part of an economy that is neither taxed nor monitored by any form of government. Unlike the formal economy, activities of the informal economy are not included in the gross national product (GNP) and gross domestic product (GDP) of a country (ILO, 2011).

Local economic development (LED) is an economic generating strategy which offers local government, the private and not-for-profit sectors and local communities the opportunity to work together to improve the local economy. It focuses on enhancing competitiveness, increasing sustainable growth and ensuring that growth is inclusive (World Bank, 2009)

Local Municipality: In South Africa, a local municipality or Category B municipality is a type of municipality that serves as the third, and most local, tier of government. Each district municipality is divided into a number of local municipalities, while responsibility for municipal affairs is divided between the district and local municipalities. There are 226 local municipalities in South Africa (Van der Walddt, et al, 2014:121).

SMMEs: are small in nature - either in terms of; (a) number of employees - 10 persons for 'small' to 200 persons for 'medium', depending on the country's laws; (b) capital and assets - limited working capital and assets, and (c) turnover - the overall turnover of the enterprise is small, compared to larger businesses (Rogerson, 2009:13).

Social security: is a concept enshrined in Article 22 of the Universal Declaration of Human Rights, which states that:

Everyone, as a member of society, has the right to social security and is entitled to realization, through national effort and international co-operation, and in accordance with the organization and resources of each State, of the economic, social and cultural rights indispensable for his dignity and the free development of his personality (Hamid, 2009:301).

2.3 THE CATEGORISATION OF SMMES IN SOUTH AFRICA

To further clarify the economy of the SMMEs, the literature of economic development distinguishes between five categories of the SMMEs. According to Qwabe (2005:85–86), the economy of the SMMEs can be understood within the broader perspective, ranging from survivalist to medium-sized enterprises.

Survivalist Enterprises

Survivalist Enterprises are enterprises with no paid employees and minimal asset values. These enterprises generate income below the minimum income standards or the poverty line, and their main aim is to provide a minimal subsistence means for the unemployed and their families. Most enterprises in this category are involved in hawking, vending and subsistence farming. According to the National Small Business Act (1996), survivalist enterprises are categorised as the Micro-Enterprise sector.

Micro-Enterprises

Micro-Enterprises have a turnover below the VAT registration limit and have less than five paid employees. These enterprises operate informally in terms of registration and compliance with legislation. Examples of these enterprises include Spaza shops, the taxi industry and traditional herb traders, etc. (Chetty, 2011:88).

Very Small Enterprises

The Very Small Enterprises employ fewer than 10 paid employees. This number may vary according to the sector. For example, electricity, manufacturing, construction and mining may employ approximately 20 employees. Qwabe (2005:86) notes that employees in the Very Small Enterprises operate according to formal standards of the labour market and usually possess knowledge of modern technology. The self-employed individuals are also categorised as Very Small Enterprises.

Small Enterprises

Small Enterprises have fewer than fifty paid employees and are more established in terms of their operations and annual turnover. Qwabe (2005:86) states that usually, the owners of such enterprises do not manage them directly, instead, they appoint secondary co-ordinating mechanisms to ensure smooth operation of the enterprises.

Medium-Sized Enterprises

Medium-Sized Enterprises are those with up to 100 paid employees (ILO, 2008:109). Although these enterprises are controlled by owners/managers, the management and ownership structure is more complex – consisting of individuals with varied and specialised expertise. Qwabe (2005:86) notes that the decentralisation of power to an additional management structure and a greater division of labour are the main distinctions between small and medium-sized enterprises.

Figure 2.1: The categories of SMME

Enterprise category	Headcount: Annual Work Unit (AWU)	Annual turnover	or	Annual balance sheet total
Medium-sized	< 250	≤ €50 million (in 1996 € 40 million)	or	≤ €43 million (in 1996 € 27 million)
Small	< 50	≤ €10 million (in 1996 € 7 million)	or	≤ €10 million (in 1996 €5 million)
Micro	< 10	≤ €2 million (previously not defined)	or	≤ €2 million (previously not defined)

Source: International Labour Organisation (2008)

With regard to the South African context, the small business entities means any entity, whether or not incorporated or registered under any law, which consists mainly of persons carrying on small business concerns in any economic sector, or which has been established for the purpose of promoting the interests of or representing small business concerns, and includes any federation consisting wholly or partly of such association, and also any branch of such organization (Department of Trade and Industry, 2007). Furthermore, Chetty (2011) postulates that, in many circumstances the size of the business determines its sustainability. In this regard, reference is made to the Medium Sized enterprises who stand more opportunities to survive than their counterparts (Micro Enterprises).

2.4 HISTORICAL OVERVIEW OF THE SOUTH AFRICAN ECONOMY UNDER THE APARTHEID REGIME

The South African economic and political crisis of the 1980s resulted in stagnant GDP growth, falling formal sector employment, and a decline in total investment as a percentage of the GDP from nearly 26 per cent in 1980 to about 15 per cent in 1994 (Nzimande and Cohen, 1999). It is therefore against this background that the current crisis of poor economic growth in the country (South Africa) can be traced to the legacy of Apartheid, which imposed financial sanctions, barring the country's active participation in the global economic affairs. The economic sanctions covered trade and finance (Hefti and Staehelin, 2006) and, as a result, South Africa found itself in a recession between 1984 and 1985, and even after 1986, the GNP increased less than the population. An important cause of economic weakness was the economic policy which was closely linked to the Apartheid ideology (Doxey, 2009:193). South Africa suffered a net capital outflow of 16.2 billion rands, which corresponded to an annual average of 2 per cent of GNP (Ellen, 2008:56). It also had high and increasing government outlays based on high defence costs, among other factors (Hefti and Staehelin, 2006). It pursued economic self-sufficiency, yet this limited South Africa's long-term competitiveness and thus stemmed the flow of foreign investment as well (Ellen, 2008:54). The country also had to cope with high inflation, scarce currency reserves and mounting short-term debt.

When South Africa emerged from the Apartheid era in 1994, it had an urgent need to complement its political liberation by participating in global trade and investment with economic growth that would benefit all members of the population. However, this coincided with the global economic strains which resulted in high unemployment rates. According to Ellen (2008:43), South Africa's participation in the global economic activities would also have demanded the reduction of distortions in capital markets that required more capital-intensive activities. In addition, it also required improved education and training in order to make the workforce become more employable and productive. This vision was to be realised through the formulation of the socio-economic and macro-

economic policy frameworks that would influence economic growth, hence the Reconstruction and Development Programme (RDP) and the Growth, Employment and Redistribution (GEAR) were introduced to steer economic growth in the right direction. These policy frameworks are discussed in section 2.8 of this dissertation.

2.5 THE ECONOMIC RESTRUCTURING OF SOUTH AFRICA IN THE POST APARTHEID ERA.

With the current challenges facing the South African political and economic landscapes, it is essential to outline the country's economic achievements as well as the challenges encountered since the introduction of a democratic state in 1994. In doing so, it is necessary to highlight how the informal and formal economies complement each other in addressing the global triple challenges of development (inequality, unemployment and poverty).

The political transitions of 1994 were accompanied by an economic system with deep structural flaws which failed to accommodate the diverse needs of the South African communities. Economic challenges, including unemployment, high poverty and international isolation characterised the State. These circumstances necessitated that the 'new government' inject new life into the South African economy by introducing various strategies to deal with these economic shortcomings. The government's economic strategies included *inter alia*, the promulgation of a new legislative framework governing public financial management and the variety of macro regulatory frameworks, as well as the promotion of various social livelihood programmes of complementing formal employment.

South Africa, according to the Centre for Public Service Innovation (CPSI, 2013), is a lower-middle income country with a well-developed urban economy and a less-developed economy outside of the urban centres. Its society is stratified along four major lines of inequality, namely class, gender, race and space. Spatial inequality is a central concern of South Africa's local government and appears to increase with economic growth (Kanbur & Venables, 2005:2). In order to lessen the impact of a growing economy that does not equally cater for the needs of all its citizens, the South African government has, through

legislation and other interventions, intensified efforts to mitigate the impact of spatial inequalities on local governance. The spatial inequalities are a basis of (often violent) service delivery protests, which are seen by protestors in townships as a medium through which to voice dissatisfactions (Roux & Nyamukachi, 2005:689; Venter, 2005; Mbiza & Prince, 2009; Kelder, 2009).

As far as economic strategies to boost the economy are concerned, the SMME sector, which has had major LED successes internationally, is, according to Johnston, McCarthy, Schlemmer and Bernstein (2012:5), performing poorly in South Africa when compared with countries in the same income category, namely Chile, Thailand and Mexico. South Africa establishes, sustains and grows fewer SMMEs.

SMMEs across townships are classified as survivalist in nature and are exposed to severe challenges that hamper their growth potential. This requires firmly placing SMMEs within the broader framework of local sustainable development. This, in turn, demands a strategic approach to SMMEs that implies careful consideration of the various trade-offs and making difficult choices. It also demands harnessing of and mobilising the local human, social, financial and natural capital towards the common vision, goals and objectives that the community aspires to achieve.

2.6 THE DESCRIPTIVE OVERVIEW OF THE INFORMAL ECONOMY IN SOUTH AFRICA

The categorisation between the informal and formal economies is not always clear. This is due to the varying conceptualisations used by different countries in an attempt to analyse economic contributions of these sectors (ILO, 2008). Furthermore, the classification via business sizes can be categorised in more than one way (Mauristen, 2005:15), thus leading to situations where firms identified as small, using one criteria, are not necessary small according to another. This complex situation presents a dilemma as far as the understanding of informal and formal economies is concerned.

Mauristen (2005:153) notes that:

Although there is no accepted definition of what constitutes an informal enterprise, there is a general consensus that they are small scale, and operate outside registration, tax and social security frameworks, and health and safety rules for workers, with informal economic activity being defined by its 'precarious' nature.

This suggests that SMMEs are informal in terms of operation and their guidelines are not attached to any stringent policies, laws and regulations of the country. In citing an example of an informal economy, the ILO (2008:7) estimates that approximately 78 per cent of non-agricultural jobs in sub-Saharan Africa, excluding South Africa, are located in the informal sector, with the figures for Asia and Latin America being 65 per cent and 51 per cent respectively. In contrast, in South Africa, it is estimated that the informal sector comprises 51 per cent of non-agricultural employment.

As far as SMMEs are concerned in the South African context, most studies have focused on the question of whether large firms or SMMEs create more jobs (Amra, Hlatshwayo and McMillan, 2013:3). It is against this background that the government, private and business sectors promote informal economy as a strategy to complement formal employment, thus alleviating poverty and creating employment opportunities. This view is further supported by Beck, Dermigus and Levine (2003) in that SMMEs are more labour intensive than large firms and thus the growth of the SMMEs would result in higher levels of employment. This view also answers the question of the study which seeks to understand whether SMMEs are a sustainable mechanism to cope with the economic challenges facing local communities. The empirical survey of this study further explores the extent to which SMMEs generate economic opportunities for citizens.

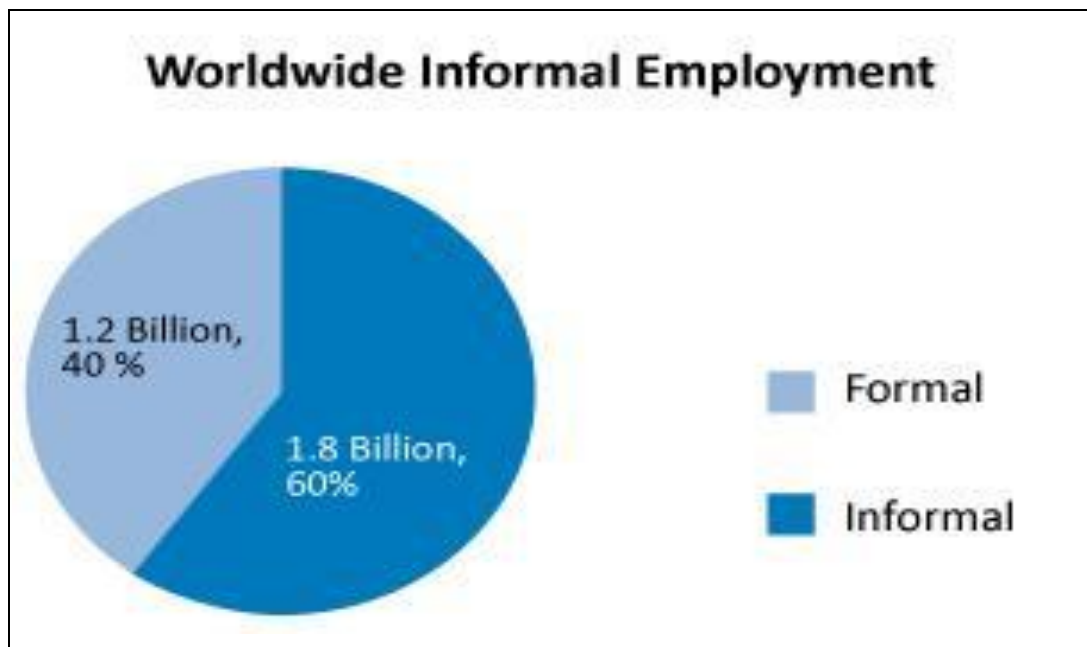
The significance of the SMMEs in economic development is also articulated in the study by Birch (1979 and 1981), entitled *The US Losing Manufacturing Jobs to Japan* which illustrates how the United States was compelled to seek an alternative strategy for creating employment, however little was known regarding the process of job creation. Solving this

problem would require a deep understanding of the job-rich sector, the one which should be allocated resources to boost employment opportunities. This is further elaborated on by Beck, Dermigus and Levine (2003), who warn that creating employment opportunities requires more efficient allocation of scarce resources in terms of which firms, small or large, have the potential for economic growth of the country.

Birch (1979) found that between 1969 and 1976 over two thirds of the total new jobs created were affected by small firms (fewer than 20 employees) whilst larger corporations appeared to be stagnant (Birch, 1979:17). According to the findings of the OECD (2013) in the below diagram, informal economy contributes a huge percentage (60 per cent) when compared with the formal economy (40 per cent) in the creation of employment opportunities.

Based on these findings, it can therefore be deduced that, when SMMEs are properly structured and supported, they can create employment opportunities and sustainable livelihood strategies for local communities.

Figure 2.3: Employment Rates in the Formal and Informal Sectors



Source: OECD (2009)

2.7 THE ROLE OF SMMEs IN PROMOTING ECONOMIC GROWTH AT LOCAL GOVERNMENT LEVELS

In response to the escalating levels of poverty, unemployment and inequality facing poor communities of South Africa, the role of SMMEs in economic development and employment creation has occupied most discussions among government, policy-makers, academics and researchers (Binza, 2010). Furthermore, there is evidence that the national unemployment level, currently estimated at 26.7 per cent, is increasing at a shocking rate (Statistics South Africa, 2011).

Nkonde (2010) observes that small business owners globally have the same characteristics and face the same obstacles but differ in their understanding of how small businesses assist in economic growth. The current study endorses the view of the authors of various backgrounds that, with proper planning, good financial support and human capital, the SMMEs have the ability to fuel economic growth and create new jobs, expand the tax base and alleviate poverty. This view is also supported by the findings of the current study, purporting that proper planning and the active role of the government and Non-Governmental Organisations are key to the success and sustainability of the SMME sector.

To this end, in South Africa, SMMEs constitute about 95 per cent of all businesses in the country, generate 30 per cent of the Gross Domestic Product (GDP) and absorb between 50 per cent and 60 per cent of the formally employed labour force (DTI, 2005). The graph presented in figure 2.4 below demonstrates that, since 2008, the employment rates of the SMMEs have been constant compared to their counterparts in the larger enterprises. Furthermore, SMMEs contribute 42,7 per cent of the total value of salaries and wages paid in South Africa (Mutezo, 2005:1). The government of South Africa has, since 1995, actively promoted SMMEs in recognition of the critical role they play in employment generation and income redistribution.

According to the information adapted from <http://www.unecf.org/indust/sme/ece-sme.htm>, the strategic importance of SMMEs is today acknowledged around the world for the following reasons:

- Small and medium-sized enterprises are contributing to employment growth at a higher rate than larger firms. In the European Union economy, about 99.9 per cent of the enterprises are SMMEs, of which 93 per cent are micro enterprises. In 1992, there were 15.7 million SMMEs in the private non-primary (i.e. non-farming) sector of the community;
- The private sector, and in particular SMMEs, forms the backbone of a market economy, and, for the transition economies, in the long-term, might provide most of the employment (as is the case in the European Union countries). A World Bank sector policy paper shows that their labour intensity is from 4-10 times higher for small enterprises;
- SMMEs curb the monopoly of the large enterprises and offer them complementary services and absorb the fluctuation of a modern economy;
- SMMEs can generate important benefits in terms of creating a skilled industrial base and industries, and developing a well-prepared service sector capable of contributing to GDP through higher value added;
- The structural shift from the former large state-owned enterprises to smaller and private SMMEs will increase the number of owners, a group that represents greater responsibility and commitment than in the former centrally planned economies;
- An increased number of SMMEs will bring more flexibility to society and the economy and might facilitate technological innovation, as well as provide significant opportunities for the development of new ideas and skills.

These factors capture the essence of the study which argues that SMMEs have a significant role in strengthening economies of rural communities by building their economic-base and

enhancing entrepreneurial skills. In addition, these factors are at the core of the country's development strategy and are fundamental to the achievement of the vision of the National Development Plan by 2030.

According to the GEM Executive Report for 2008, (cited in, Mbedzi, 2011) the GEM National Expert Survey, which was conducted to measure how conditions for entrepreneurship differ across the 43 participating countries of which South Africa was a participant, found that there was an overall decline in perceived business opportunities. The survey looked at issues such as national policies for entrepreneurship, entrepreneurial finance and the extent to which entrepreneurship is reflected in education and training.

The survey classified countries into three categories, namely:

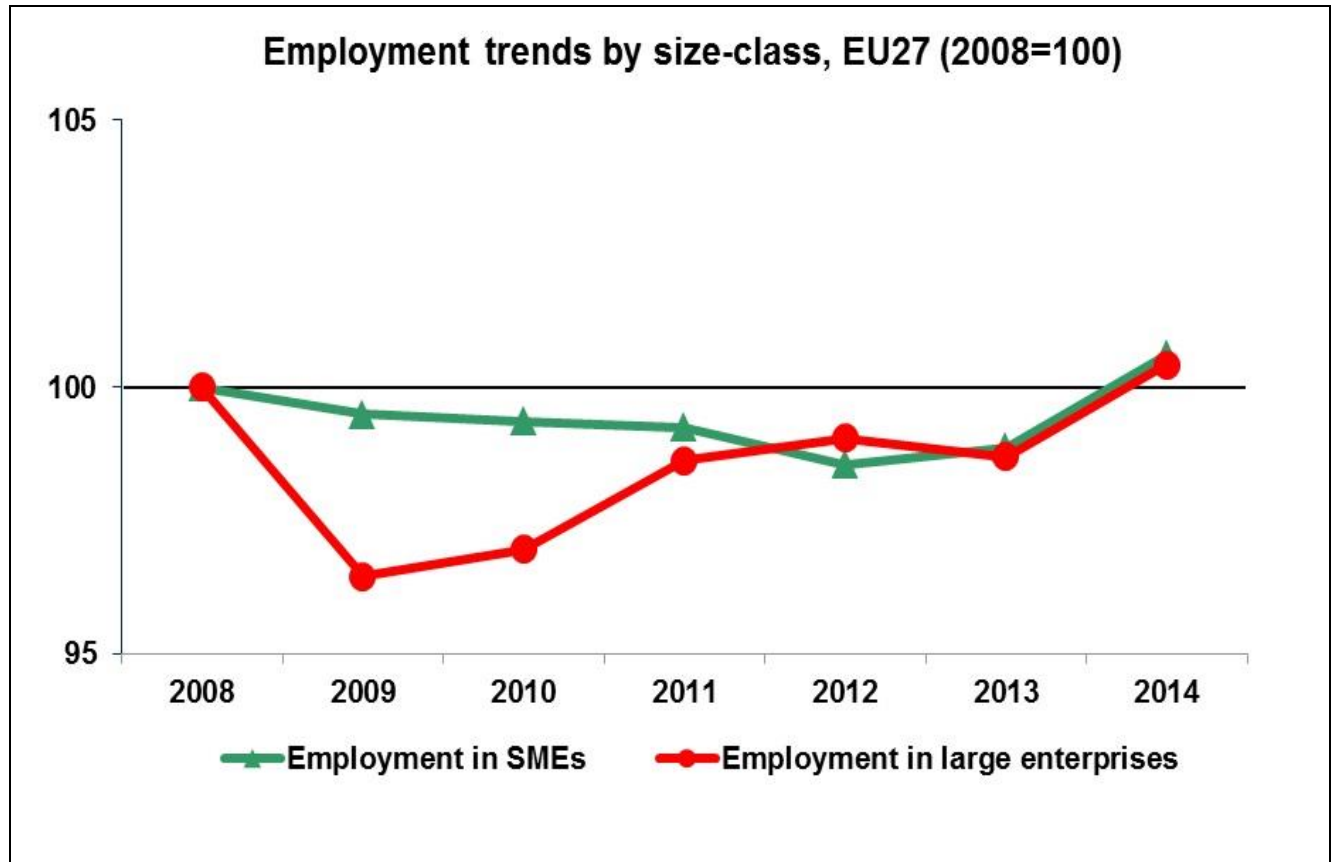
- Factor driven;
- Efficiency driven; and
- Innovation driven.

South Africa is classified as an efficiency-driven economy. This classification was done to measure the relationship between entrepreneurship and the various phases of economic development. The survey asked a representative sample of at least 2 000 individuals in each participating country about their attitudes to and their involvement in entrepreneurship. Below are some of the findings:

- Sixty per cent of South Africans sampled thought there were good opportunities for starting a business in the next six months in the area where they lived. This can be interpreted as an indication that the entrepreneurial spirit in South Africa is high. The GEM finding is in line with the views of Professor Nick Binedell, director of the Gordon Institute of Business Science, who asserts that the entrepreneurial spirit in South Africa is strong, but that what is needed, is to broaden it to make it more inclusive and create a new generation of businesses and inspirational business leaders (*Sunday Times*, 28 November 2009).

- Fifty-one per cent of South Africans sampled knew someone who has started a business in the past two years.
- While a good percentage of people perceived positive opportunities for starting a business in their area, it is remarkable that only 13 per cent expected to start a business in the next three years.
- Sixty-five per cent of the sample considered entrepreneurship as a desirable choice. A slightly higher percentage of people (69 per cent) was of the opinion that the media in South Africa does give coverage of successful business stories.
- The percentage of people between the ages of 18 and 64, who are actively involved in the process of setting up a business, is quite low at 5,7 per cent, compared to countries like the Dominican Republic (11,7 per cent) and Peru (19,7 per cent). However, South Africa is ahead of countries like Russia (1,7 per cent), Brazil (2,9 per cent) and Turkey (3,2 per cent).

Figure 2.4: Employment Contribution of the SMMEs Sector



Source: Statistics South Africa (2015)

2.8 THE SOUTH AFRICAN GOVERNMENT'S INITIATIVES TO SUPPORT SMMEs

In its quest to address the economic crisis and rebuild the economic base after many years of the Apartheid regime, the government introduced various economic policy initiatives which are discussed in the below sections. While some of these policy initiatives may seem to have expired, in principle, it is imperative to highlight that they played a crucial role in the economic restructuring of South Africa.

2.8.1 THE LEGISLATIVE AND POLICY FRAMEWORK FOR SMMEs

A number of supportive initiatives have emerged since 1994, specifying various support measures for the SMMEs. Parallel to this, similar initiatives have been undertaken by the private sector, civil society and the co-operative movements - affirming the principle that the competency for supporting SMMEs is a shared responsibility among all these role-players. Furthermore, Rogerson (2009:109) notes that the support that the South African government provides for SMMEs is widely acknowledged as the country's commitment towards economic restructuring and poverty alleviation. According to the National Development Plan (NDP) Vision 2030, public policy can be supportive through lowering barriers to entry, reducing regulatory red tape and providing an entrepreneurial environment for business development (National Planning Commission).

2.8.1.1 THE WHITE PAPER ON DEVELOPMENT AND PROMOTION OF SMALL BUSINESSES IN SOUTH AFRICA (1995)

After the political transformation of 1994, the government adopted the White Paper on the National Strategy for the Development and Promotion of Small Businesses in South Africa (1995). This White Paper created an enabling environment for the accelerated growth of small enterprises, following a history characterised by the dominance of large, capital-intensive firms and the continued neglect of small enterprises. As a remedial strategy, the White Paper (1995) identified a number of constraints facing small enterprises. These relate to the legal and regulatory environment, access to markets, access to finance and affordable business premises, the acquisition of skills and managerial expertise, access to appropriate technology, the tax burden and access to quality business infrastructure in poor areas or poverty nodes (RSA, 1997). In addressing these challenges, the 1995 White Paper articulates the following principles of the government's plan for the empowerment of the SMMEs:

- A joint vision for the transformation of big, medium and small business in South Africa;

- Improvement of the efficiency and competitiveness of all small businesses;
- A focus on the supply and demand side of small business activities;
- The prioritisation of support programmes and the skilful matching of different resources;
- Restructuring of the institutional framework for small business support;
- The Department of Trade and Industry (DTI) had ultimate responsibility for small business development; and
- Recognition of the critical roles that different stakeholders play in small business development.

To this end, these principles have paved the way for public sector institutional capacity building for SMMEs, including the Department of Trade and Industry, Centre for Small Business Promotion, Ntsika Enterprise Promotion Agency, Khula Enterprise Finance Limited, the National Small Business Council and Provincial Small Business Directorates (Department of Trade and Industry, 1998).

2.8.1.2 THE INTEGRATED SMALL BUSINESS DEVELOPMENT STRATEGY (2004)

The Integrated Small Business Development Strategy (ISBD) presented the way forward for small business development in South Africa between 2004 and 2014. It provided the rationale for a strategic and integrated response to the needs, challenges and opportunities for the emerging businesses (White, 2012). For the period 2004-2014, the small business sector has played an increasingly important role in South Africa's economic growth and development (Biggs and Shah, 2014). This important role relates to the ability of the SMMEs to absorb unemployment levels and instil confidence of self-sufficiency among the entrepreneurs who partake in various forms of the informal economy. Within this strategic direction of the ISBD, the Department of Trade and Industry (2014) reports that the government ensures that a policy framework and business environment is established that is conducive to entrepreneurship. This is done through the following actions:

National entrepreneurship promotion campaign: Government aims to design a national entrepreneurship promotion campaign to bring to the public's attention the substantial resource that entrepreneurs offer South Africa, to recognise and celebrate entrepreneurs, as well as to encourage others to adopt enterprising attitudes. In short, this campaign strives to raise awareness among all South Africans regarding the possibilities and opportunities for undertaking new initiatives through SMMEs.

Creating an inter-ministerial response to the development of entrepreneurs: Government mobilises its relevant departments, development agencies, as well as provincial and local authorities and the private sector, to provide integrated support to the development of entrepreneurs.

Expanding franchise opportunities: Government has already commenced work on the promotion of franchises as a mechanism for entrepreneurship promotion. It will continue this work through the adoption of a national Franchising Strategy for Small Business Development that promotes the contribution of franchising to job creation, income generation and the economic empowerment of historically disadvantaged entrepreneurs. This will include the promotion and regulation of ethical franchise practices.

Better access to information and advice: Because entrepreneurs need access to relevant information and advice, the government established a number of support mechanisms to empower the emerging entrepreneurs with information, capacity development through education and training, and financial support.

Strengthening business associations: The Chamber Business Development Programme aims to maximise the potential of the Chamber of Commerce in contributing to economic development by broadening the participation of small business owners and managers in local and provincial consortiums. This initiative will provide entrepreneurs with a platform for sharing ideas, needs and opportunities, as well as platform for representation.

2.8.1.3 THE INTEGRATED STRATEGY ON THE PROMOTION OF ENTREPRENEURSHIP AND SMALL ENTERPRISES (2005)

A key strategic shift after the adoption of the White Paper on the National Strategy for the Development and Promotion of Small Business (1995) was the integration of a wider group of institutions into the realm of small-enterprise development, and the inculcation of a more co-operative approach among a growing number of partners both within and outside government. In this context, the main institutional reforms set out in the strategy include the establishment of the Small Enterprise Development Agency (SEDA) which plays a role, in collaboration with other role players, to localise financial support to small businesses.

2.8.1.4 THE SMALL BUSINESS ACT (1996)

The Small Business Act (1996) was established to further support the development of small enterprises and subsequently, institutions such as the National Small Business Council and Ntsika Enterprise Promotion Agency were established to complement government's endeavours to support SMMEs. However, despite the ongoing government initiatives such as the formal launching of the SEDA by the Department of Trade and Industry in 2004, the situation of most SMMEs remains highly problematic and is further complicated by the existence of dual economies (Department of Trade and Industry, 2010). This is a worrying factor, since approximately 1 million businesses operate outside the formal economy in South Africa, and about 1, 8 million people are employed in these informal businesses (Roux and Klaaren, 2012).

2.8.1.5 SMALL ENTERPRISE DEVELOPMENT AGENCY (SEDA)

The Small Enterprise Development Agency (SEDA) was established in December 2004 as an agency under the Department of Trade and Industry. The establishment was formed by merging three organisations, namely the Ntsika Enterprise Promotion Agency, National Manufacturing Advisory Centre (NAMAC) and Community Public Private Partnership Programme (CPPP). The SEDA provides business development and support services for

small enterprises through its national network, in partnership with other role players in the small enterprise support (RSA, 2014). The SEDA also implements programmes targeted at business development in areas prioritised by the government. These include:

- business plan assistance;
- assistance with links to finance providers;
- courses, seminars and workshops;
- networking events;
- assistance with marketing plans;
- mentorship programmes; and
- online brochures, publications and annual reports (Department of Trade and Industry, 2011).

In addition to helping emerging entrepreneurs, SEDA has a special focus on co-operative enterprises where a group of entrepreneurs share the profits and responsibility of a business venture (<http://www.gov.za/about-government/small-business-development>).

2.8.2 THE ESTABLISHMENT OF THE MINISTRY OF SMALL BUSINESS DEVELOPMENT

Within the South African context, the SMME typifies Local Economic Development (LED) which is the economic initiatives driven by municipalities in collaboration with the private and business sectors. The primary objective of the LED is to prioritise and achieve the local government's constitutional imperative of promoting economic independence and sustainability for local communities. To strengthen the local government's strategic framework of LED, the post-2014 National Elections ushered in a new dispensation for the SMMEs in South Africa with the introduction of Small Business Development (SBD) to steer economic growth with a focus on the rejuvenation of local economies. Manentjies (2015:83) reports that one of the strategic objectives of the SBD is to provide a comprehensive qualitative and quantitative framework for the development of SMMEs, and that it recognises the unique roles performed by this diverse economic sector in the

creation of employment, the contribution to economic growth and the provision of sustainable livelihoods.

The SBD also aims to provide support to small businesses and cooperatives and to increase support through consolidated public agencies, enterprise coaching, mentorship, incubation and extensive support programmes (Zulu, 2014:3). The key focus areas of the department are as follows:

- Active participation of SMMEs and Co-operatives in the priority sectors as identified in the National Development Plan, Industrial Policy Action Plan and New Growth Path, as well as the priority areas for public procurement;
- Implementation of the entrepreneurship programme through Centres for Entrepreneurship in all nine provinces;
- Increase and expand the demand for goods and services produced by Small Businesses and Cooperatives;
- Implement programmes to enhance secondary cooperatives for inclusion into value chains;
- Implement the National Informal Business Upliftment Support; and
- Collaborate with the Department of Trade and Industry (DTI) on implementation of export villages.

To this end, the SBD has played a pivotal role in the nurturing and mentoring of the developmental entrepreneurs.

2.8.3 THE MACRO REGULATORY FRAMEWORK FOR SMMEs

The macro-regulatory framework for SMMEs includes programmes such as the Reconstruction and Development Programme (RDP) the Growth, Employment and Redistribution Programme (GEAR), the Accelerated and Shared Growth Initiative of South Africa (AsgiSA, Joint Initiative on Priority Skills Acquisition (JIPSA), New Growth Path (NGP) and the National Development Plan (NDP) - Vision 2030

2.8.3.1 THE RECONSTRUCTION AND DEVELOPMENT PROGRAMME (1994 – 1999)

South Africa has, since the advent of democracy, prioritised the promotion and development of SMMEs. In response to the harsh realities and the impacts of apartheid on political and socio-economic impacts patterns in South Africa, the government, in 1994, introduced the Reconstruction and Development Programme (RDP) as an integrated, coherent socio-economic policy framework designed to mobilise citizens of South Africa and resources towards the final eradication of Apartheid (Ismail & Maphasha, 2002:204). The purpose of this socio-economic policy was to contribute meaningfully to the building of a democratic, non-racial and non-sexist future. This was to be done through five key programmes, namely:

- Meeting the basic needs of the citizens;
- Developing the country's human resources;
- Building the economy;
- Democratising the state and society; and
- Implementing the RDP (ANC, 1994).

There are various initiatives which have been introduced to achieve the goals of the above mentioned programmes. As far as economic development is concerned, the LED has been introduced at the local government level to mobilise the economy through employment and business opportunities. Local government has also been capacitated to deliver services through the Project Consolidate programme (2004-2006), Local Government Turn-Around Strategies (2009), Operation Clean Audit (2012) and the Back-to-Basics Initiatives (2014). Despite the lack of clear empirical evidence about the economic prosperity of the local communities, the South African government believes that the RDP has laid firm foundations towards economic emancipation for all citizens. However, with the economic meltdown of 2008 and the perpetual unemployment, inequality and poverty, this cannot be regarded as a significant milestone in the economic trajectory of South Africa.

2.8.3.2 THE GROWTH, EMPLOYMENT AND REDISTRIBUTION (1999 – 2004)

With the introduction of a democratic order in 1994, the participation and clear roles of the South African citizens in the economic reconstruction became imperative. It was against this background that the Growth, Employment and Redistribution (GEAR) initiative was introduced. Khamfula (2004:33) states that the initiative had two objectives, namely to achieve macro-economic balance in the South African economy, and to make the South African economy adopt a six per cent growth path by the year 2000. Furthermore, the National Treasury (2004) rationalised as follows in support of the GEAR strategy:

- A competitive fast-growing economic strategy which creates sufficient jobs for all work seekers;
 - A redistribution of income and opportunities in favour of the poor;
 - An environment in which homes are secure and places of work are productive; and
 - A society in which sound health, education and other services are available to all.
- (National Treasury, 2004:38).

Khamfula (2004:38) notes that two scenarios guided the GEAR strategy: the first one in relation to how the economy could be expected to perform over the medium term in the event that no policy changes were introduced; and the second one in relation to how the economy would perform if key policy changes were made. The performance of GEAR was, to a great extent, dwarfed by the global economic crisis which spread to South Africa in 1998 and the decline in world demand for South African exports between 1995 and 2000 (Stoker, 2008).

2.8.3.3 THE ACCELERATED GROWTH INITIATIVE OF SOUTH AFRICA (2005)

Despite the efforts of the RDP and GEAR initiatives to accelerate employment opportunities, reduce poverty and eliminate inequalities, social and economic challenges continued to plague the majority of South African citizens (Hemson & Khosa, 2004). Against this

backdrop, the Accelerated Growth Initiative of South Africa (ASgiSA) was introduced as a catalyst to accelerated growth and development. It aimed to address the following as key factors challenging South African growth and development:

- Lack of skilled and committed staff in the public service;
- Lack of human resource to implement policies;
- Inadequate financial resources;
- Corruption and mismanagement of funds;
- Lack of people-driven development;
- Lack of proper co-ordination between institutions; and
- Barriers to entry, limits to competition and limited new investment opportunities (Hemson & Khosa, 2008).

Furthermore, the ASgiSA was designed to promote small businesses and encourage investments. It was assumed that this would contribute to an economic growth that creates opportunities for jobs and would thus reduce poverty. This commitment required adequate allocation of funds towards small businesses such as village co-operatives and SMMEs (Khamfula, 2004).

2.8.3.4 THE JOINT INITIATIVE ON PRIORITY SKILLS ACQUISITION (2006)

The Joint Initiative on Priority Skills Acquisition (JIPSA) was introduced in 2006 as a three year programme aimed at addressing the scarce skills challenge and enhancing policy implementation. The JIPSA is mainly intended to be a support measure for people locked in the 'second economy' and aims to promote their participation in the 'first economy' (Pieterse, 2008:2). According to the Presidency, JIPSA was designed to achieve the following goals (www.thepresidency.gov.za/doc):

- Lead the implementation of a joint initiative of government, business and labour to accelerate the provision of priority skills to meet the ASgiSA objectives;
- Give momentum and support to the implementation of ASgiSA;

- Prioritise key skills and develop appropriate Human-Resource development strategies;
- Mobilise senior leadership in business, government, and organised institutions concerned with education and training and technology to address national priorities in a more co-ordinated and targeted way.

Despite the efforts of the JIPSA initiative, the lack of skills continues to characterise the employment (formal and informal) sectors of South Africa.

2.8.3.5 THE NEW GROWTH PATH (2010)

The New Growth Path (NGP) of 2010 provides bold, imaginative and effective strategies to create the millions of new jobs needed to boost South Africa's economy (RSA, 2010). It is also confirmed by Melon (2015) that there is a growing consensus that creating decent work, reducing inequality and defeating poverty can only happen through a new growth path founded on a restructuring of the South African economy to improve its performance in terms of labour absorption, as well as the composition and rate of growth. To achieve this objective requires a well-balanced strategy which will produce mass employment in the formal and informal sectors. Against this background, the current study emphasised the strengthening of the SMMEs sectors because the literature explored in this chapter confirms that SMMEs are a job rich sector.

In achieving the economic vision of creating five million jobs by 2014, the NGP identifies five job drivers as follows:

- Substantial public investment in infrastructure, both to create employment directly, in construction, operation and maintenance, as well as the production of inputs and indirectly, by improving efficiency across the economy.
- Targeting more labour-absorbing activities across the main economic sectors – the agricultural and mining value chains, manufacturing and services.
- Taking advantage of new opportunities in the knowledge and green economies.

- Leveraging social capital in the social economy and the public services.
- Fostering rural development and regional integration.

The strategy has the potential of economic freedom for poor sectors of society, however, given the substantial costs of unemployment and the enormous number of jobless people in South Africa, the NGP should focus mainly on creating economic self-sufficiency among citizens. This should include, among other things, the promotion of SMMEs, thus instilling economic independence through the initiatives which can be manipulated by the citizens themselves.

2.8.3.6 THE NATIONAL DEVELOPMENT PLAN: VISION 2030

The National Development Plan (NDP) – Vision 2030 is the South African initiative of 2014, which aims to eliminate poverty and reduce inequality by 2030. According to the plan, South Africa can realise these goals by drawing on the energy of its people, growing an inclusive economy, building capabilities, enhancing the capacity of the state, and promoting leadership and partnerships throughout society (National Planning Commission, 2014). The plan is prompted by the realisation that:

- Too few people work;
- The quality of school education for black people is poor;
- Infrastructure is poorly located, inadequate and under-maintained;
- Spatial divides hobble inclusive development;
- The economy is unsustainably resource intensive;
- The public health system cannot meet the demand or sustain quality;
- Public services are uneven and often of poor quality;
- Corruption levels are high; and
- South Africa remains a divided society.

On the point of an inclusive economy, the current study proposes the need for the government to review the role that can be played by the SMMEs in empowering local

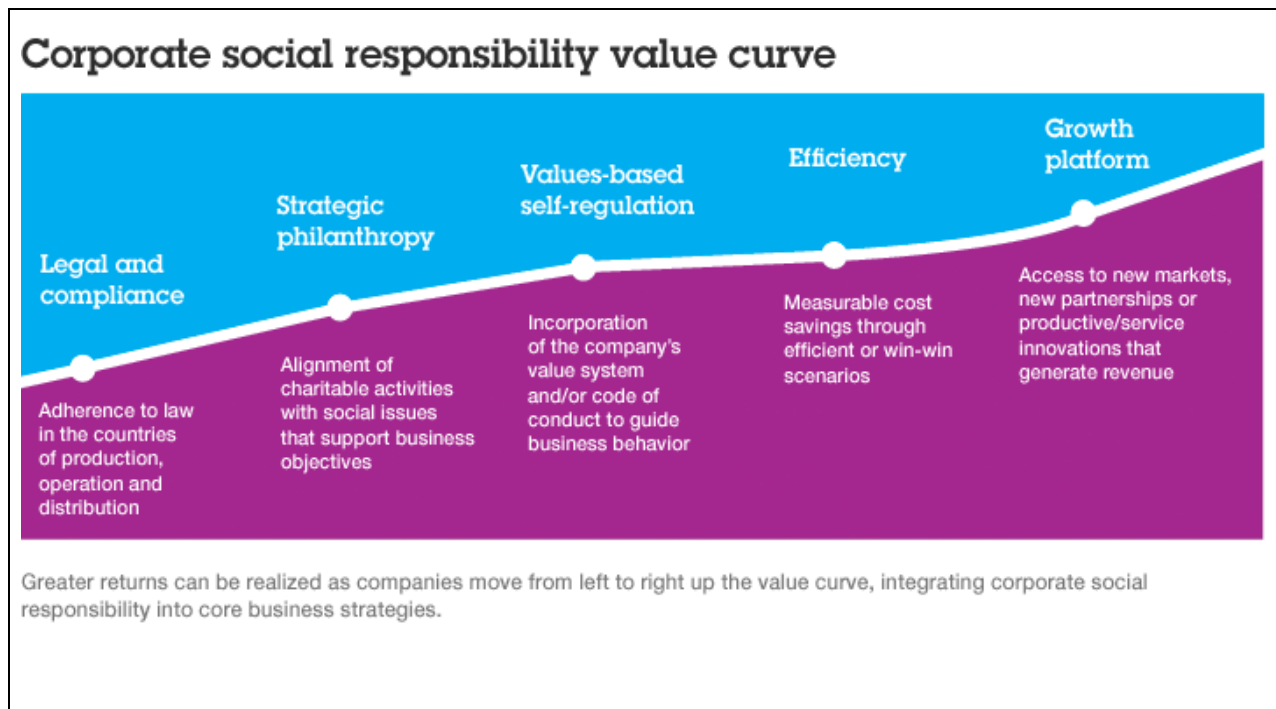
citizens, by creating employment opportunities to reduce the cases of poverty and unemployment. The proposals of the NDP to steer economic growth are aimed at creating about 11 million new jobs between 2014 and 2030, thus reducing the rate of unemployment to about 6 per cent (Malunga, 2015:5) This should be attained at the same time as South Africa increases labour-force participation rates from the current 54 per cent of the working-age population to 61 per cent (Malunga, 2015:5).

2.8.4 THE NEEDS OF THE SMMEs TO ADVANCE ON THE SUSTAINABILITY PATH

The question of sustainability of the SMMEs is a critical one if the government opts to regard their contributions in the economic growth of the country. In the current context, the SMMEs face two major challenges. On the one hand, to survive in an increasingly demanding economy, and, on the other, to contribute to sustainable development in the region where they are the main actors of economic activity (Rogerson, 2012). In the context of the SMMEs, the concept of sustainability implies the practice of maintaining processes of productivity indefinitely. However, in reality, many SMMEs admit to confusion over what sustainability is and how to introduce sustainable measures in their everyday business. For this reason, sustainability needs to be made simple and accessible for SMMEs. It needs to deliver operational efficiencies, open the door to new business, and cost less money than it generates (or even zero cost), and engage with and motivate employees (Nel, 2011:8). Various authors (Rogerson, 2011; Ewing, 2009; Farrington, 2009; Hatega, 2008) state that the emerging entrepreneurs who operate the SMMEs should adopt a culture of Corporate Social Responsibility (CSR), implying that the exchange of knowledge, managerial patterns and best practice can be a qualified path for supporting a more responsible growth of businesses. For Turkel and Akan (2013), CSR is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large.

This aspect of Corporate Social Responsibility is lacking in many SMMEs in South Africa, particularly in the Nongoma Local Municipality area, hence they operate for a very short period and collapse. The diagram below demonstrates the key components of the CSR.

Figure 2.5: Cooperative Social Responsibility Curve



Source: Newton (2014)

Davis and Haloran (2013:3) observe that businesses adopting the CSR model can benefit in the following ways:

- Workers are more motivated, creative and innovative;
- Productivity tends to increase;
- Improved products or services result, leading to better customer satisfaction and loyalty;
- Members of the local community view the business in a more positive light;
- Better publicity due to word of mouth;

- More networking opportunities with other companies involved in similar schemes; and
- Increased turnover, sales and profit due to competitive advantage derived from the above.

Although there is a growing interest in CSR among SMMEs, many views still confirm and prove that big companies are still the main developers of CSR strategies and that SMMEs are still the least active section under the CSR activities (Rogerson, 2011:36). In general, SMMEs at the local levels experience the following challenges:

- Lack of resources (finance, technology, skilled labour, market access, and market information);
- Lack of networks that leads to a lack of information, know-how and experience of domestic and international markets;
- Increased market competition and concentration from large multinational enterprises caused by globalisation and economic integration;
- Lack of sustainability;
- Lack of entrepreneurial zeal, capacity, and know-how; and
- Geographical isolation which puts them at a competitive disadvantage (Rogerson, 2011:36).

It is necessary that solutions are found to the above deterrents so that SMMEs are able to advance along the sustainability path and yield positive results in the quest for economic development.

2.9 CONCLUSION

This presented an overview of previous studies related to the study of SMMEs. The first part of the chapter evaluated the literature concerning the impact of the South African economy under the Apartheid regime. It is therefore imperative that, despite twenty-two years of South Africa's democratic order, the impact of Apartheid is still felt in the economic landscape, hence the huge gap between the rich and poor sectors of society. The total

eradication of this legacy will take a concerted effort between government, private and business sectors and the active role of communities and civil societies. Furthermore, the SMMEs should be designed in a manner that yields a positive impact for society as proposed by the Corporate Social Responsibility Model. In this way, unemployment and poverty can be controlled. Other critical aspects which emanated from this chapter are the issues of the legislative and policy framework governing the SMMEs in South Africa. Although there has been an increase in governmental policies promoting and supporting SMMEs in order to achieve economic growth and reduce poverty, there is still a lack of laws, administrative procedures and access to assistance from governmental agencies, hence SMMEs do not survive a long time in operation. Finally, issues explored in this chapter are aligned with the study objectives. The following chapter explores the theoretical foundations of economic development in the global context.

CHAPTER THREE

THEORY AND PRACTICE OF ECONOMIC DEVELOPMENT THROUGH SMMEs

3.1 INTRODUCTION

The current study falls within the realm of economic development through SMMEs, with particular reference to the Nongoma Local Municipality in the province of KwaZulu-Natal, hence the focus of this chapter is twofold, namely, it reviews the role of the municipality in enhancing economic growth through SMMEs, and it also explores the economic growth models that have been developed globally with an emphasis on their impact on developing nations. The rationale for this chapter stems from the realisation that the practical aspect of the economy of SMMEs has been widely studied, however, there is little knowledge about the theoretical models and their impact on boosting the capacity of the SMMEs. Therefore, to address this gap, the current study reviewed the existing theories and assessed their relevancy in the economic development of the local communities. The application of the theory in this study is informed by the researcher's point of view that a theory is a systematic explanation of the interrelationships among economic variables, and that its purpose is to explain the casual relationship among these variables (Griffin and Gurley, 1993:177). Furthermore, Totawa and Rowman (2000:8) elaborate that, usually, a theory is used, not only to understand the world better, but also to provide a basis for policy. This assertion links with the fifth objective of the study which seeks to draw conclusions and submit proposals and recommendations for efficient local government policies within the broader context of economic development strategies.

3.2 THE PRACTICE OF SMMEs IN THE NONGOMA LOCAL MUNICIPALITY

The development of the SMMEs at local government level typifies part of a local economic development (LED) strategy that aims to, among other priorities, achieve the local government's constitutional mandate to promote economic development for local communities. According to the definition of the World Bank (2009), LED refers to the

process of building the economic capacity of a local area to improve its economic future and the quality of life for all. Van der Walddt (2014) states that it is the process by which the public and business sectors and NGOs work collectively to create better conditions for employment generation.

An understanding of the historical developments around which SMMEs evolved, the current support systems that are available to them and the spatial features of development in South Africa's local municipalities – which either reinforces or restricts the potential growth of SMMEs – is helpful in projecting whether SMME growth is achievable or not. Such an understanding is also helpful in creating a climate within which SMME development becomes possible. Local government interventions that seek to restructure their local economic base, especially in a case where the implications of the spatial features of development and SMME support systems are not evenly spread, have to be target-specific in order to unlock SMME growth and development. The spatial feature of South African local municipalities is consistent with the legacy of Apartheid, and the implications can be observed racially in the difference between the growth of SMMEs in towns and in townships. An understanding of the implications of the growth potential of SMMEs is a crucial starting point for any restructuring efforts. Several implications of South Africa's historical developments, centralised SMME support systems, and the overall spatial features of local municipalities have been identified for analysis. The implications are that, not only do the spatial features impact negatively on the growth potential of SMMEs in townships and local municipalities, but they also represent a delay in the overall rate at which local government transformation can be achieved in South Africa (Van der Walddt et al, 2014).

The economic development strategy of the Nongoma Local Municipality is linked to the economic activities of the Zululand District Municipality, aiming to guide future economic development planning for all communities of the district. It also aims to provide directions to the municipal stakeholders which promote economic development in the district. These stakeholders include five local municipalities of the Zululand district, various government

departments such as the Department of Trade and Investment, Department of Small Business Development, private sector, civic institutions, communities and individuals. In its economic development strategy, the Nongoma Local Municipality strives to improve the situation of the rural poor and destitute through sustainable economic development which involves the promotion of SMMEs, Co-operatives, capacitation of youth with skills development, promotion of subsistence and commercial agriculture.

The IDP document (2016:2) outlines the following vision for economic growth in the Nongoma Local Municipality:

To promote local business development and business interaction

Commercial, agricultural and tourism businesses in the municipality operate independently within small groupings or geographical areas. It is assumed that the close interaction between various businesses will contribute to countering income leakage and establishing a new vibrancy in the economy that ensures economic prosperity in the local municipality.

To increase entrepreneurial opportunities and employment

Economic development opportunities need to be supported by a strong focus on entrepreneurial development, promotion of SMMEs and the creation of various employment opportunities. This will mainly benefit the youth who aspire to unlock new business ventures.

To increase investment opportunities at the local and regional level.

Due to its location, the Nongoma Local Municipality is isolated from the large economic portals of the province, hence the capital investment in the area is limited. In light of this reality, capital investment remains one of the strategic objectives towards economic sustainability in the municipality. This will generate job opportunities and economic independency, thus supporting the district and local municipalities in terms of levies, taxes and rates collection. Through proper investment opportunities, tourism, agriculture and

business opportunities will be promoted, which will, in turn, create job opportunities for local citizens.

3.3 BASIC PRINCIPLES UNDERPINNING ECONOMIC DEVELOPMENT IN THE ZULULAND DISTRICT MUNICIPALITY

One of the development objectives of the Zululand District Municipality is to identify and develop economic opportunities for the rural population in the district in order to reduce poverty. Hence the promotion of SMME development remains a priority. Therefore, in its quest for sustainable economic development through SMMEs and other various economic development strategies, the Nongoma Local Municipality has developed a set of nine spatial principles which it subscribes to. These principles underscore the general spatial intentions of the Provincial Growth and Development Strategy (PGDS) and serve as provincial guiding principles which should, ideally, be pursued within all levels of spatial planning at district and local level in alignment with the provincial spatial development strategy. The diagram on the next page reflects the spatial principles of economic development in the Nongoma Local Municipality.

Figure 3.1: The Spatial Principles of Economic Development of Nongoma Local Municipality



Source: Nongoma Local Municipality IDP (2014-2015)

The above spatial principles of the Nongoma Local Municipality are unpacked in more details below:

The Principle of Sustainable Communities

The principle of Sustainable Communities promotes the building of places where people want to live and work. In a broader sense, this principle refers to the creation of a '*sense of community*' by striking a balance between social norms and values, social needs and promotion of economic activities for the satisfaction of human needs. Often communities within the rural context of KwaZulu-Natal are not located in the areas with perceived highest economic potential. Where low economic potential and social disintegration exists, local government should strive to build communities by focusing on their environmental and economic development (RSA, 1996).

The Principle of Economic Potential

The principle of Economic Potential in the Nongoma Local Municipality aims to improve productivity and close the economic performance gap between the various areas of KwaZulu-Natal aiming for the economic excellence of all areas. Rapid economic growth that is sustained and inclusive is seen as a pre-requisite for the achievement of poverty alleviation.

The Principle of Environmental Planning

The Principle of Environmental Planning refers to understanding and respecting the environmental character (potential and vulnerability) and distinctiveness of places and landscapes, and promoting balanced development in such areas. The need for environmental protection is also reflected in the definition of sustainable development by the World Commission on Environment and Development (WCED), that sustainable development is the development which meets the needs of the present without compromising the ability of future generations to meet their own needs (WCED, 1987:43). It is therefore essential for municipalities to sustain the environment since it is the source of commercial and subsistence farming.

The Principles of Rural Livelihoods

The concept of 'rural sustainable livelihoods' is increasingly relevant in the development debate because it implies that rural communities have proper and reliable strategies of dealing with poverty, hence the planning and support of the development of the SMMEs is one way in which the Nongoma Local Municipality aspires to cement its economic future in the Zululand region.

The Principle of Spatial Concentration

The Principle of Spatial Concentration aims to build on existing concentrations of activities and infrastructure towards improved access of communities to social services and economic activities. In practical terms this promotes concentration along nodes and corridors with multi-sectoral investment i.e. roads, facilities, housing etc. This is envisaged to lead to

greater co-ordination of both public and private investment and to result in higher accessibility of goods and services to communities, while ensuring more economic service delivery.

The Principle of Self-Sufficiency

The Principle of Local Self-Sufficiency aims to build the economic capacity of the local residents and promote self-reliance. It locates development in a way that reduces dependency and enables communities to meet their needs locally. Furthermore, the principle is underpinned by an assessment of each area's unique competency towards its own self-reliance and need to consider the environment, human skills, infrastructure and capital available to a specific area, and how it could contribute to increase its self-sufficiency.

The Principle of Co-ordinated Implementation

The Principle of Co-ordinated Implementation deals with the alignment of the economic activities of various municipal stakeholders with the integrated spatial planning. Essentially, the principle suggests that planning-implementation becomes a key strategy towards the successful economic development in the Nongoma local communities. The development of new SMMEs in the Nongoma area is an indication that this principle yields some positive results.

The Principle of Accessibility

The Principle of Accessibility simply promotes the highest level of accessibility to resources, services, opportunities and other communities. This is intrinsically linked to transportation planning and should consider localised needs for the transportation of people and goods by various modes of transport as guided by the scale and function of a region. At a provincial level there is a strong correlation between the most deprived areas and poor regional accessibility to those areas. In addressing accessibility at a provincial and local level, the need for possible new linkages, the upgrade in the capacity of existing linkages and the suitable mix of modes of transport should be considered.

The Principle of Balanced Development

The Principle of Balance Development promotes the linking of areas of economic opportunity with areas in greatest need of economic, social and physical restructuring and regeneration of all spatial scales. In practical terms, the principle seeks to find a balance between the potentially competing land usage by understanding the relationship and integration between major dimensions within the province and by promoting a synergetic mixture of land use in support of each other on various spatial scales.

3.4 THE THEORIES OF ECONOMIC DEVELOPMENT

The first generation of economic development theories was formulated in the early years after the World War II (1945). This was the period where global economies were undergoing major reconstructions after the post war impacts. Therefore, the economic theories of this period focused on the utility of massive injections of capital to achieve rapid economic growth, and the abilities of the countries to work tirelessly towards their economic development endeavours (Hendricks, 2009:188). For the purpose of this study, the researcher will review linear stages of growth models, structural change models and Neo-colonial dependency models. It is assumed that the review of these models will assist in the identification of the research gap which this dissertation seeks to fill. Of significance is the realisation that these models contribute greatly to innovation, economic competitiveness and employment creations (Hendricks, 2009:203). Given the positive impact of SMMEs in economic development, the researcher of the current study deems it necessary to synthesise such models in answering the first objective of the study which seeks to determine the significance of SMMEs in contributing to the economic growth and the culture of entrepreneurship in the local communities, with particular reference to the Nongoma Local Municipality.

3.4.1 THE LINEAR STAGES OF ECONOMIC GROWTH THEORIES

The theorists of 1950s and early 1960s, including Linear Stages of Economic Growth, viewed the process of development as a series of successive stages of economic growth through which all the advanced nations of the world had passed. Accordingly, their historical experience in transforming their economies from poor agricultural subsistence societies to modern industrial giants contained important lessons for the under-developed countries, particularly on the African continent. In this respect, the study reviewed Rostow's stages of economic development.

Rostow's Theory of Economic Development

Theorists of the 1950s and early 1960s viewed the process of economic development as a sequence of historical stages. This view was mainly promoted by Rostow (1969), cited in Ingham (1995) who claimed that the transition from under-development to development would pass through five stages: the traditional society, the preconditions for take-off, the take-off, the drive to maturity, and the age of high mass consumption. These stages are broadly discussed and linked to economic development in the Nongoma Local Municipality in the section below.

Stage One: The Traditional Society

This initial stage of traditional society signifies a primitive society having no access to modern science and technology. In other words, it is a society based on primitive technology and a primitive attitude towards the physical world (Edwards, 1996:12) For Rostow, (1969) traditional societies struggle in terms of economic growth and development. This is mainly due to the fact that individuals in these societies rely mainly on the traditional methods of farming (Hamilton, 2007:38). Most farming is still purely for subsistence (Hamilton, 2007:38). There have been technological innovations, but only on an *ad hoc* basis. This has the potential to inhibit future prospects for economic independence. Accordingly, Gibrat (2001:38) observes that, in these societies, trade is predominantly regional and local, largely done through barter, and the monetary system is not well

developed. Investment's share never exceeds five per cent of total economic production. This situation resembles the economic situation of the Nongoma Local Municipality in the sense that its communities are predominantly rural and with inadequate technological advancements.

Stage Two: Preconditions of take-off

In the second stage of economic growth, the economy undergoes a process of gradual change for building up the conditions for growth and take off (Rostow, 1969). Manendze (2002:32) warns that these changes in society and the economy have to be of a fundamental nature in the socio-political structure and production techniques. This trend has been successfully applied by countries in Europe, parts of Asia, the Middle East and Africa (Ibid, 2002). Scott and Bruce (1998:109) outline three important dimensions to this transition: firstly, the shift from an agrarian to an industrial or manufacturing society begins, albeit slowly. Secondly, trade and other commercial activities of the nation broaden the market's reach, not only to neighbouring areas, but also to far-flung regions, creating international markets. Lastly, the surplus attained should not be wasted on the conspicuous consumption of the land owners or the state, but should be spent on the development of industries and infrastructure, and should thereby prepare for self-sustained growth of the economy later on.

In light of the economic development endeavours in the Nongoma Local Municipality, the pre-condition stage will imply that its communities develop little progress and confidence of economic growth. This is possible through active roles of the various stakeholders of the municipality, working tirelessly to cement the economic base in the municipal area.

Stage Three: Take –Off

This stage is characterised by dynamic economic growth. As Rostow (1969) suggests in this economic dynamism, all is premised on a sharp stimulus (or multiple stimuli) that is/are economic, political and technological changes. The main feature of this stage is rapid, self-sustained growth (Hamilton, 2007:42). The take-off conditions occur when the sector-led

growth becomes common, and society is driven more by economic processes than traditions. At this stage, the norms of economic growth are well established and growth becomes a nation's priority and a shared goal. In discussing the take-off, Rostow (1969) is noted to have adopted the term "transition", which describes the process of a traditional economy becoming a modern one. After take-off, a country will generally take as long as fifty to one hundred years to reach the mature stage (Hamilton, 2007:43, as occurred in countries that participated in the Industrial Revolution and were established as such when Rostow developed his ideas in the 1960s (Hamilton, 2007:43).

Stage Four: Drive to Maturity

Rostow (1969) defines this stage as the period when a society has effectively applied the range of modern technology to the bulk of its resources. During this period, the rate of saving and investment reaches such a magnitude that economic development becomes automatic. As the economy drives to maturity, the overall capital per head increases. New leading sectors are created. The proportion of the population engaged in rural pursuits declines, people prefer to live in urban areas and the structure of the country's foreign trade undergoes a radical change. The working force becomes technically skilled. Real wages rise. The working force organises itself in order to have greater economic and social security.

Stage Five: Age of high mass consumption

The societies at this stage have achieved their vision of economic growth. Furthermore, material standards of living are high and social welfare systems are well developed. This stage is associated with developed countries (Scott and Bruce, 1998:12). For developing economies, such as the Nongoma Local Municipality, to reach this stage of economic development will require a total change of attitude and the zeal to shift from traditional methods of economic development, such as primitive farming, to advanced modern technologies.

3.4.2 THE STRUCTURAL CHANGE MODELS OF ECONOMIC DEVELOPMENT

The Structural Change Theory focuses on the mechanism by which the under-developed economies transform their domestic economic structures from a heavy emphasis on traditional subsistence agriculture to a more modern, more urbanised, and more industrialised economy (Ranis, 1988). It employs the tools of neoclassical price and resource allocation theory and modern econometrics to describe how this transformation process takes place. The two main proponents of this model are Lewis (1954), who formulated the two-sector model and Chenery (1960), who formulated the structural change patterns of economic development.

Lewis (1954) – Two Sector Model of Economic Development

According to McGregor (1998:128), in the Lewis model, the underdeveloped economy consists of two sectors: firstly, a traditional, overpopulated rural subsistence sector characterised by zero marginal labour productivity—a situation that permits Lewis to classify this as surplus labour, in the sense that it can be withdrawn from the agricultural sector without any loss of output — and secondly, a high-productivity, modern, urban, industrial sector into which labour from the subsistence sector is gradually transferred. The primary focus of the model is on both the process of labour transfer and the growth of output and employment in the modern sector. Both labour transfer and modern-sector employment growth are brought about by output expansion in that sector. The speed with which this expansion occurs is determined by the rate of industrial investment and capital accumulation in the modern sector. Such investment is made possible by the excess of modern-sector profits over wages on the assumption that capitalists reinvest all their profits.

Chenery (1960) - Structural Change Patterns of Economic Development

Like the earlier Lewis model, the patterns-of-development analysis of structural change focus on the sequential process through which the economic, industrial and institutional structure of an under-developed economy is transformed, over time, to permit new industries to replace traditional agriculture as the engine of economic growth. However, in

contrast to the Lewis model and the original stages view of development, increased savings and investment are perceived by patterns-of-development analysts as necessary, but not sufficient conditions for economic growth. In addition to the accumulation of capital, both physical and human, a set of interrelated changes in the economic structure of a country are required for the transition from a traditional economic system to a modern one. These structural changes involve virtually all economic functions, including the transformation of production and changes in the composition of consumer demand, international trade and resource use, as well as changes in socio-economic factors such as urbanisation and the growth and distribution of a country's wealth.

3.4.3 NEO-COLONIAL DEPENDENCE THEORY

The Neo-colonial Dependency theory is an indirect outgrowth of Marxist thinking purporting that the society is characterised by the prolonged conflict between the rich and poor classes over the control of the means of production (Montgomery, 2000). The resultant implication of this class struggle is the perpetual under-development of the oppressed (poor class). Against this background, the Neo-colonial theory attributes the existence and continuance of Third World poverty and under-development primarily to the historical evolution of a highly unequal international capitalist system of rich country-poor country relationships (Dobbs and Hamilton, 2007). Of significance in relation to the Neo-colonial theory is that, whether because rich nations are intentionally exploitative or unintentionally neglectful, the coexistence of rich and poor nations in an international system dominated by such unequal power relationships renders attempts by poor nations to be self-reliant and independent useless, hence the rationale for the emergence of various informal economic activities such as SMMEs.

3.8 CONCLUSION

The focus of this chapter is two-fold; firstly, it has explored the processes and techniques available at the Nongoma Local Municipality to build its economic base. It can, therefore, be concluded that this local council has done a significant amount of work in terms of creating

employment opportunities, however the concern is the sustainability of such employment opportunities. Chapter two has elaborated on the factors affecting the sustainability of the SMMEs. Secondly, the process of economic development in this local council is further complemented by the theoretical orientation focusing on the global trends of economic development, nurturing and sustainability. The theoretical perspective confirms that a lot of research has been conducted on SMMEs and the task remains for individual countries to blend theory into practice and to sustain their economic undertakings. In this regard, the chapter has looked at various angles through which the under-developed nations can restructure and sustain their economic endeavours. Among these were the Linear Stages of Economic Growth, Structural Change Models and the Neo-colonial Dependency theories. The philosophical proposition of Rostow explains the sequence in which the underdeveloped nations can build their economies. In fact, these theories focus on the sequential process through which the economic, industrial and institutional structure of an under-developed economy is transformed, over time, to permit new industries to replace traditional agriculture as the engine of economic growth.

CHAPTER FOUR

RESEARCH DESIGN AND METHODOLOGY

4.1 INTRODUCTION

Building on the previous chapter of the theory and practice of SMMEs in the Nongoma Local Municipality, this chapter presents an overview of how the methodological process was conducted. In Chapter One, the overview of the study was provided. The study focuses on the contribution of the SMMEs towards economic development in the Nongoma Local Municipality. As a result of the problem statement referred to in Chapter One, the all-encompassing aim of this study is to explore the relevance of the role of the SMMEs in creating stable and sustainable economic growth which creates adequate employment opportunities, reduces poverty and eliminates economic inequality for the communities of this council. Therefore, this chapter represents the methodological approach utilised by the researcher to collect data, reach conclusions and submit recommendations regarding the economy of the SMMEs in the Nongoma Municipality.

The research design is presented, and rationale is provided for its selection and usage in the study. The research instruments and their roles in the study are clearly explained. The researcher followed proper research ethics as required in scientific research. Kothari (2004:7) states that research methodology may be understood as all those methods/techniques that are used by researchers in conducting research.

4.2 RESEARCH DESIGN AND METHODOLOGY

Firstly, the two concepts, research design and research methodology need to be clarified, in order to clear up the confusion that is often associated with their usage, particularly by emerging researchers. Each of these concepts is presented as a compound word, with the concepts design and methodology attached to the noun 'research'. It is appropriate to first answer the question: —What is research?

4.3 RESEARCH

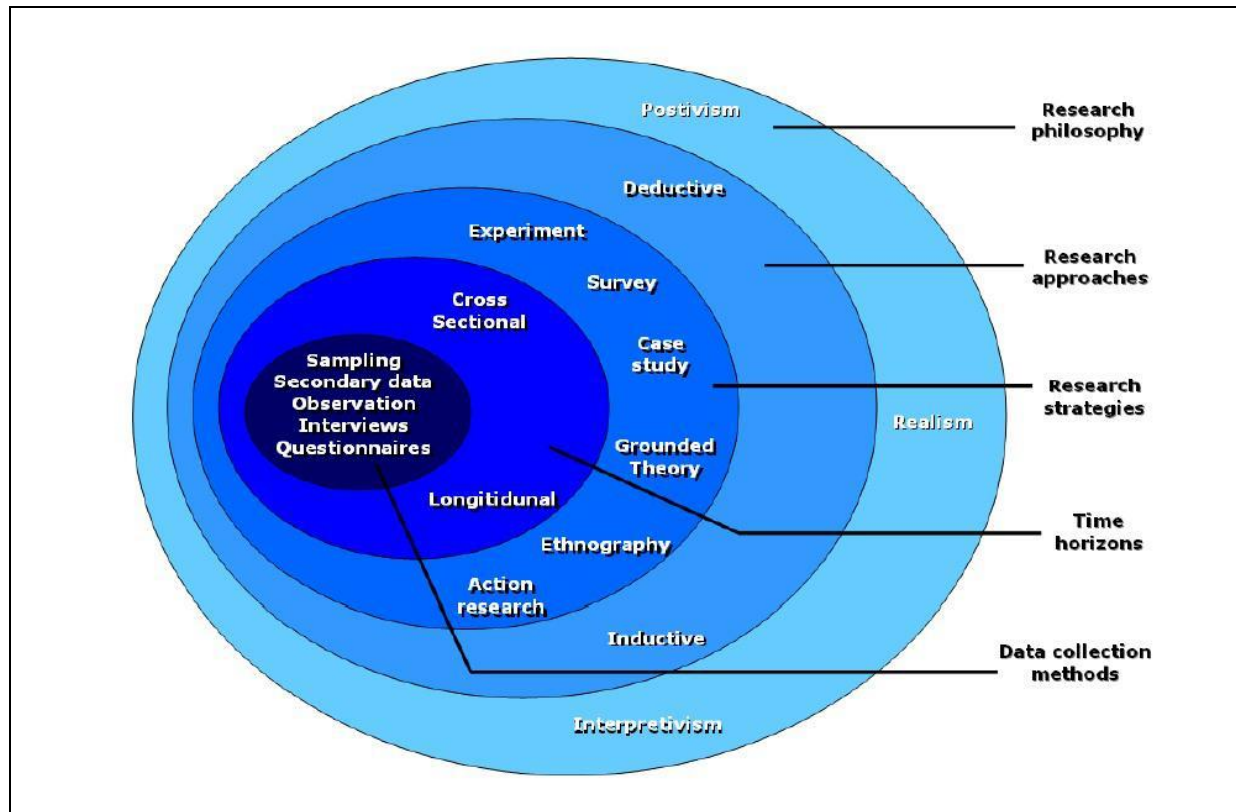
A number of definitions of research have been proposed by different scholars and researchers, working in different fields. According to the Oxford Advanced Learners Dictionary of Current English (1986:720), research is defined as systematic investigation undertaken in order to discover new facts, get additional information. Saunders, Lewis and Thornhill (2003) define research as something that people undertake in order to find out new things in a systematic way, thereby increasing their knowledge.

From the definitions of research provided above, it follows that research is a planned activity, aimed at establishing new facts and information about a particular phenomenon. The research process involves the identification of a particular problem or area of interest. In light of the current study, the researcher investigated the new knowledge in order to discover the scientific facts about the contributions of the SMMEs towards economic development for the Nongoma Local communities.

4.4 RESEARCH DESIGN

Newman (2002:209) conceptualises research design as the arrangements of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose. This concept is further elaborated on by Sekaran (2011:38) detailing that research design is the conceptual structure within which research is conducted; it constitutes the process and blueprint for the collection, measurement and analysis of data. The diagram below by Whitley and Kite (2013:7) illustrates the structure of a research design.

Figure 4.1: The illustration of a research process



Whitley and Kite (2013)

4.5 RESEARCH PROCESS

The discussions below focus on the research processes such as research paradigms, approaches, tools, analysis procedures and ethics.

4.5.1 RATIONALE FOR THE RESEARCH PARADIGM IN THE STUDY

Apart from a proper understanding of the concept of theory, the researcher also requires an understanding and knowledge of the related research philosophies that underpin the different principles of the research (Sekaran, 2011). In this study, such research philosophy is reflected through the philosophical propositions of the positivist paradigm. This paradigm plays a fundamental role in science, in terms of explaining the contributions of the research in knowledge production and shaping human understanding of the social phenomenon. The origin of the term paradigm is to be found in Thomas Kuhn's book called: *The structure*

of scientific revolutions, first published in 1962 (Mouton, 1996:203). Due to its nature of investigating social realities, the study adopted the positivist research paradigm.

4.5.2 THE POSITIVIST RESEARCH PARADIGM

Welman *et al* (2009:6) link positivism directly to the scientific model. This model or approach strives to formulate laws applicable to populations. These laws explain the causes of observable behaviour and social realities. Therefore, a positivist form of research would contribute to generalisations similar to those produced by natural scientists. This philosophical proposition links well with the study of the SMMEs in that it uses a mixed method approach to reach consensus, produce generalisations and draw conclusions on the subject matter. Positivists also believe that an objective reality exists outside personal experiences with its own cause-and-effect relationships (Remenyi *et al.*, 1998:32; Saunders *et al.*, 2000:85; Riege, 2003:77; Neuman, 2006:82; Babbie & Mouton, 2008:23; Saunders *et al.*, 2009:113; Muijs, 2011:4). The positivist researcher maintains that it is possible to adopt a distant, detached, neutral and non-interactive position (Morris, 2006:3). A position such as this would enable the researcher to assume the role of an objective analyst, making detached interpretations about the data collected, in an apparently value-free manner. However, the approach adopted by the researcher in this study, utilises an interactive data collection technique that comprises structured interviews and the administering of questionnaires to the research subjects. For this same reason, positivists prefer an analytical interpretation of quantifiable data (Druckman, 2005:5). Hence, quantitative data collections are also used in the study. The abstract ideas of the social relationship should, consequently, be linked to the precise measurements of the social world.

Furthermore, the positivist paradigm entails a belief that valid knowledge can only be produced on the basis of direct observation by the senses, and this would include the ability to measure and record what would be seen as knowledge. Observation in this sense means accepting only empirical evidence as valid evidence. Valid evidence is thus produced through the senses of sight, smell, touch, taste and hearing. It would clearly mean that

there is no place for phenomena which cannot be observed either directly, through experience and observation, or indirectly, with the aid of instruments.

4.6 RESEARCH APPROACH

The study adopted a mixed method approach which combines the elements of qualitative and quantitative research in a single study. The broad discussions of this approach are provided in the below discussions.

4.6.1 MIXED METHOD APPROACH

As indicated above, this study adopted a mixed methods research approach. Kemper, Springfield and Teddlie (2003) define the mixed methods design as a method which includes both qualitative and quantitative data collection and analysis in parallel form (concurrent mixed method design in which two types of data are collected and analysed in sequential form). Bazely (2003) defines this method as the use of mixed data (numerical and text) and alternative tools (statistics and analysis), but applying the same method. It is a type of research in which a researcher uses the qualitative research paradigm for one phase of a study and a quantitative research paradigm for another phase of the study.

Creswell, Fetters and Ivankova (2004:7) argue that mixed methods research is more than simply collecting both qualitative and quantitative data; it implies that data is integrated, related or mixed at some stage of the research process. They further indicate that the underlying logic to mixing is that neither qualitative nor quantitative methods are sufficient in themselves to capture the trends and details of the situation, however, when used in combination, both qualitative and quantitative data yield a more complete analysis and complement each other. In pursuit of the same argument regarding the logic of mixed methods research, Johnson and Onwuegbuzi (2004:17) indicate that mixed methods research includes the use of induction which refers to the discovery of patterns, deduction which involves testing theories and hypotheses, and abduction, which refers to uncovering

and relying on the best set of explanations for understanding the results. Sekaran (2011) summarises the advantages of mixed method research as follows:

- Clarity of purpose, basis and substantive focus, giving direction to the study and a logical basis for explanation;
- Awareness of the limitations of traditional methods as they are modified in a mixed methods environment;
- Appropriate use and interpretation of quantified coding from qualitative data;
- Varied methods of treatment of “errors” or “deviances”; and
- Appropriate generalisation, given a choice of sample and methods.

These benefits of mixed method research were deemed necessary to gather sufficient data for the current study. Since mixed method research encapsulates quantitative and qualitative approaches, the use of such approaches in the study is further elaborated on and rationalised in the section below.

4.6.1.1 QUANTITATIVE RESEARCH METHODOLOGY

Quantitative research, according to Van der Merwe (1996), is a research approach aimed at testing theories, determining facts, demonstrating relationships between variables, and predicting outcomes. Quantitative research uses methods from the natural sciences that are designed to ensure objectivity, generalisability and reliability (Weinreich, 2009). This is also essential for this study as it is guided by a firm theoretical background as articulated in chapter three.

The techniques used in quantitative research include random selection of research participants from the study population in an unbiased manner, the standardised questionnaire or intervention they receive, and statistical methods used to test predetermined hypotheses regarding the relationship between specific variables. The researcher in quantitative research, unlike in the qualitative paradigm where s/he is regarded as a great research instrument due to his/her active participation in the research process, is considered as being external to the actual research, and results are expected to

be replicable no matter who conducts the research. In light of this study, quantitative research was conducted with community members of the Nongoma Local Municipality, particularly those who participate in one or more forms of SMMs. They were randomly selected from these communities: Njampela, Ogedleni, KwaMandlakazi and Sovane.

4.6.1.2 QUALITATIVE RESEARCH METHODOLOGY

Qualitative research, according to Van der Merwe (cited by Garbers, 1996), is a research approach aimed at the development of theories and understanding. Denzin and Lincoln (2005) define qualitative research as a situated activity which locates the observer in the world. It involves an interpretive, naturalistic approach to the world, i.e. qualitative researchers study phenomena in their natural settings, attempting to make sense of, or interpret phenomena in terms of the meanings people bring to them. Qualitative research implies an emphasis on the qualities of entities, and on processes and meanings that are not experimentally examined or measured (Denzin & Lincoln, 2005:10). In addition to quantitative surveys, the study also used interviews to collect data from the municipal officials.

4.7 DATA COLLECTION PROCEDURES

Due to its methodological approach (mixed method), the study used structured interviews and research questionnaires to collect data from the municipal officials and community members respectively.

4.7.1 RESEARCH INTERVIEWS

Seale, Giampietro, Gubrium and Silverman (2004) define an interview as a social encounter where speakers collaborate in producing retrospective and prospective accounts or versions of their past or future actions, experiences, feelings and thoughts. As far as interviews are concerned, there are three main types of interview schedules which can be utilised by researchers. For example, there are structured, semi-structured and unstructured interviews. The current study used structured interviews.

4.7.1.1 STRUCTURED INTERVIEWS

In structured interviews, the questions are asked in a set/standardised order and the interviewer will not deviate from the interview schedule or probe beyond the answers received (Sekaran, 2011:103). The researcher used structured interviews to solicit information from the municipal officials. The purpose of interviewing these officials was to understand their strategies of boosting the local economy of the Nongoma municipal area through SMMEs, and their perceptions about the role of the SMMEs in accelerating employment opportunities for local communities. In addition, the interviewer sought to understand the challenges they encounter as well as the solutions to those challenges. The decision to use structured interviews for this study stemmed from Newman's (2004:88) recommendations for interviews stating that:

Easy correction of speech: Any misunderstanding and mistake can be rectified easily in an interview because of the close interaction between the interviewer and interviewee.

Development of relationship: A relationship between the interviewer and interviewee can be developed through an interview. It increases mutual understanding and co-operation between the parties.

Selection of suitable candidate: Suitable candidates can be selected through interviews because the interviewer can know a lot about the candidate through this process.

Collection of primary information: Interviews can help to collect fresh, new and primary information as needed.

Sufficient information: Sufficient information can be collected through the interview process because the interviewer can ask any question to the respondent.

Through interviews, respondents provided valuable views which assisted the researcher in reaching concrete conclusions regarding municipal service delivery in the Nongoma Local Municipality.

4.8.2 RESEARCH QUESTIONNAIRES

A questionnaire is a form containing a set of questions, especially addressed to a statistically significant number of subjects, and is a way of gathering information for a survey. It is used to collect statistical information or opinions about people. The Oxford Advanced Learner's Dictionary (1997:952) defines a questionnaire as a written or printed list of questions to be answered by a number of people, especially as part of a survey.

For the purpose of this study, the questionnaire formed my second data collection method, as its content was guided by the literature reviewed. Assistance from the Statistics Department at the University of Pretoria was sought, particularly to get advice with regard to the validity of items for statistical purposes. The questionnaire was administered to 30 emerging entrepreneurs who are engaged in different forms/types of SMMEs in the Nongoma Municipal area. The purpose of the questionnaire for emerging entrepreneurs was to gather information concerning their perceptions with regard to the role of the SMMEs in creating employment opportunities and livelihood strategies for the residents.

The questionnaire covered four variables, namely: biographical details, general information of the business, business financing information and future business plans/programmes.

4.9 SAMPLING PROCEDURES

Research sampling refers to the target population being researched. Zikmund (2003:13) states that, if the sample is adequate, it will have the same characteristics of the population; and the findings are usually used to draw conclusions about the population (Field, 2009). Moreover, sampling techniques are methods that are used to select a sample from the population by reducing it to a more manageable size (Saunders, Lewis & Thornhill, 2007). According to de Leeuw, Hox and Dillman (2008), these sampling techniques are used when inferences are made about the target population.

There are two main sampling techniques (Zikmund, 2003; Saunders, Lewis & Thornhill, 2007):

4.9.1 NON-PROBABILITY SAMPLING

This refers to objects that are selected, based on the judgment of the researcher and usually, generalisations from this method are possible, although not by using statistical techniques. According to de Leeuw, Hox and Dillman (2008), statistical inferences are not appropriate when non-probability sampling is the technique used. The non-probability sampling also takes many forms (Zikmund, 2003):

- Convenience sampling (haphazard sampling): This is the selection of the units that are most convenient for the researcher but makes it difficult to discern if the chosen sample is representative of the population.
- Quota sampling: The population is divided into different groups that have similar characteristics; the units are then taken from each subgroup. This is a non-random technique that is usually used for interviews.
- Sampling for this Study: In this study, the Non-Probability Quota sampling method was used for the development of the GSSQS scale.

The second type of sampling refers to probability sampling.

4.9.2 PROBABILITY SAMPLING

This refers to the possibility that each object in the target population could be selected, and usually, the chance of selecting one object is equal to the chance of selecting any other object. This method is usually used with surveys, and generalisations about the population are obtained from the sample. Probability sampling has four important elements. Firstly, the sampling frame which refers to the population under investigation. Secondly, to decide on an appropriate sample size, the larger the sample the more accurate the generalisations about the population. Thirdly, a high response rate is important, because the higher the response rate, the more representative the sample is of the population. Finally, to select the best sampling technique for the study from the following:

- Simple Random: Each unit in the population has the same chance of being selected. This could be done by assigning numbers to each object in the population and then drawing a number at random.
- Systematic Sampling: The starting point is randomly selected and then every 3rd, 4th item etc. is selected.
- Stratified Sampling: The population is divided into strata (groups) that have similar characteristics and then samples are drawn from each group.
- Cluster Sampling: The population is divided into groups (clusters), which is similar to the stratified sampling, but in this method there are natural groupings of the population.
- Multi-Stage Sampling: This is also called multi stage cluster samples which are similar to the cluster sampling, but in this instance the samples are taken at different stages from the different clusters.

For the purpose of this study the researcher used simple random and stratified sampling. These samplings were selected on the basis of their flexibility in reaching a sufficient number of subjects in an unbiased manner.

4.10 DATA ANALYSIS

Onwuegbuzie and Teddlie (2003) state that, when analysing qualitative and quantitative data within a mixed methods framework, researchers undergo at least seven stages which is the procedure that adopted in this study. The following table represents the operation of the seven stages in the data analysis process:

Figure 4.2: Data Analysis Process

Stages in the mixed methods data analysis process	Description of each stage	Application in quantitative data analysis	Application in qualitative data analysis
1. Data Reduction	Reducing the dimensionality of the qualitative and quantitative data	Via descriptive statistics, exploratory factor analysis and cluster analysis	Via exploratory thematic analysis
2. Data Display	Pictorially describing both the qualitative and quantitative data	Using tables and graphs	Using matrices, charts, graphs, networks, lists, rubrics, and Venn diagrams
3. Data Transformation		Quantitative data is converted into narrative data that can be analysed qualitatively	Qualitative data are converted into numerical codes that can be represented statistically
4. Data Correlation		Quantitative data is correlated with qualitative data	Qualitative data is correlated with quantitative data
5. Data Consolidation	Both qualitative and quantitative data is combined to create new or consolidated variables		
6. Data Comparison	Involves comparing data from both the qualitative and quantitative data sources		
7. Data Integration	This is the final stage, wherein both qualitative and quantitative data is integrated into either a coherent whole, or two separate sets of coherent wholes		

Source: Onwuegbuzie and Teddlie (2003)

For the purpose of this study, the analysis of quantitative data was analysed through the use of SPSS and the thematic analysis was used for the analysis of qualitative data.

4.10.1 THEMATIC ANALYSIS FOR QUALITATIVE DATA

Thematic Analysis: It is the most common form of analysis in qualitative research. It emphasises pinpointing, examining and recording patterns (or “themes”) within data (Rubin and Rubin, 1995). Themes are patterns across data sets that are important to the description of a phenomenon and are associated with a specific research question (Spradley, 1999:202). Intertwined with conceptualisation, Braun and Clarke (2004:29) state that thematic analysis is a system of “identifying, analysing and reporting patterns (themes) within data”. It minimally organises and describes your data set in (rich) detail. However, frequently, it goes further than this and interprets various aspects of the research topic. For this study, the key themes or variables that informed the data analysis evolved around the issues of SMMEs in creating employment opportunities in the Nongoma Local Municipality, for instance, those issues that pertain to the sustainability of SMMEs and factors affecting their development.

4.10.2 STATISTICAL PACKAGE FOR THE SOCIAL SCIENCES FOR QUANTITATIVE DATA

The data analysis of the quantitative study was analysed through the Statistical Package for Social Science (SPSS). According to Kelleher (1998:63), SPSS is a scientific and computer-based programme that can be used to perform data entry and analysis, and to create tables and graphs. In line with this study, the SPSS analysis technique was essential in understanding quantitative data, mainly the contribution of the emerging entrepreneurs who are engaged in various forms of the SMMEs in the Nongoma area. The SPSS analysis provided the generic characteristics of these entrepreneurs, such as age, gender, employment status, educational background. Furthermore, it solicited their perceptions about the factors affecting the sustainability of the SMMEs in the Nongoma area.

4.11 ENSURING VALIDITY AND RELIABILITY

As this study entails the use of both qualitative and quantitative research data, the concepts used to express validity and reliability are broader than those traditionally associated with quantitative research. When working with qualitative data, the concepts of trustworthiness,

dependability, transferability and credibility are also used. According to MacMillan and Schumacher (2001:407), validity is the degree to which the interpretations and concepts have mutual meaning between the participants and the researcher. For the purpose of this study, the data gathered through qualitative surveys (interviews) was tested against the literature and theories of economic development. This was essential in reaching concrete results about the role of SMMEs in creating an economic base for poor communities. Furthermore, valid data was essential to formulate solid recommendations.

Reliability, on the other hand, according to Silverman (2004:285), is the degree to which the findings of the research are independent of accidental circumstances. It is closely related to assuring the quality of field notes and guaranteeing the public access to the process of publication of research results. Joppe (2001:1) defines reliability as the extent to which results are consistent over time, and are an accurate representation of the total population under study. If the results of a study can be reproduced under a similar methodology, then the instrument is considered to be reliable. The findings for the current study confirmed the issues emanating from the literature survey.

4.12 ETHICAL CONSIDERATIONS

In outlining the relevance of the ethical code guiding human research, Clough and Nutbrown (2002:84) maintain that:

...in order to understand, researchers must be more than technically competent. They must enter into chattered intimacies, open themselves to their subjects, feeling worlds, whether these worlds are congenial to them or repulsive. They must confront the duality of represented and experienced selves simultaneously, both conflicted, both real...

In applying Clough and Nutbrown's view above, the researcher of the current study took this into consideration and protected the feelings, welfare and rights of the participants

(see annexure 6 for a copy of the ethical clearance certificate from the Ethics Committee at the University of KwaZulu-Natal).

In line with the rules and regulations of the University with regards to conducting research using human subjects, the following ethical considerations were taken into account during the course of the research. These considerations applied to both the quantitative and qualitative research sections of this study.

4.12.1 PERMISSION TO CONDUCT A STUDY

The researcher obtained written permission from the Municipal Manager of the Nongoma Local Municipality in order to ensure that the research process is a legal exercise. The letter of permission is provided in annexure 1

4.12.2 CONFIDENTIALITY AND PRIVACY

Confidentiality refers to the handling of information concerning the respondents in a confidential manner. Respondents were assured that their names and the names of their SMMEs would be dealt with in the strictest confidence. This aspect includes the principle of trust in which the researcher assured the participants that their trust would not be exploited for personal gain.

4.12.3 VOLUNTARY PARTICIPATION AND INFORMED CONSENT

The principle of voluntary participation was explained to the respondents and they were also informed that they had the right to withdraw from the study at any time. The principle of informed consent was attached to the questionnaires and verbally explained to the interviewees. Both principles entailed explaining the research process and its purposes to the participants.

4.13 CONCLUSION

This chapter has focused on the research design and methodology that underpin this study. Detailed information regarding the mixed methods design, its origins, its relevance to this study and its general characteristics, was explored in this chapter. The following chapters build on from the methodological propositions made in this chapter by employing the proposed data presentation and analysis approaches to analyse the quantitative and qualitative data.

CHAPTER FIVE

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

5.1 INTRODUCTION

This chapter deals with three aspects of the study, namely data presentation, analysis and interpretation. The previous chapters have laid the groundwork for the study. Those chapters provided an explanation of the purpose behind the research, an outline of the research questions and objectives explored, and a description of how the project fits within the overall body of research related to the subject under consideration, that is, the role of SMMEs in improving the local economy for local municipalities with particular reference to the Nongoma Local Municipality. This chapter moves on to the presentation of the findings produced by the mixed approach methodology.

5.2 DATA PRESENTATION

In research, data presentation refers to the demonstration of data in a clear and more explicit manner. According to Henning (2003:107), data presentation refers to the main characteristics of the data set described in an easily understandable manner, referring to the data and indicators disseminated. Leedy (2004:38) postulates that data presentation includes the description of the data set disseminated with the main variables covered, the classifications and breakdowns used, the reference area, summary information on the time period covered, and, if applicable, the base period used. Furthermore, Welman and Kruger (1999:33) advise that the presentation of data in the form of tables, graphs and charts is an important part of the process of data analysis and report writing. Although results can be expressed within the text of a report, data is usually more digestible if it is presented in the form of a table or graphical display. Against this background, the data of the study collected from the SMME operators and municipal officials through a mixed method approach is presented below. In presenting data, the researcher took cognisance of Welman and Kruger's (1999:35) warning that the presentation should be as simple as possible and that the researcher should avoid the trap of adding too much information. The aim is not to

include all the information one person has, but only a summary of the essential feature(s) you are trying to illustrate.

5.3 THE PRESENTATION OF QUANTITATIVE DATA

A total of thirty (30) questionnaires were administered to the residents of the Nongoma Local Municipality who are engaged in different activities constituting the SMMEs. These included street vending, commercial farming, Spaza shops, taxi (micro bus) operators and traditional herb traders. All the questionnaires received from the research participants were sufficiently completed for statistical analysis. This represents a 100 per cent usability rate.

The data from completed survey questionnaires were coded and captured in SPSS (Statistical Package for Social Science) version 23, for Windows and used for descriptive and inferential analysis. The results from the data analysis are also presented in this chapter. The findings of the research are discussed in the light of the literature used in chapter two. The statistical analysis of the data collected indicates that the objectives of the study were met and the research questions answered.

5.3.1 THE PRESENTATION OF QUALITATIVE DATA

To supplement the results and to fill the gap left by the questionnaires, the interviews were conducted with the municipal officials and analysed through thematic analysis. In this regard, the qualitative approach was selected on the basis of its potential to give more substance and to reveal more information about the service delivery provision in the Nongoma Local Municipality. The benefits of qualitative research are also articulated by Bless and Smith (1999:18) who state that qualitative research is concerned with trying to achieve a clear understanding of the problem under review in a more complex than generalised way, which is the outcome of questionnaires. The interview schedules with municipal officials were designed to obtain first-hand information regarding the processes of the municipality in boosting the capacity of the SMMEs to produce positive outcomes for local economy. In this regard, the researcher used structured interviews to solicit information from six municipal officials, including the Municipal Manager, LED, IDP and

Public Participation managers. The outcomes of the interviews indicate that SMMEs are an unfunded mandate at local government level, hence the municipality does not have tangible programmes to support the emerging entrepreneurs.

5.4 DATA ANALYSIS AND INTERPRETATION

This section presents the analysis and interpretation of both quantitative and qualitative data. According to Binder and Roberts (2003:87), data analysis is essential for understanding results from surveys, administrative sources and pilot studies; for providing information on data gaps; for designing and redesigning surveys; for planning new statistical activities; and for formulating quality objectives. The relevance of the collected data was justified through reliability and validity.

5.5 RELIABILITY AND VALIDITY OF RESULTS

Reliability refers to whether or not the results can be considered reliable (Babbie and Mouton, 2001) and whether, if the same research was to be conducted by a different team, the results would be the same or not. Hence this research was planned based on guidelines from various research methodology authors (Cooper and Schindler, 2008 and Babbie, 2001). Cronbach's Alpha is a test to determine the validity level of the questionnaire. A level above 0.7 is considered adequate to declare a question/questionnaire valid (Pallant, 2007:121), though Pallant goes on to say that, with scales with fewer than ten items, it is common to find lower values, even as low as 0.5, therefore Cronbach Alpha was conducted on the questionnaire and the results are as follows:

Table 5.1: The Cronbach's Alpha

Cronbach's Alpha	Number of Items
0.743	15

Cronbach's Alpha was calculated at 0.743 which is above 0.7, so the scale can be considered reliable with the samples (Pallant, 2007:34). In other words, the Cronbach's Alpha coefficient of 0.743 shows that the data collection process was rigorous.

5.6 QUANTITATIVE DATA ANALYSIS

The quantitative data analysis and interpretation is presented below in the form of tables and graphs. This is also elaborated on by Sekaran (2011:109) who observes that, although results can be expressed within the text of a report, data is usually more digestible if it is presented in the form of a table or graphical display, and that graphs and charts can quickly convey to the reader the essential points or trends in the data.

5.6.1 TABLE 5.2 AGE DISTRIBUTION OF RESPONDENTS

The table below reflects the age distribution of the respondents.

	Frequency	Per cent	Valid Per cent	Cumulative Per cent
Valid 20 – 30	5	16.7	16.7	16.7
30 – 40	9	30.0	30.0	46.7
40 - 50	11	36.7	36.7	83.3
50 - 60	2	6.7	6.7	90.0
60+	3	10.0	10.0	100.0
Total	30	100.0	100.0	

Table 5.2 above represents the age distribution of the SMME operators under the Local Municipality. Of significance is that the age was evenly spread for all participants who participated in the study.

5.6.2 FIGURE 5.1 GENDER REPRESENTATION OF THE RESPONDENTS WHO PARTICIPATE IN THE SMMEs ACTIVITIES

Figure 5.1: in the diagram below reflects the gender representation of the respondents from the Nongoma Local Municipality who participated in the survey.

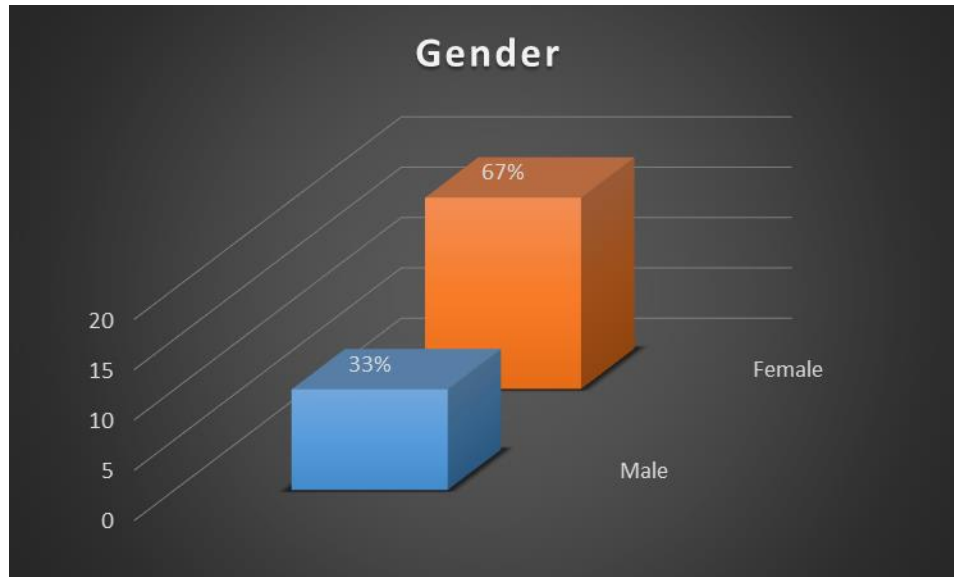


Figure 5.1 in the diagram above reveals the gender distribution of the respondents. The largest percentages of the respondents fell in the female group with a high level of participation in SMME activities (67 per cent). The male group comprised 33 per cent. This correlates with the findings of Herrera (2012) that the informal employment is generally more common than formal employment in developing countries and women hold a significant share in it.

5.6.3 FIGURE 5.2 RACIAL COMPOSITION OF THE RESPONDENTS

Figure 5.2 in the diagram below reflects the racial composition of the respondents from the Nongoma Local Municipality who participated in the survey.

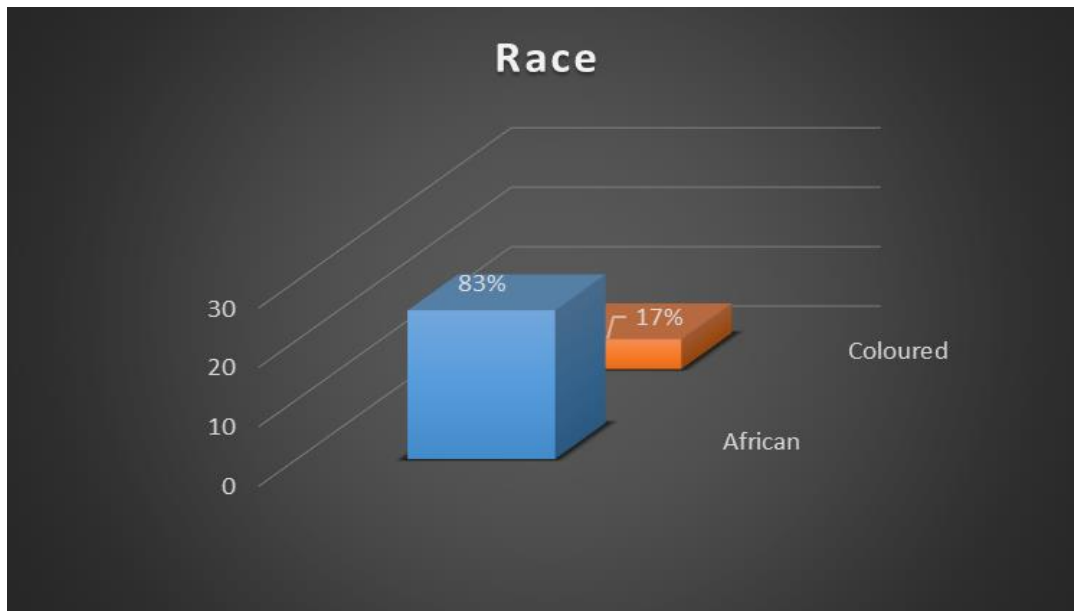


Figure 5.2 in the diagram above indicates race distribution of the respondents. The African race formed the largest proportion of the respondents of the study (83 per cent), followed by the Coloured race which made up 17 per cent. The majority of the African race in the study is informed by the fact that the Nongoma Local Municipality is mainly dominated by Black South Africans. Historically, this municipality is the home of King Goodwill Zwelethini, the hereditary traditional leader of the Zulu nation, and his royal palaces are among the main tourist attractions in the region (IDP, 2014;136).

5.6.4 FIGURE 5.3 EDUCATIONAL BACKGROUND OF THE RESPONDENTS

Figure 5.3 in the diagram indicates the educational backgrounds of the respondents.

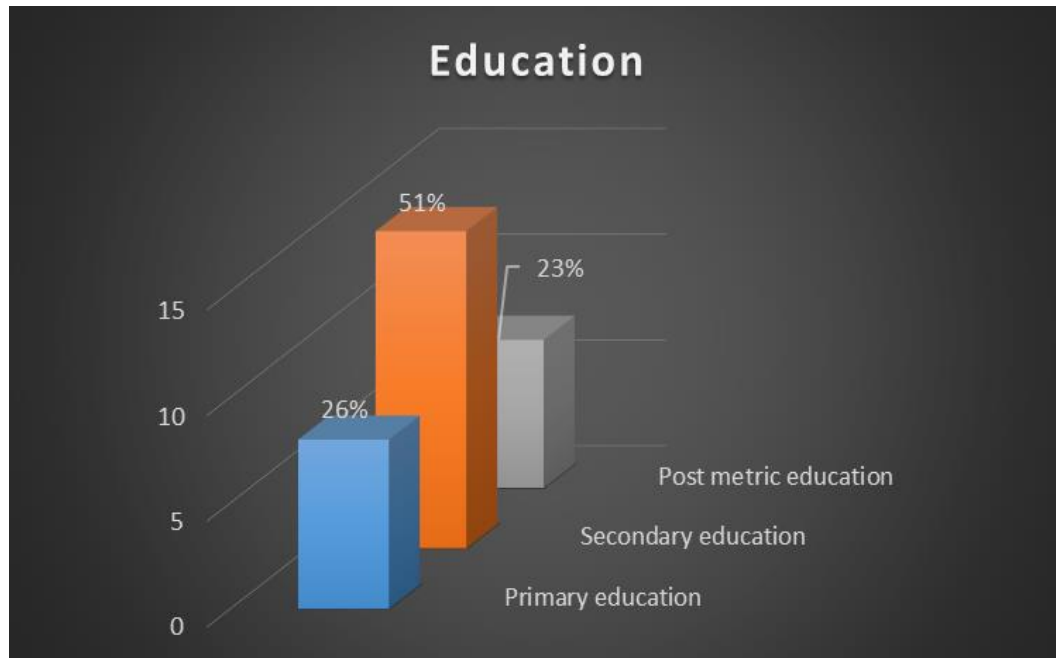


Figure 5.3 in the diagram above indicates the distribution of educational background for the research participants. The largest percentage of the respondents was made up of residents with a secondary education (51 per cent), followed by primary education (26 per cent) and post-Matric with 23 per cent. This implies that the majority of respondents did not have sufficient experience and exposure in terms of business management. Furthermore, it correlates with the literature noting that low levels of education in this sector (SMMEs) is the main reason prohibiting its sustainability for local communities, particularly in the developing nations. The Global Entrepreneurship Monitor (GEM) Reports (2001-2010) noted that South African SMMEs also suffer from poor management skills which are a result of lack of adequate training and education.

5.6.5 FIGURE 5.4: EMPLOYMENT STATUS OF THE RESPONDENTS

Figure 5.4 in the diagram below indicates employment status of the respondents.

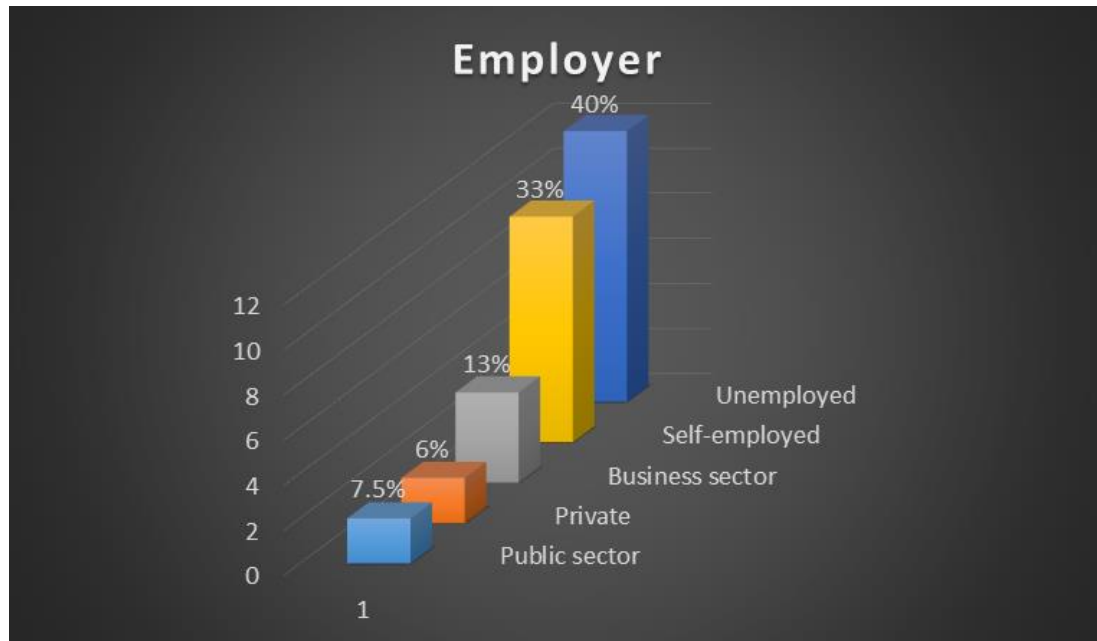


Figure 5.5 in the above diagram reflects that the majority of residents (40 per cent) were unemployed, while a total of 33 per cent of the residents were self-employed in the SMME sector. It can therefore be deduced that SMMEs play a crucial role in terms of creating employment opportunities in this local authority. Through collaborative efforts between the municipality and its external stakeholders, such as the business and private sectors and the interested parties, this economic strategy can become more sustainable. This is also elaborated on by the International Labour Organisation (2015) detailing that there is solid empirical evidence confirming that SMMEs are a major job creation engine. Furthermore, Urwin (2013) points out that genuine entrepreneurial insight and real economic growth tends to come from small firms.

5.6.6 FIGURE 5.5: NATURE OF BUSINESS OWNERSHIP

Figure 5.5 in the below diagram indicates the nature of SMMEs in terms of ownership status in the Nongoma Local Municipality

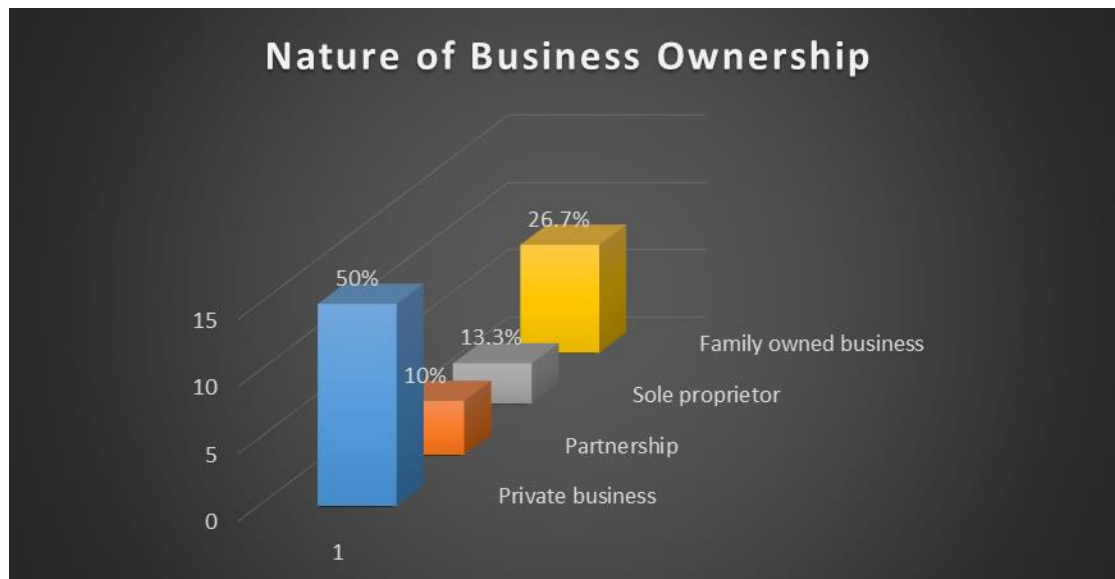


Figure 5.5 in the diagram above indicates the nature of the ownership of SMMEs in the Nongoma Local Municipality. The largest percentage of respondents fell among the people who own private businesses (50 per cent), followed by family owned (26.7 per cent), partnerships (13.3 per cent) and sole proprietors (10 per cent). It is evident from these findings that SMMEs are the strategies utilised by the residents of the Nongoma Local Municipality to escape poverty by creating their own employment opportunities.

5.6.7 FIGURE 5.6: CATEGORIES OF BUSINESSES IN NONGOMA LOCAL MUNICIPALITY

Figure 5.6 below indicates the categories of business establishments in the Nongoma Local Municipality

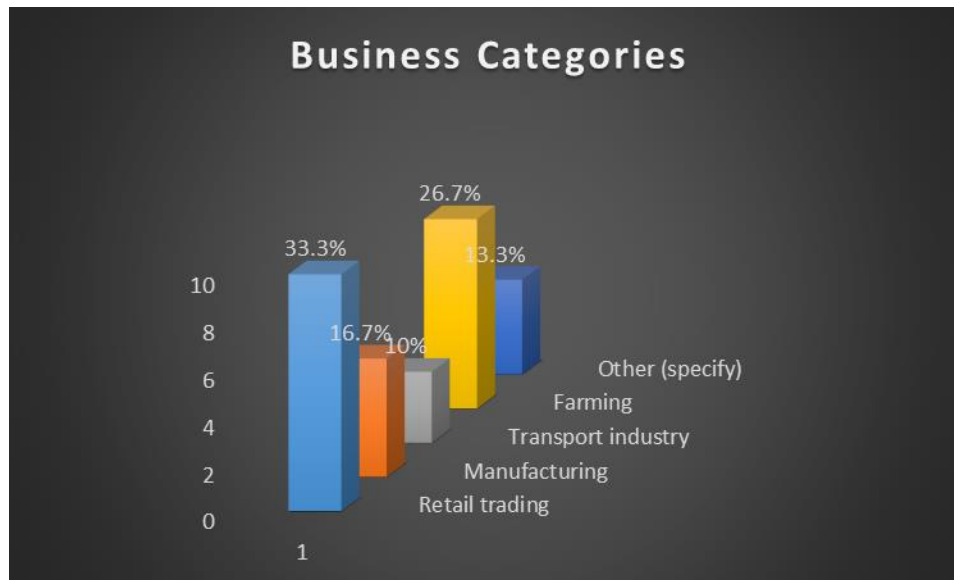
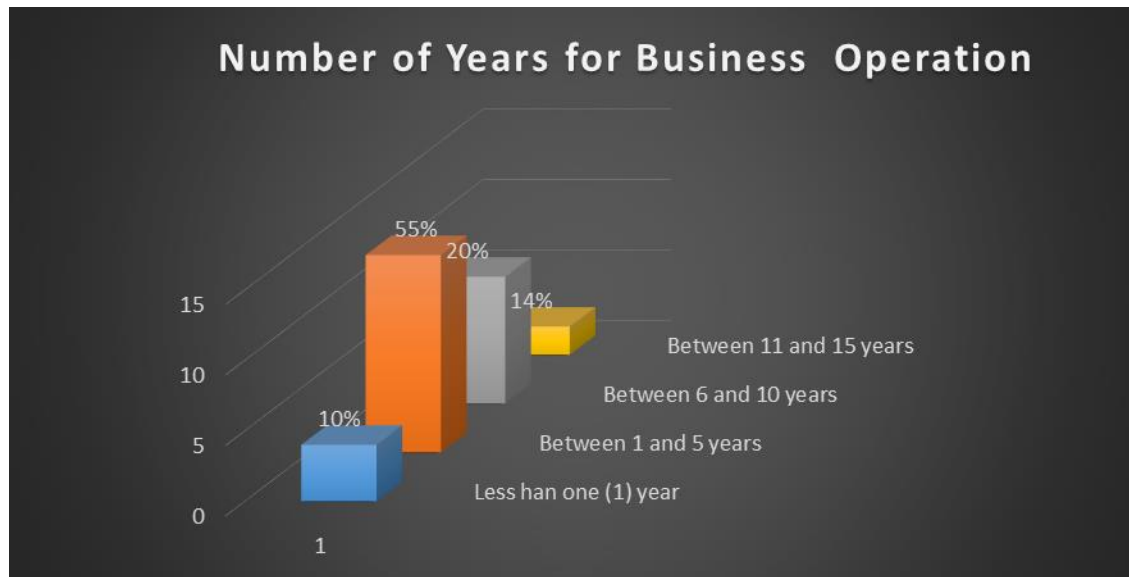


Figure 5.6 Indicates the category of business undertakings of the respondents. The largest percentage of respondents fell into the category of retail trading (33.3 per cent), followed by farming (26.7 per cent), manufacturing (16.7 per cent), the transport industry (10 per cent) and other businesses (13.3 per cent).

5.6.8 FIGURE 5.7: THE DURATION OF THE OPERATION OF SMMEs IN NONGOMA LOCAL MUNICIPALITY

Figure 5.7 in the diagram below indicates the duration for which the SMMEs have been operating in the Nongoma Local Municipality.



The issue of sustainability of SMMEs is indicated as a critical one in the literature. This is due to the fact that most SMMEs do not survive more than two years. However, in the case of the Nongoma Local Municipality, approximately 55 per cent of the SMMEs have been operating for the past 10 years. This indicates that SMMEs can be a sustainable economic development strategy, depending on the availability of resources and a strong support base for the emerging entrepreneurs. There are very few (14 per cent) SMMEs which have operated for more than 15 years in the area.

5.6.9 FIGURE 5.8: THE IMPORTANCE OF PREVIOUS EXPERIENCE OF BUSINESS MANAGEMENT IN THE SMME SECTOR

Figure 5.8 in the diagram below reflects the perceptions of the emerging entrepreneurs about the importance of previous experience in business management.

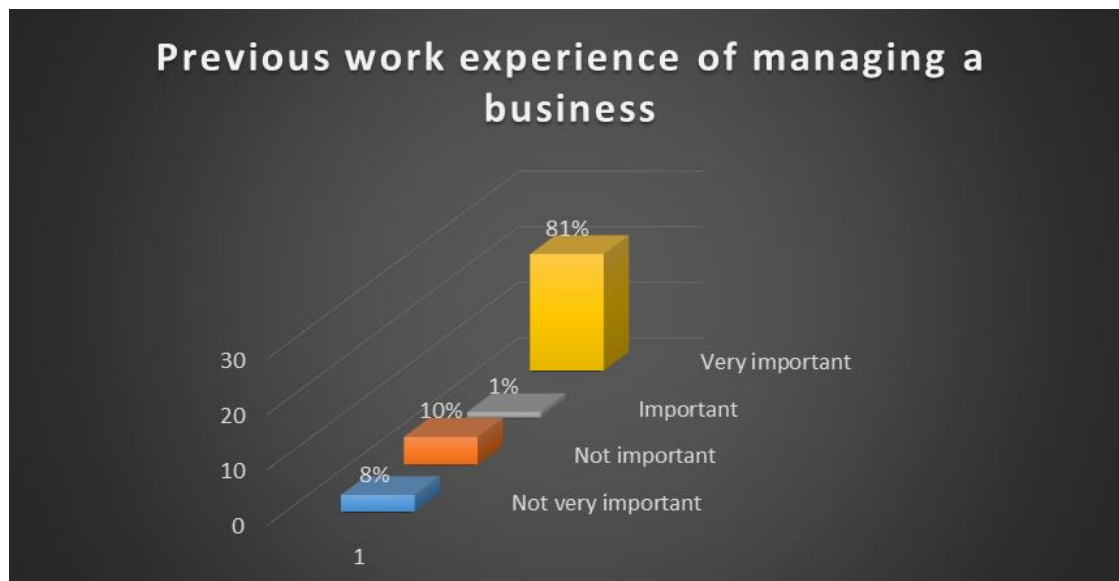
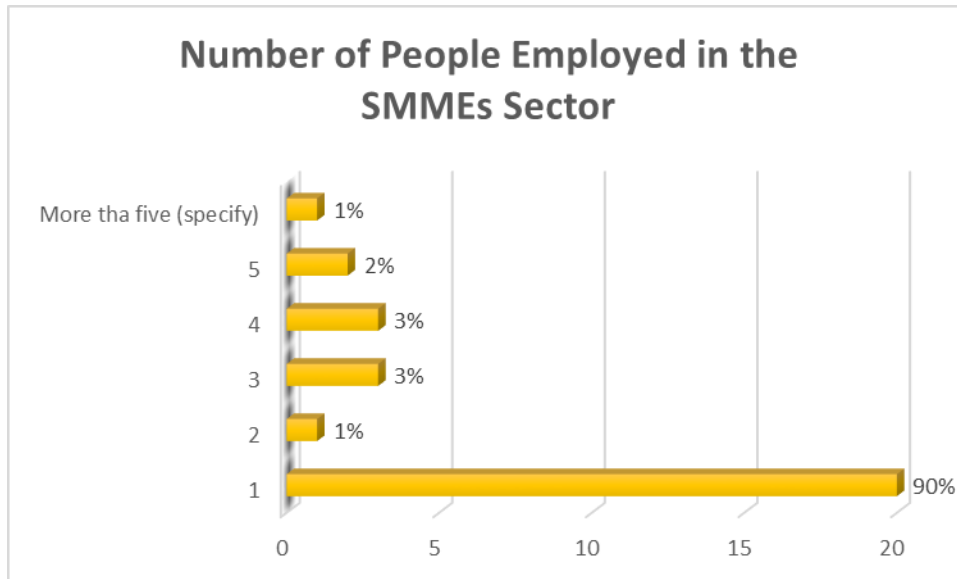


Figure 5.8 indicates that the majority (82 per cent) of the emerging entrepreneurs in the Nongoma Local Municipality indicated that previous experience in business management was very important for the success of SMMEs, while a small proportion (18 per cent) did not believe that previous experience in business management was important.

5.6.10 FIGURE 5.9: EMPLOYMENT OPPORTUNITIES PROVIDED BY SMMEs IN NONGOMA LOCAL MUNICIPALITY

Figure 5.9 in the diagram below demonstrates the employment opportunities in the SMME sector in the Nongoma Local Municipality.



While SMMEs have the potential to absorb poverty and unemployment, the findings of this study indicate that the emerging entrepreneurs do not have the capacity to create employment opportunities within their businesses. The majority of business owners (90 per cent) prefer to handle business matters on their own. These findings concur with the reality that SMMEs in Nongoma are privately owned.

5.6.11 FIGURE 5.10: PROFESSIONAL HELP FOR SMMEs IN NONGOMA LOCAL MUNICIPALITY

Figure 5.10 in the diagram below indicates the availability of professional help for the SMMEs in the Nongoma Local Municipality.

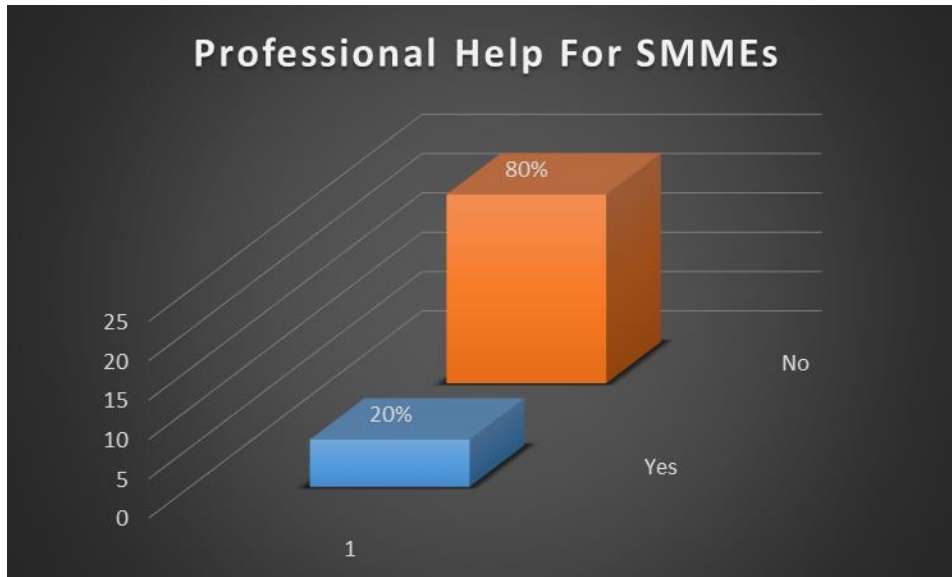


Figure 5.10 in the diagram above indicates the nature of business management practice in the SMMEs of the Nongoma Local Municipality. Eighty per cent of the SMMEs do not have trained professional experts who deal with the management and strategic aspects of the SMMEs. Only 20 per cent of the SMMEs receive assistance from professional personnel. The absence of professional help among SMMEs is probably the main reason for their short lifespan.

5.6.12 FIGURE 5.11: THE ROLE OF BUSINESS PLANS IN THE SMME SECTOR

Figure 5.11 in the diagram below indicates the number of SMMEs operating with business plans in the Nongoma Local Municipality.

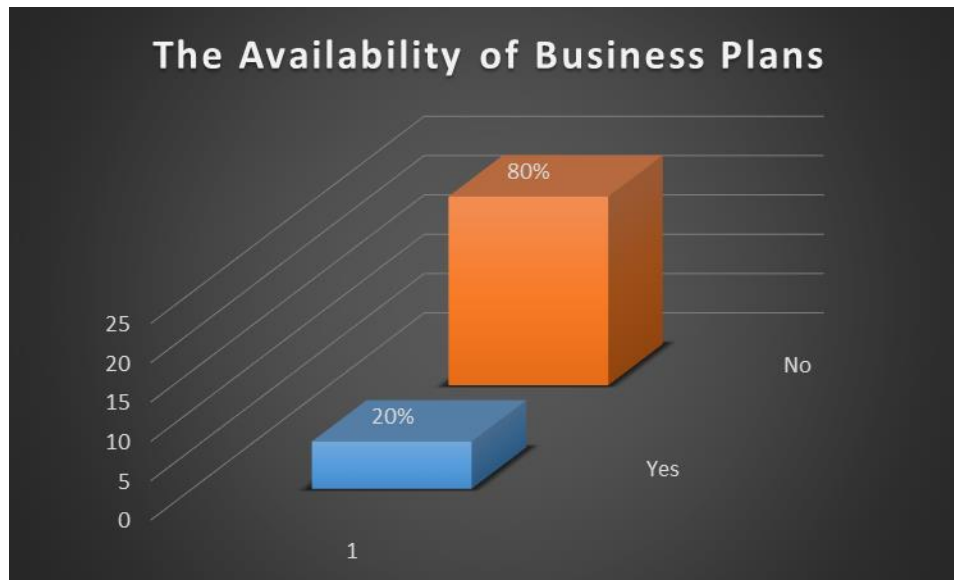


Figure 5.11 in the above diagram reflects the availability of business plans in the SMMEs in the Nongoma Local Municipality. Business plans are important to determine a holistic plan of all business operations ranging from administration, financing to future directions. The findings of the study indicate that only 20 per cent of the businesses have business plans.

5.6.13 FIGURE 12: THE ACCESSIBILITY OF FUNDING FOR SMMEs

Figure 5.12 in the diagram below indicates the number of SMMEs which are financed by financial institutions and those which are not financed.

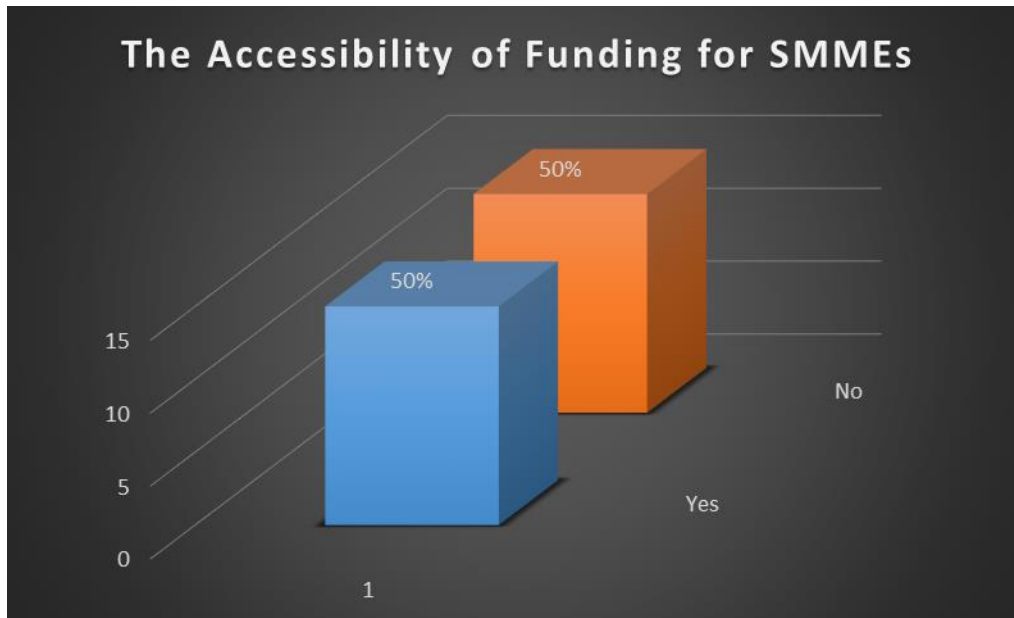


Figure 5.12 in the diagram above indicates the availability of funds for the emerging entrepreneurs to start their businesses. Fifty per cent of the respondents did not apply for funding from financial institutions to start their business. Another 50 per cent of the respondents had applied for funding to finance their businesses.

5.6.14 FIGURE 5.13: THE ALTERNATIVE SOURCES OF FUNDING FOR SMMEs

Figure 5.13 in the diagram below reflects the alternative sources of funding which are utilised by the emerging entrepreneurs in the Nongoma Local Municipality to fund their SMMEs.

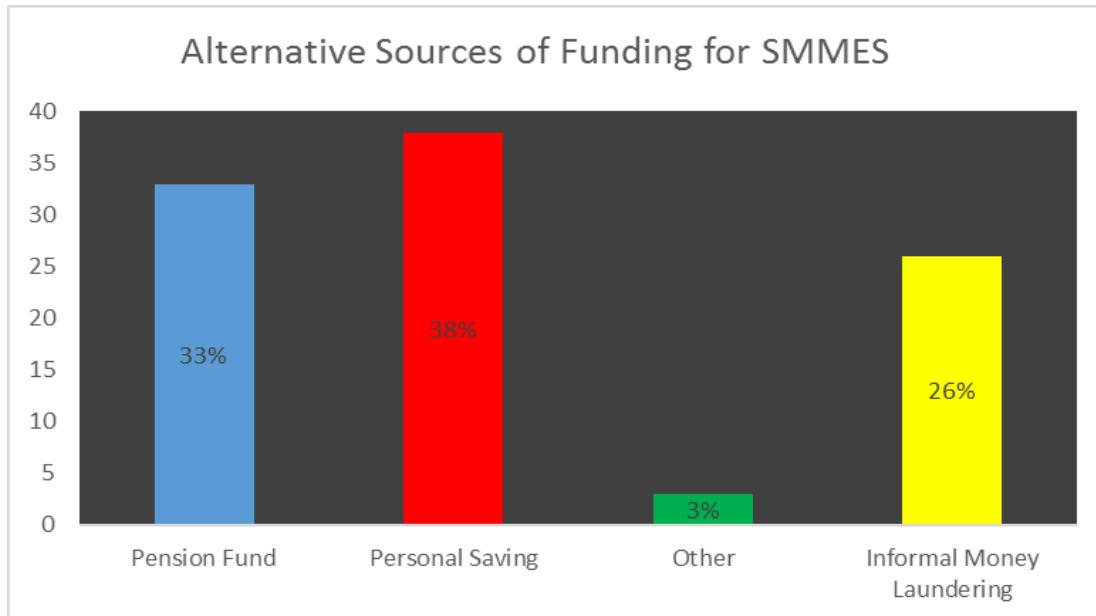
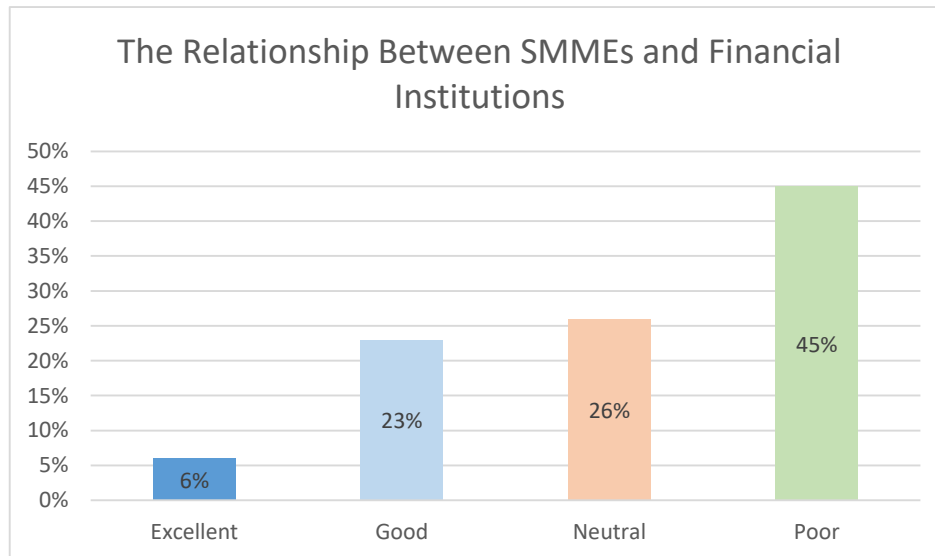


Figure 5.13 reveals the alternative sources of funding for the SMMEs which were not financed by official financial institutions such as banks or any financial service provider. The largest percentage of the respondents (38 per cent) financed their SMMEs through their personal savings, 33 per cent of the respondents used their pension funds, 26 per cent of the respondents used informal money-laundering structures, while 3 per cent used undisclosed sources of funding.

5.6.15 FIGURE 5.14 THE RELATIONSHIP BETWEEN FINANCIAL INSTITUTIONS AND SMMEs

Figure 5.14 in the diagram below presents findings regarding the relationship between the emerging entrepreneurs and financial institutions.



The lack of access to funding is regarded as the main challenge affecting the sustainability of SMMEs. With regard to the Nongoma Local Municipality, it emerged that, in most cases, a poor relationship between the emerging entrepreneurs and financial institutions contributed to their collapse or unsustainability. Approximately 45 per cent of the respondents indicated that they had a poor relationship with the banks because of their previous payment defaults, inability to repay loans, or the absence of valid documentation such as proof of address, Identity Documents, bank statements, etc. Another portion (25 per cent) of the respondents did not respond because they were unsure of their relationship with the financial institutions. The lack of good relations between SMMEs and financial institutions is also confirmed by Sacerdoti (2005), who states that, among the reasons for lack of access to credit from banks in Sub-Saharan Africa are: the inability of SMMEs to provide accurate information on their financial status; the absence of reliable and updated company and land registries, weak claim recovery and collateral realisation process such as malfunctioning courts and cumbersome legal and judicial procedures.

5.6.16 FIGURE 5.15: SMMEs WHO HAVE BEEN DENIED FUNDING BY FINANCIAL INSTITUTIONS

Figure 5.15 in the diagram below describes the SMMEs who do not have access to funding due to denial by financial institutions.

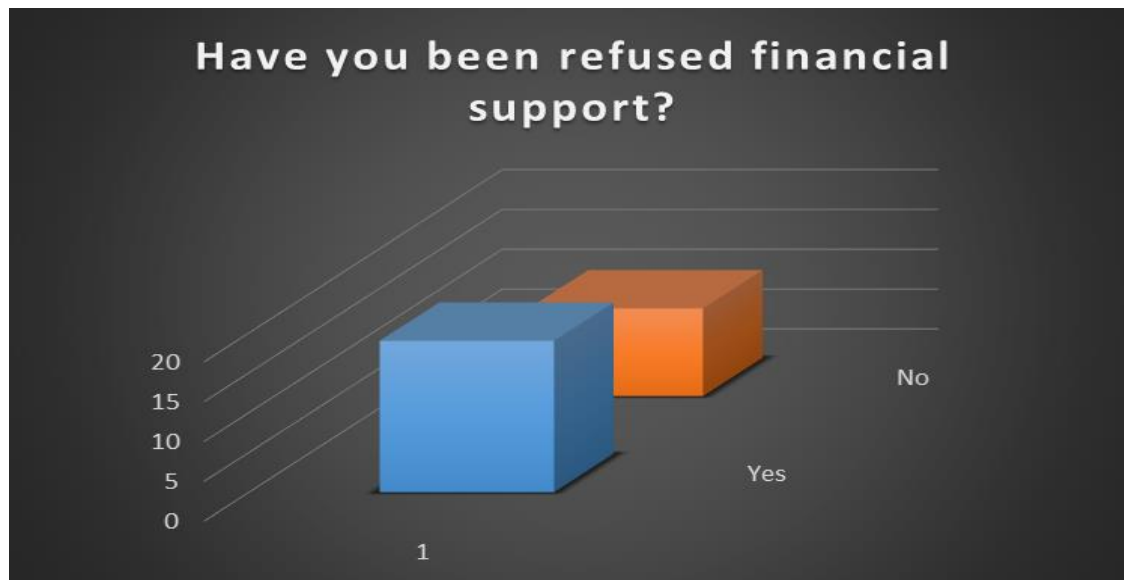


Figure 5.15 reveals the number of SMMEs in the Nongoma Local Municipality who have been denied funding by financial institutions. The largest percentage of respondents (63.3 per cent) were residents who had been denied funding, while 36.7 per cent indicated that they had never been denied funding.

5.6.17 FIGURE 5.16: REASONS AFFECTING SMMEs' ACCESS TO FINANCIAL SUPPORT

Figure 5.16 in the diagram below demonstrates reasons affecting SMMEs' access to financial support from financial institutions.

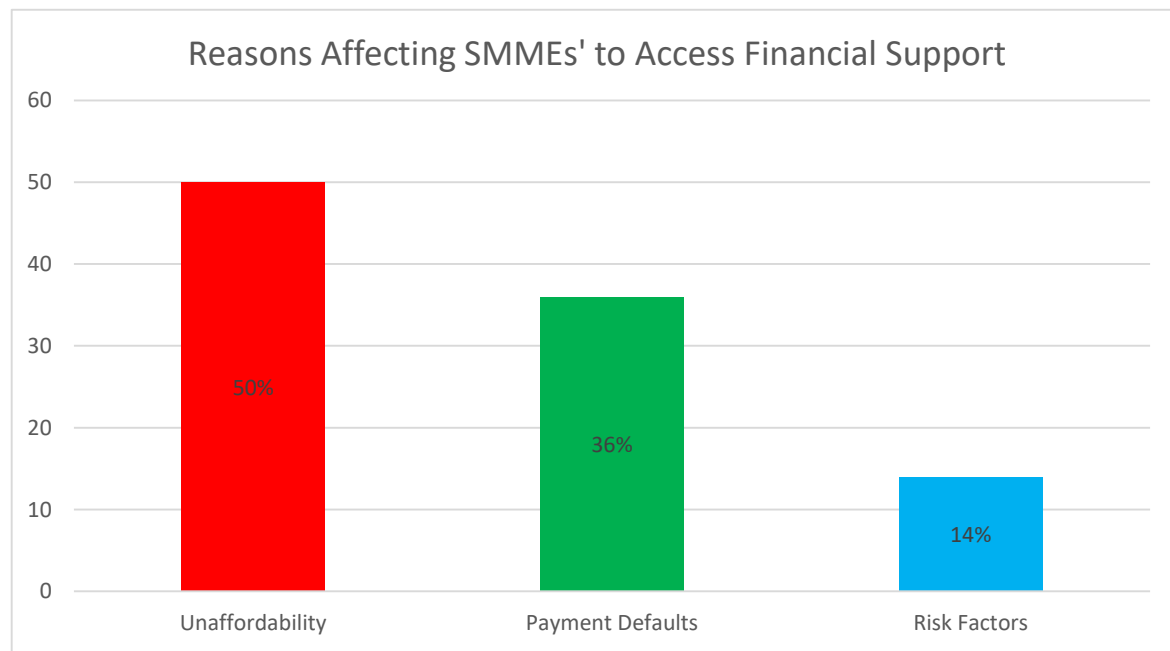


Figure 5.16 reveals reasons for financial institutions declining financial support to the SMMEs. The largest percentage of the respondents fell into the category who cited unaffordability reasons, with a high level percentage (40 per cent), followed by 36.7 per cent of the respondents who believed that risk associated factors were the reasons for the banks declining their applications for financial support, while 10 per cent indicated that they were denied funding because of their previous defaults on payments.

5.6.18 FIGURE 5.17: FUTURE PROSPECTS OF THE SMMEs IN NONGOMA LOCAL MUNICIPALITY.

The findings presented below reflect the future prospects of the SMMEs in the Nongoma Local Municipality.



Figure 5.17 indicates the future plans of the emerging entrepreneurs in the Nongoma Local Municipality regarding their plans for creating employment opportunities. The majority of the respondents (40 per cent) indicated that, when their businesses expand, they would like to employ more staff to assist with business operations. In this way employment opportunities can be created. This should be an ideal situation for the SMMEs to reduce the high levels of unemployment.

5.6.19 FIGURE 5.18: PLANS OF EXTENDING BUSINESS TO OTHER TOWNS, CITIES AND PROVINCES

Figure 5.18 in the diagram below indicates the future plans of the emerging entrepreneurs to extend their business to other areas, towns, cities and provinces.



Figure 5.18 indicates that the majority of respondents (82 per cent) indicated that they had future plans to extend their business to other towns, cities and provinces. This is another way in which SMMEs can complement government endeavours to facilitate employment opportunities for the majorities of local communities. Fifteen per cent of the respondents indicated that they were not planning to relocate to other parts of South Africa.

5.6.20 FIGURE 5.19 WILLINGNESS TO SOLICIT PROFESSIONAL HELP FROM BIG BUSINESSES AND FINANCIAL INSTITUTIONS

Figure 5.19 indicates the willingness of the emerging entrepreneurs to solicit business support from the big businesses and financial institutions.



It is evident from the findings presented in figure 5.19 in the above diagram, that the majority of SMMEs have visions for sustainability. The majority (84 per cent) of the respondents indicated that they were willing to solicit professional help from big businesses and financial institutions. Few SMMEs were reluctant to solicit the support of big businesses and financial institutions.

5.7 QUALITATIVE DATA ANALYSIS

This section presents the qualitative data analysis and interpretation. The findings are presented below in the form of key themes which emanated from both the literature and the empirical survey of the current study. The analysis represents the perceptions of the municipal officials about the role of the SMMEs in creating and sustaining livelihoods,

strategies for the communities and contributing to employment opportunities in the municipal areas.

5.7.1 THE ROLE OF THE MUNICIPAL OFFICIALS IN ASSISTING THE DEVELOPMENT OF SMMEs IN NONGOMA COMMUNITIES

The municipality encourages social entrepreneurship activities for the community members. Furthermore, the officials play a crucial role in terms of the registration of the SMMEs and the solicitation of various grants to boost their economic activities. The literature review of the study indicated that one of the challenges facing the SMMEs is the lack of skills and business knowledge among the emerging entrepreneurs. In this regard, the Nongoma Local Municipality organises workshops and training that aims to capacitate emerging entrepreneurs with business skills. Furthermore, the municipality has existing steering committees comprising private and business sectors and the provincial Department of Economic Development and Tourism. These stakeholders are committed to ensuring that the impact of the SMMEs in the Nongoma communities yields positive results. Another concern which emerged during the interviews with the municipal officials was the fact that SMMEs are a form of the LED project of the municipality which is an unfunded mandate.

5.7.2 TYPES OF EDUCATIONAL TRAINING PROVIDED BY NONGOMA MUNICIPALITY TO THE SMMEs

The educational training provided by the municipality to the emerging entrepreneurs includes components such as business management, market feasibility, sales and marketing, costing and pricing, operations, financial management and customer service. These are essential skills required in the business environment for the SMMEs.

5.7.3 TYPES OF FINANCIAL SUPPORT PROVIDED BY THE MUNICIPALITY TO THE EMERGING ENTREPRENEURS.

Despite the fact that SMMEs are the unfunded mandate in local government, the municipality provides various types of grants in order to boost the economic base of the registered SMMEs in the area. These include a Municipal Infrastructure Grant (MIG) and a Black Business Support Development Programme (BBSDP). Furthermore, the Development Bank of Southern Africa (DBSA) is committed to supporting the emerging businesses. The above mentioned conditional grants are assisting the SMMEs to grow with the local sphere.

5.7.4 THE MONITORING AND EVALUATION OF THE SMMEs IN NONGOMA LOCAL MUNICIPALITY

Monitoring and evaluation has become a key tool in the management of public programmes. Given its importance in the context of the SMMEs, the municipal officials indicated their role in ensuring that SMMEs are sustainable and comply with government legislation. However, tracking their progress and sustainability is a key challenge for the municipal officials of the Nongoma Local Municipality, due to the fact that most SMMEs do not survive for a period of more than five years in the business environment.

5.7.5 THE CONTRIBUTION OF THE SMMEs IN THE ECONOMIC GROWTH IN THE NONGOMA LOCAL MUNICIPALITY

The municipal officials indicated that SMMEs have important roles in the creation and sustainability of an economic base for the Nongoma communities. The existing SMMEs in the form of tuck-shops, street trading, taxi operations, commercial agriculture and livestock have contributed significantly to creating sustainable livelihood strategies for the communities of the Nongoma municipality. It also emerged during interviews with the municipal officials that, in the absence of employment opportunities from the big firms and industries, SMMEs are the only mechanisms which create employment opportunities. However, it should be noted that, while SMMEs provide some employment opportunities,

this is not enough, since the majority of the merging entrepreneurs do not have the capacity to employ the assisting staff.

5.7.6 FACTORS AFFECTING THE DEVELOPMENT OF SMMEs IN NONGOMA LOCAL MUNICIPALITY

According to the municipal officials, among the factors affecting the growth and development of SMMEs in the Nongoma Local Municipality, is the lack of proper business planning, accompanied by high levels of community illiteracy. Some officials cited the change in political leadership as a main contributing factor in the sense that the change of municipal administration introduces new officials with little or no commitment towards SMMEs.

5.7.7 THE AVAILABLE STRUCTURES NURTURING AND MENTORING EMERGING ENTREPRENEURS IN THE NONGOMA LOCAL MUNICIPALITY

The input of the municipal officials indicates that there are many governmental and independent/private structures that are committed to assisting emerging entrepreneurs with business skills and knowledge. These structures include Small Enterprise Finance Agency (SEFA), Small Enterprise Development Agency (SEDA, Development Bank of South Africa (DBSA) and Local Government SETA. In addition, there are Non-Profit Organisations (NPOs), Non-Governmental Organisations (NGOs) and foreign donors/funds as well as public-private partnerships who assist in this regard.

5.7.8 THE ROLE OF INNOVATION AND TECHNOLOGICAL ADVANCEMENT IN THE SMME SECTORS

Responding to the role of innovation and technological advancement in improving the efficiency and effectiveness of the SMMEs, the officials indicated that the level of communication and network systems in the modern world has changed drastically, so there is a need to adapt to the global trends of modernisation. Technology for SMMEs implies

that they use electronic bank transactions, store information on computers and use modern technology such as e-mails and social media networks to communicate with their clients. In essence, this should be a common practice in government institutions of the 21st century as emphasised by public management theorists.

5.9 CONCLUSION

This chapter presented the analysis and interpretation of both the quantitative and qualitative study. The empirical data analysis is aligned with the study objectives and responds to the key questions guiding the study. The principal objective of the study was to explore the relevance of the role of the SMMEs in creating stable and sustainable economic growth which creates adequate employment opportunities, reduces poverty and eliminates economic inequality for the citizens of the Nongoma Local Community. The findings clearly indicate that SMMEs have the potential to steer economic growth for local communities. Despite this, however, the study noted key elements affecting SMMEs, such as lack of education and training among emerging entrepreneurs and the lack of access to financial support. These findings point towards a need for more coherence of economic planning between all government spheres, NGO, NPOs and interested parties.

CHAPTER SIX

CONCLUSIONS AND RECOMMENDATIONS

6.1 INTRODUCTION

The study investigated the contributions of SMMEs towards economic development for local communities, with particular reference to the Nongoma Local Municipality. The previous chapter presented findings of the study which clearly indicate an urgent need for the municipality to boost their capacity, as they complement government's endeavours to create employment opportunities for local municipalities. Based on the issues explored in the study and research findings, this chapter provides general findings and paves the way in the form of proposing recommendations for future studies in the fields of SMMEs and economic development strategies. The first part of the chapter provides general conclusions by reviewing the contributions of each chapter of the dissertation.

6.2 GENERAL CONCLUSIONS

This study was undertaken to highlight the contribution of SMMEs towards economic development in the Nongoma Local Municipality. It argues that job creation is particularly important for South African communities which are plagued by high unemployment, such as in the Nongoma Local Municipality. However, a concerted effort should be made in this regard to uplift their influence at community levels. Furthermore, the literature review has described SMMEs as efficient and prolific job creators, the seeds of big businesses and the fuel of national economic engines. Even in the developed industrial economies, it is the SMME sector, rather than the multinationals, that is the largest employer of workers (Mullineux, 1997). Despite this reality, however, SMMEs face numerous challenges which affect their sustainability in the business environment. The researcher used a mixed method approach to investigate the impact of SMMEs for the communities of the Nongoma area. The research report was structured as follows:

Chapter One introduced the study and provides a broad overview of the role of SMMEs in their endeavours for economic development, as well as their potential in creating

employment opportunities for the local communities of the Nongoma Local Municipality. Due to the geographical location of the municipality and the scarcity of resources to support entrepreneurship opportunities, the majority of SMMEs in the Nongoma area are struggling and lack resources. The chapter further provides objectives and key questions of the study. Research methodology and design are indicated and rationalised.

Chapter Two dealt with the literature review. The literature explored in the study was guided by the study objectives. For example, it investigated the significance of SMMEs in creating employment opportunities in the Nongoma Local Municipality, and the role of the municipality in supporting the development of SMMEs, it also gauged whether SMMEs are sustainable structures in dealing with poverty and unemployment in the area. The literature of the study also indicated the government attempts since 1994 to support economic development through SMMEs. The legislative and policy framework have played a crucial role in institutionalising various economic activities of the SMMEs.

Chapter Three blended theory and practice of the SMMEs in the Nongoma Local Municipality. The application of the theory in this study was informed by the researcher's point of view that, a theory is a systematic explanation of the interrelationships among economic variables, and its purpose is to explain the causal relationship among these variables. The theories applied in this study include liners stages of economic development, structural change models and the neo-colonial dependence theories.

Chapter Four presented the methodological approach underpinning the study. The researcher used a mixed method approach. This methodology was deemed relevant due to its potential for collecting sufficient data through qualitative and quantitative paradigms. A total of 30 questionnaires were administered to the emerging entrepreneurs as well as structured interviews conducted with the municipal officials. The researcher used simple random and the stratified samplings. These samplings were selected on the basis of their flexibility in reaching a sufficient number of subjects in an unbiased manner.

Chapter Five dealt with data analysis and interpretation. Since the study adopted a mixed method, the analysis and presentation of data is two-fold, namely qualitative and quantitative data analysis. Quantitative data analysis represents the experiences and views of the thirty emerging entrepreneurs who participated in the study. Quantitative data analysis indicates that while SMMEs are the alternative mechanisms to deal with unemployment, they experience challenges in accessing finance. This makes SMMEs unsustainable and on the verge of collapse within five years of establishment. The qualitative analysis indicates that municipal officials of the Nongoma Local Municipality are actively promoting economic development through SMMEs in the municipal area.

Chapter six drew conclusions from the themes that emerged from the literature and empirical survey. The research findings point to some critical questions regarding the sustainability of the SMMEs, hence appropriate recommendations are provided for future studies.

Based on the literature and empirical studies, conclusions of the study are provided under four broad themes. The conclusions provided are linked to the study objectives.

6.2.1 THE ROLE OF THE GOVERNMENT AND DIFFERENT STAKEHOLDERS IN PROMOTING SMMEs

A thriving SMME sector is strongly associated with rapidly growing economies that have lifted citizens out of poverty. Economic development is key to the prosperity of any given state. In the South African context, the promotion of economic opportunity has been the central task of the government since the attainment of democracy in 1994. The legislative and policy framework has been formulated in this regard. Furthermore, one of the objectives guiding local government in South Africa is the need to promote social and economic development. Therefore, every possible means should be made at a policy level to ensure that SMMEs prosper and yield positive results. The global impact of the triple challenges of development (poverty, unemployment and inequality) can be combatted through SMMEs, however, this will require an active engagement between government,

business and private sectors and civil society. In light of the failing South African economy, citizens should be encouraged to work actively to create self-employment opportunities rather than waiting for help from the government.

6.2.2 CONTRIBUTION OF SMMEs TO ECONOMIC DEVELOPMENT OF LOCAL COMMUNITIES

Based on the discussions covered in this dissertation, the question of whether SMMEs contribute to economic development is obvious. There is consensus among policy-makers, economists and business experts that SMMEs are drivers of economic growth. A healthy SMME sector contributes prominently to the economy through creating more employment opportunities and economic independency, increasing exports and introducing innovation and entrepreneurship skills. The dynamic role of SMMEs in developing countries ensures that they serve as engines through which the growth objectives of developing countries can be achieved (Mahembe, 2011).

6.2.3 SKILLS DEVELOPMENT AND CAPACITY BUILDING IN THE SMME SECTOR

The lack of skills and poor financial management in the SMME sector affects their sustainability. The empirical survey with emerging SMMEs in the Nongoma Municipality has indicated that access to funding and lack of business are their greatest challenges. This mainly relates to the SMMEs in previously disadvantaged communities. These SMMEs should be encouraged to register their business activities, be supported in terms of drawing up business plans and should be directed to available financial support.

6.2.4 BUSINESS MENTORING AND SUPPORT FOR SMMEs

Business mentoring is a proven way to enable successful entrepreneurs. Therefore, in light of the sustainability of SMMEs in the Nongoma Municipality, coaching would add value to these institutions by helping emerging entrepreneurs grow and develop, thereby enhancing overall production and the profitability of the SMMEs.

6.3 RECOMMENDATIONS OF THE STUDY

The recommendations of the study presented are twofold: recommendations emanating from the literature and those emanating from the empirical study.

6.3.1 RECOMMENDATIONS EMANATING FROM THE LITERATURE

The section below presents recommendations emanating from the literature study.

6.3.1.1 RECOMMENDATION ONE: NEED FOR EMPOWERMENT PROGRAMMES FOR THE SMMEs

SMMEs are the main drivers of economic growth in any given state. South Africa, as a dual economic (formal and informal) country, needs to revisit its vision for economic development through SMMEs. This stems from the realisation that SMMEs continue to face daunting challenges as a result of poor access to finance, lack of education and training support. It has emerged from the literature that SMMEs in the previously disadvantaged communities do not last for longer than a period of five years in the business environment. It is against this background that the researcher sees the need for empowerment programmes to support the SMMEs.

6.3.1.2 RECOMMENDATION TWO: NEED FOR THE REDEFINITION OF THE ROLE OF LOCAL GOVERNMENT IN SOCIAL AND ECONOMIC DEVELOPMENT

Local government, towards the third decade of democracy, is bound by a number of factors. For instance, this government sphere is mandated to improve socio-economic opportunities for local citizens. Economic programmes such as LED are located in this sphere, however they are the unfunded mandate. For the benefits of SMMEs, it is therefore recommended that the National Government sphere and the Department of Co-operative Governance and Traditional Affairs (CoGTA) re-define the role of local government in economic development. Every possible means should be made to boost local government in its endeavours for economic prosperity at community levels.

6.3.1.3 RECOMMENDATION THREE: PUBLIC PARTICIPATION IN LOCAL ECONOMIC DEVELOPMENT STRATEGIES

Economic decentralisation implies that local communities have important roles to play in creating and sustaining economic opportunities at local levels. Boosting local economies

therefore requires local citizens to work collectively in identifying job-rich areas and soliciting municipal support in the form of business and legal advice.

6.3.1.4 RECOMMENDATION FOUR: RELATIONSHIPS BETWEEN FINANCIAL INSTITUTIONS AND SMMEs

Chapter two of this study highlighted the challenges experienced by SMMEs in accessing finance to fund their business activities, however financial institutions are reluctant to fund such activities due to their unreliability and unsustainability. The study therefore recommends that financial institutions design special funding in the form of loans for the SMMEs and that they play a close role in the monitoring of the SMMEs so that they are able to repay these loans.

6.3.2 RECOMMENDATIONS EMANATING FROM THE EMPIRICAL SURVEY

The section below presents recommendations emanating from the empirical study. The empirical survey of the current study identified key challenges affecting economic development through SMMEs hence recommendations are provided for future studies in this field.

6.3.2.1 RECOMMENDATION FIVE: THE NEED FOR EDUCATION AND TRAINING FOR THE EMERGING ENTREPRENEURS

Low education levels have been singled out as the main obstacle affecting the development of SMMEs in the Nongoma Local Municipality. The majority, approximately 74 per cent, have primary and secondary education levels of education. None of these have been exposed to business training. As a result, they lack basic business operation skills such as the ability to write up business plans and undertake proper financial management. It is therefore recommended that municipalities expose these emerging entrepreneurs to the available training programmes.

6.3.2.2 RECOMMEDATION SIX: THE NEED TO ENHANCE SMMEs' ABILITY FOR ABSORBING UNEMPLOYMENT

It is indicated in the preceding sections that SMMEs are the engines for economic growth and they have the potential to absorb unemployment levels. However, due to poor planning and the lack of proper management skills of the emerging entrepreneurs, SMMEs do not extend to support wider communities in terms of employment opportunities. SMMEs are a job-rich strategy, therefore they should be encouraged to extend economic opportunities to the needy citizens.

6.3.2.3 RECOMMENDATION SEVEN: THE NEED FOR THE DEVELOPMENT OF THE FINANCIAL ASSISTANCE MODEL FOR SMMEs

A financial support model which will be sensitive to the needs of the SMMEs should be designed. This financial support model should be co-ordinated at a national level under the Department of Economic Development. In order for SMMEs to yield positive results, proper mentoring and monitoring programmes should be developed. In this way, SMMEs can contribute to economic development for local communities.

6.4 CONCLUSION

The study has been undertaken to gauge the efficiency of the SMMEs in dealing with the cases of poverty and unemployment in local communities. SMMEs, also referred to as small businesses, play an important role in the economy. Depending on proper planning, SMMEs can be key drivers of economic growth, innovation and job creation. In the South African context, government recognises the importance of this segment of business activity, so much so, that a new Ministry of Small Business Development was established in early 2014. Since then, there has been an increase in the number of the SMMEs. Despite this, however, their sustainability is questionable. The study used a mixed methods approach to collect data from the emerging entrepreneurs and municipal officials in Nongoma. The findings of the study presented indicate an urgent need for communities and government entities to work actively to create a professional business environment for the SMMEs.

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