



# SMMEs promoting Local Economic Development (LED) in Umlalazi Local Municipality, KwaZulu-Natal

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## Abstract

The purpose of this paper is to assess the role of Small Medium and Micro Enterprises (SMMEs) such as tourism and hospitality enterprises for example, towards promoting Local Economic Development (LED) in rural areas within Umlalazi Local municipality (ULM), Kwa-Zulu Natal, South Africa. South Africa is facing the challenge of a high rate of unemployment which leads to poverty amongst many households, particularly in rural areas. In response to unemployment and poverty reduction, people in rural areas established SMMEs to earn a living. SMMEs are regarded as a major source of income generation and strategy for poverty alleviation in most rural areas. The objective of the study was to assess whether SMMEs contribute towards enhancing LED including reducing unemployment rates and contributing towards economic growth in ULM.

This study was exploratory using a quantitative research method to collect and analyse data. It administered 100 questionnaires to SMMEs owners and workers in the area in question. The study found that SMMEs within the case study play a dominant role in reducing the unemployment rate and alleviating rural poverty. It also revealed that challenges are faced by SMMEs which sometimes lead to the shutting down of businesses because these challenges hinder their social and economic growth. The study recognise that SMMEs in rural areas have contributed towards LED, but the lack of information on how they can get support from stakeholders and government institutions in order to grow and develop both social and economically remain a problem. The study recommended that ULM should consider using Public-private partnership (PPP) so that they can be aided to give more needed support to SMMEs.

**Keywords:** development, rural communities, South Africa, SMMEs

## Introduction

Small, Medium and Micro Enterprises (SMMEs) are supported by different government initiatives which are in turn assisted by the Department of Trade and Industry (DTI) and associated organisations, such as the Centre of Small Business Promotion (CSBP), Ntsika Enterprise Promotion Agency and Khula Enterprise Finance. Cass (2012:82) indicated that SMMEs are divided into five categories, namely: survivalist enterprise, micro enterprises, very small enterprises, small enterprises and medium enterprises. These enterprises are defined as effective and innovative job creators, and the fuel of national economic engines (Abor and Quartey, 2010). CDE (2011) stipulated that 91 % of SMME's contribute around to 52-57 % to the GDP and 61 % of employment in South Africa.



In developing countries, SMEs are regarded as the key engine in reducing the unemployment rate and generating economic growth, mainly as a result of the global financial crisis (IFC, 2012). The SMME sector plays a vital role in the recognition of social and economic development and also in encouraging the improvement of the standard of living in South Africa (Nxaba, 2014). Nxaba (2014) asserts that the SMME sector has the potential to generate wealth and to supply the rural population with food, clothing and housing as well as additional goods and services. Muyengwa *et al.* (2013) state that SMMEs play a vital role in the socio-economic stability of the country; they contribute significantly to the economy and have strong potential for economic growth.

South African Statistics (Stats SA, 2011) indicated that ULM has an unemployment rate of about 35.2% and a growth rate of -0.34, which is evidence that the majority people living in rural areas live under poverty.

### **International practice of SMMEs**

Small businesses worldwide are recognised for their potential to create job opportunities and generate wealth in developing areas (Mmbengwa *et al.*, 2013). Numerous African countries, such as Togo, Uganda, Ghana, Cote d'Ivoire, Nigeria, Kenya, Malawi, Burkina Faso, have recognised the importance of small businesses (Smit and Watkins, 2012). They (Smit and Watkins, 2012) further assert that SMEs in Africa are of significance for the promotion of economic growth, job creation and poverty alleviation.

Worldwide (SMEs) account for up to 90 % of businesses and more than 50 % of employment as well as contributing 33 % to the GDP of developing countries (Ogubazghi and Muturi, 2014). Furthermore, Scheers (2011) assert that SMEs comprise over 90 % of African business operations and contribute to over 50 % of African employment and GDP. The SMEs sector has shown positive signs in Southern Africa, Mauritius and North Africa. The European Commission (2005) stated that SMEs are the engine of the European economy, as they are a crucial source of job creation; they create entrepreneurial spirit and innovation in the European countries, and are thus important for fostering competitiveness and employment within countries.

### **SMMEs in South Africa**

SMMEs represent a significant vehicle to address the challenges of job creation, economic growth and equity in the country. In March 1995 the government presented measures to foster an enabling environment in the White Paper on national strategy on the development and promotion of SMMEs in South Africa, in order to deal with the unemployment rate (DTI, 2005). Furthermore, Cass (2012) state that the strategy was developed to reduce the unemployment rate, and stimulation of economic growth through assisting SMMEs in becoming more effective in the global market. In South Africa, the importance of developing SMMEs becomes even more significant for the achievement of social stability by creating jobs to address the high unemployment rate (Mbedzi, 2011). SMMEs have been considered as the instrument of economic growth and for promoting reasonable development (Arema and Mukaila, 2011). In 2012 an estimated 3,830,511 SMMEs were operating and playing a vital role in the economy (Bruwer, 2012).



The South African government has acknowledged the importance of SMMEs to the South African economy (Ndou, 2014). South Africa is one of the developing countries with a high prevalence of socio-economic challenges. These challenges include high levels of unemployment, poverty, food insecurity and starvation, mostly among rural and peri-urban poor people. Apart from the SMMEs contributing to job creation and economic growth, SMMEs also play an important role in the economy of the country by introducing new, advanced products and services, which improve people's standard of living (Mbedzi, 2011). Abor and Quartey (2010) estimated that 91 % of formal business entities in South Africa are SMEs and that these businesses contribute 52 % to 57 % to the GDP of the country as well as 61 % to employment. Jongh *et al.* (2012) revealed that South African SMMEs roughly contribute 50 % towards the South African GDP and an estimated 60 % of the total employment of the country.

SMMEs owners become the main role players in LED, as they create an opportune policy environment to facilitate SMME activities in the following ways: by creating employment opportunities, developing infrastructure in a way that provides business opportunities for local communities and encouraging cooperatives to help the community become active in the local economy (Phago and Tsoabisi, 2010). Mmbengwa *et al.* (2013) revealed that business enterprises, no matter how small they are, do not exist for their own sake; they exist in order to fulfil a special social purpose for the benefit of the society, the broader community and its individual stakeholders. Since SMMEs are embedded in LED, it becomes the responsibility of local government to ensure that the LED challenges are responded to within a regulated and supported framework of SMMEs (Phago and Tsoabisi, 2010). The above proves to be evidence which indicates that these business entities are considered to be the heart of the South African economy as they contribute immensely to the GDP and enhance employment opportunities.

### **Study area**

UMlalazi Local Municipality (ULM) is situated on the North coast of Kwa-Zulu Natal Province. It is one of six local municipalities situated within the area of the uThungulu District Municipality. ULM is made up of three small towns, namely Eshowe, Mtunzini and Gingindlovu. The municipal area is dependent on the agricultural sector for its economic well-being. This sector contributes 33 % to the gross geographic product and employs the majority of the workforce. The municipal area is characterised by commercial farming areas in a continuous band from the West of Eshowe to Gingindlovu and to the North of Mtunzini. The rest consist of tribal areas as uMlalazi is dominated by tribal areas (IDP, 2016/2017). In the study area 53% of the population is unemployed. The economically active population consist of 40 % and 33 % of those employed are in the agricultural sector, where there is long hours of work and low pay. Census (2011) state that 80 % of households earned less than R19 200 per annum which translates to less than R1600 per month (IDP, 2016/2017).

The Municipality recognises the need to develop its surrounding economy, in order to diminish the gap between it and the primary economy, whilst at the same time reducing the unemployment rate and fighting poverty. To achieve this, the Municipality has launched the 'Siza Bonke' (meaning helping all) Works Programme. The Programme is designed to accommodate jobless people within the uMlalazi area. Specific requirements for selection and enrolment will take place and only jobless men, women and youth will be employed. Skills transfer as frequent life skills is built into the programme as well.



## Research Approach

A quantitative research method was used to gain a clear understanding and acquire knowledge regarding some SMMEs in rural areas. Non-probability sampling was employed focusing on specifically purposive sampling. The researchers thus purposively distributed 100 questionnaires to SMMEs around ULM. Of these, 100 questionnaires were completed which included SMMEs owners and workers. The researchers used a snowball sampling method to get hold of the SMMEs. The snowball sampling method was used to identify hidden SMMEs within the study area with the assistance of other SMMEs that had been consulted. The individuals consulted SMMEs owners who acted as respondents to identify other respondents or other SMMEs found in the same population for inclusion in the sample. This method yielded a study sample through recommendations made amongst respondents who share or know of others who possess some characteristics that were of interest to the researchers.

The questionnaire was divided into different sections, section A was based on the socio-demographic profile of the respondents which were analysed using the quantitative method. Demographic data are relevant to the study because they clarified how SMMEs operate within the study area. Section B was based on questions aiming at examining the contribution of SMMEs towards promoting LED. Section C was based on the challenges that SMMEs face, and the possible solutions with regards to those challenges.

## Research Findings

This section presents the findings from the collected data in detail, in terms of using frequencies and themes relative to the objective of the study. It also discusses these findings in relation to the broad research objective. The first section of the results consists of the respondents' demographics followed by the qualitative results.

### Age and Gender of the respondents

Table 1 indicates the comparison of age and gender of the SMMEs respondents. Presented results in table 1 below indicate that most active respondents in SMMEs were females. The majority were females between the ages of 30-41, representing 40 % of the respondents. Females were the respondents that participate more in SMMEs as 60 % of the respondents were females and 40 % were males. These findings reveal that the majority of people who are participating in SMMEs are females and it is females who mostly contribute towards promoting LED as compared to men. These results are supported by EDGE (2012) who stated that Black, middle aged women constitute the majority of informal traders who legally operates businesses within the informal economy.

Females in rural areas have the responsibility of putting food on the table, they are the ones who care for the children and they need money to buy their requirements. Therefore, for them to accumulate funds they start small businesses so that they can go back home and feed their children.



**Table 1: Age and gender**

		Age Group				
		18-29	30-41	42-53	54-Above	TOTAL
Gender	Male	10	20	10	0	40
	Female	10	40	10	0	60
Total		20	60	20	0	100

**Level of education of respondents**

The study indicated that the majority of the respondents were single and the highest educational qualification they have is high school. The findings revealed that only 10 % of the respondents attended tertiary institutions, 5 % never went to school, 30 % left in primary school, 55 % went to high school and some didn't pass their matric. These results indicate that SMMEs play an important role in providing employment opportunities for less educated communities. The study revealed that most people living in rural areas are less educated. Amra *et al.* (2013) found that the least educated people are in rural areas. Therefore, SMMEs contribute to the development of LED mostly in rural areas by employing uneducated and less educated people. In their study on SMMEs, Michael and Johannes (2013), found that 35 % of the respondents, the majority, did not matriculate. This shows that SMMEs play an important role in providing employment opportunities for less educated people in general.

**Estimated monthly income by respondents**

The study revealed that SMMEs are not making much profit through their businesses yet they earn a living out of the small income that they are generating. The majority (55% of respondents were earning an income of between R800 and R1200, 30 % were able to earn between 1201 to R2400 and more on monthly bases, 10% of the respondents were earning between R2401 and R3200 and 5% of the respondents between R3201 and above per month. This illustrates that in most cases SMMEs does not generate sufficient income and profit (De Kok *et al.*, 2013:38-41). The income that was generated by the SMMEs, even though the majority earned small amounts, never the less contributed to LED because it is used to support their families and satisfy their basic needs, which means they use this money to buy food and reduce the level of poverty and improve the standard of living. This shows that SMME's contribute to creating job opportunities in rural areas.

**Table 2: Estimated monthly income**

Monthly income				
R800- R1200	R1201-R2400	R2401-R3200	R3201- Above	TOTAL
55	30	10	5	100



## **Support from Different Organisations**

The researchers asked respondents if they received any support from government or other organisations for their businesses to be more effective. The South African government has put in place initiatives and institutions aimed at supporting SMMEs, but the findings of this study indicates that 90% of the respondents do not receive support from any organisation. They operate their businesses on their own and only 10% of the respondents agreed that they receive support like training on how to write a business proposal from the National Youth Development Agency (NYDA) and the National Development Agency (NDA). Mago and Toro (2013) revealed that the South African government has put in place a number of other initiatives aimed at supporting SMMEs, such as a Centre for Small Business Development (CSBD) and the South African Micro-Finance Apex Fund (SAMAF). The results of this study revealed that the majority ( 90% ) of the respondents are not supported by the initiatives mentioned above and some of them are not even informed that these initiatives even exist. From the latter, the question arises how local municipalities, other organisations (i.e. NGO's) and the South African government disseminate information to the relevant people so that they can be informed of these initiatives and benefit from them. It is clear that there are numerous initiatives that are in place yet SMME's in rural areas do not receive sufficient support.

The support that is needed goes beyond mere monetary value. The majority of the SMMEs operating in the uMlalazi area have been operating for more than ten years, they are working very hard but yet they still do not have faith in themselves and their businesses. This means they need support, training and motivation so that they will have the courage to develop their businesses. Mago and Toro (2013) stated that the government has a role to play in developing their people. For instance, the government has to assist the neglected sectors to access loans from financial institutions.

## **SMME's enhancing LED**

In keeping with one of the objective of the study with reference to finding the contribution of SMME's on promoting LED, the following sections discuss the explanations proffered by the respondents in uMlalazi area.

### **Reduce Unemployment**

The findings of this study reveal that SMMEs within ULM do reduce unemployment, as 55 % of the respondents agreed that their business does reduce unemployment since they have employees who work for them on a permanent basis. 45 % of the respondents do not have employees in their business, they work for themselves. This shows that even in rural areas, SMME's contribute to fighting socio-economic challenges by reducing the unemployment rate, alleviating poverty and the overall enhancing of the local economy. Nkwe (2012) also stated that the South African government views SMMEs as a source of job creation, particularly in rural and peri-urban areas. Abor and Quartey (2010) estimated that SMMEs in South Africa contributes 61 % to employment, and Jongh *et al.* (2012) also estimated that SMMEs contributes 60 % the entire rate of employment of the country. The findings of the study correspond to other studies (Nkwe, 2012; Abor and Quartey 2010; Jongh et al. 2012) as they assert that SMMEs within the case study contribute 55 % to employment within the



area. The study also confirms that SMMEs are in essence the source of job creation in rural areas.

### **SMME's and Poverty reduction**

This study indicates that SMMEs play a key role in alleviating poverty as 75 % of the respondents asserted that their businesses are their main source of income and they depend on this income for their daily living. However, demotivated respondents 25% stated that their participation does not alleviate poverty because the money they are earning is too little and they are not getting any support from the government or relevant institutions. The findings of this study revealed that SMMEs alleviate rural and relative poverty within ULM as the majority of the respondents indicated that they are breadwinners in their families. This shows that they use their businesses as the major source of income for themselves and their families. The findings of the study support Nkwe (2012), who also stated that SMMEs play a vital role in alleviating poverty by employing local people.

### **SMMEs as the strategy to stimulate of economic growth**

The majority (65%) of respondents stated that they are not sure whether their businesses contribute to economic growth or not. The other 35 % revealed that their businesses do contribute to economic growth. They stated that their businesses are registered, they pay tax, they pay municipal rates and they buy goods that have Value Added Tax (VAT) contributing to the GDP of the country (IDP, 2016/2017). Economic growth is usually associated with technological changes and the increase in the number of goods and services produced within a country. These SMMEs do not produce their own goods but place orders from suppliers and sell those products at a reasonable price, which means they do not contribute to an increase in the level of production. Additionally, some of them are not registered and therefore they do not pay tax.

It has been estimated by Abor and Quartey (2010) that SMMEs contribute around 52 % to 57 % to the South African GDP. Jongh *et al.* (2012) confirms that South African SMMEs roughly contribute 50 % to the South African GDP. Furthermore, Smit and Watkins (2012) indicated that the activities of SMMEs in Africa are of vital significance for the promotion of economic growth. The findings of the study show that SMMEs in rural areas, particularly in the case study, need all the support that they can get to produce their goods so that they can contribute more to the economy. This will not only help their local areas, but South Africa in general will gain these business entities are considered the heart of the South African economy.

### **Advancement of relevant technology**

As technology advancement is one of the key elements of integrated rural development, the findings assert that the SMMEs which operate in the case study area hardly use relevant technology. Ninety five percent of the respondents stated that their businesses do not use advanced technology and only 5 % stated that they do. The respondents revealed that their businesses have been operating for years without technology and they believe that they will survive without it in future. They asserted that they believe technology advancement will lead to them increasing prices, which will result in losing customers as their competitors do not use it. Mbedzi (2011) stated that apart from SMMEs contributing to job creation and economic growth, SMMEs also plays an important role in the economy of the country by



introducing new, advanced products and services, which improve the standard of living of the people. The findings of this study different from Mbedzi (2011) in finding that SMMEs in rural areas do not rely on technology for the advancement of their businesses, as most of the SMMEs that make use of technology are found in urban areas.

### **Challenges faced by SMMEs**

Respondents were questioned about the challenges they are faced with their businesses. Excluding the financial problems that small businesses normally face, there are numerous other challenges faced by SMMEs. Dubihlela and Van Schalkwyk (2014) also indicated that small business enterprises and entrepreneurs face numerous challenges, i.e. lack of managerial skills, financial challenges, lack of credit, and lack of access to markets, usable/irrelevant technology, low production and inadequate institutional support. Research respondents named the following challenges faced while operating their businesses.

**Working environment:** A bad working environment is one of the common challenges that is affecting all respondents and have a negative effect on making a profit. The respondents indicated that they do not have proper shelters were potential customers have the confidence to purchase their products and if there are heavy rains their shelters becomes drenched. This alone leads to a reduction in the income they earn and additionally they lose customers. Ladzani (2011) shows the business environment has an important impact on the development of new small enterprises. The impact is positive when working environment conditions are good; on the other side the impact is negative when the environment is poor and not conducive to customers.

**Unreliable suppliers:** Respondents stated that suppliers sometimes fail to provide them with the stock required, this makes it hard to sell and furthermore they lose the trust of their customers. Some, respondents indicated that they buy from wholesales and they use their own transport to transport goods so that they are always on time. Suppliers that sell goods at the same price as the price used to sell their own products to the customers, results in failure to make a profit and this leads to insufficient income for the day or the whole month.

**Crime:** The respondents stated crime and violence one of the challenges. As their working environment is not satisfactory, it makes it easy for criminals to steal their products leading to a decrease in income. The World Bank (2008) indicated that 30 % of enterprises in South Africa claim that the crime rate is a main constraint on investment and business owners are less likely to increase their investment because of crime.

### **Possible Solutions**

The respondents opined possible solutions with reference to the challenges faced. The ULM should take action and assist them with the poor working environment so that it can be conducive for customers and a possible increase in profit. They also suggested that permanent premises should be provided to them for which they can pay rent. Suppliers need to keep their promises and deliver on time to ensure that they also meet the demand of their customers. Getting support from different organisations could also assist, because they could enable them to address their challenges. Furthermore, partnership with other organisations through public private partnership (PPP) could assist ULM's LED unit to



support SMMEs. Getting support does not mean they only need financial support, but they also need non-monetary support such as motivation and a stable work environment.

## Conclusion

The findings of this study indicate that SMMEs in ULM play an important role towards promoting LED, though numerous challenges remain. SMMEs in rural areas need an advancement of technology availability, even though it seems to be expensive, but technology will make their work easier and faster. SMMEs in rural areas have to become accustomed to technology as improved technology could make them increase the number of customers, which will result in higher profits. Producing their own goods and services can assist the case study area increase production which will help the local economy develop.

It is recommended that community members or entrepreneurs seek information and enter into partnerships with organisations that can assist them besides relevant government agencies that were established to support SMMEs. Making use of these agencies can help them to solve the challenges they are facing. It is also recommended that they register their businesses, so that it can be easy for the agencies to support them.

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