

# **LOCAL ECONOMIC DEVELOPMENT THROUGH SMALL BUSINESSES IN DIMBAZA**

By

**Sixolile Gantsho**

(212235222)

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Supervisor: Professor Ronney Ncwadi

**NELSON MANDELA**  
UNIVERSITY

**DECLARATION BY CANDIDATE**

**NAME:** Sixolile Gantsho

**STUDENT NUMBER:** 212235222

**QUALIFICATION:** Master of Arts: Economics (Research)

**TITLE OF PROJECT:** Local Economic Development  
through small businesses in Dimbaza.

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**SIGNATURE:**  \_\_\_\_\_

**DATE:** 22 October 2019

## ABSTRACT

This study was conducted in Dimbaza, a small town outside of King Williams Town. Dimbaza was created as a resettlement township during Apartheid in 1967. The study investigated local economic development through small businesses. The study described the state of the small business sector, it presented the contribution this sector has towards employment creation and income generation. Furthermore, it investigated the challenges that the small business sector in Dimbaza faces and the level of responsiveness from the local authorities in Buffalo City Metropolitan Municipality which Dimbaza falls under.

The study was conducted using a survey questionnaire which was administered to small business entrepreneurs. Furthermore, a focus group with small business owners and semi-structured interviews were conducted with officials from the Buffalo City Metropolitan Municipality in the Business Development and Local Economic Development Directorate.

The findings of the study suggest that Dimbaza has a large informal economy which has of survivalist entrepreneurs with small and micro businesses. It is evident from the study that the small business sector in Dimbaza is facing the following challenges: **1)** No access to funding opportunities, **2)** a lack of infrastructure, **3)** lack of proper running water and electricity and **4)** lack of economic development programmes from the municipality. There is a dire need for the intervention of local authorities in the small business sector in Dimbaza. Buffalo City Municipality needs to ensure the creation and implementation of programmes through Local Economic Development.

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## GLOSSARY

Acronyms	Explanation
AGSI-SA	Accelerated Shared Growth Initiative in South Africa
ANOVA	Analysis of Variance
BCMM	Buffalo City Metropolitan Municipality
DPLG	Department of Local Government
ECDC	Eastern Cape Development Corporation
GEAR	Growth, Employment and Redistribution
IDP	Industrial Development Plan
IRI	International Republican Institute
LED	Local Economic Development
NBI	National Business Initiative
NDP	National Development Plan
SEDA	Small Enterprise Development Agency
SEFA	Small Enterprise Finance Agency
SMME	Small Medium and Micro Enterprises

# Chapter 1: General Introduction to The Study

## 1.1 Introduction and background

Local government or municipalities have been mandated to organize and plan processes to provide basic services include water and sanitation that will improve the livelihood, the overall well-being of members of communities and to improve local economies in an efficient and sustainable (Municipal Systems Act 32 of 2000). Chapter seven of the Constitution of the Republic of South Africa (Act 108 of 1996) states that “a municipality has the right to govern, on its own initiative, the local government affairs of its community, subject to national and provincial legislation as provided for in the Constitution”. The local sphere of government should be devoted to working with groups within the municipality to find sustainable methods of achieving social and economic needs. Local Economic Development is regarded as a creative and innovative instrument that has the potential to create employment and reduce poverty (White Paper on Local Government, 1998). Gathering from researchers, Local Economic Development (LED) can be simply defined as a strategy to promote employment, create jobs and fight poverty through development that is project-based. Furthermore, it is “an approach towards economic development which allows and encourages local people to work together to achieve sustainable economic growth and development. It is bringing economic benefits and improved quality of life for all residents in a local municipal area”(Rodríguez-Pose and Tijmstra, 2010). Background of the study

Buffalo City Metropolitan Municipality (BCMM) is one of the two major urban conurbations in the Eastern Cape province of South Africa. The municipal area has two Magisterial Districts; East London and King Williams Town. Buffalo City is characterized by a settlement and land use pattern, with urban, peri-urban and rural components. The settlement pattern is dominated by the East-Mdantsane-King Williams Town-Dimbaza urban development axis. Dimbaza, which is the focus area for this study, and it falls under the King Williams Town Magisterial District. It lies 23.5 kilometres outside of the city of King Williams Town.

Dimbaza township was described as a symbol of the “surplus people” by (South African History Online, 2013). It was simply used as a dumping place by the Apartheid government (SAHO, 2013). People were removed from their place of residence because of the Group Areas Act of 1950 and

Dimbaza was one of the places they were forcibly removed to (SAHO, 2013). The first people settled at the end of 1967, it was families from Cape Town, Middleberg and Burgersdorp who first arrived in Dimbaza (SAHO, 2013). By the 1970s, prisoners released from Robben Island were banished in Dimbaza, this made it easy for the security police to monitor them and their activities (SAHO, 2013). “When the first residents of Dimbaza arrived it was without the necessary amenities and they were temporarily housed in wooden huts with zinc roofs. Two-roomed cement and asbestos houses, without floors and ceilings, were subsequently built and the typical township matchbox houses followed” (SAHO, 2013). By the end of the 1970s, a community had developed and it experienced extreme poverty, malnutrition, lack of basic services and unemployment (SAHO, 2013). The horrendous state of the Township was exposed in 1972 by a British network who filmed a documentary film in Dimbaza titled *The Last Grave in Dimbaza* (SAHO, 2013). Subsequent to that film, reforms followed and SAHO (2013) writes that the dumping ground was turned into an industrial town. It became the centre for industrial decentralization and over 200 factories were established, which employed the residents of Dimbaza and surrounding rural areas on small salaries. The township was upgraded and improved, and other small businesses opened. After the first democratic elections in 1994, most of the industries closed down this was due to the tax rebates and other incentives from the government that stopped and currently Dimbaza is an industrial graveyard with high unemployment (SAHO, 2013).

## 1.2 Problem Statement

Entrepreneurship resulting in the formation of small businesses is a way of creating employment and generating income for the community. Local Economic Development is an approach that allows for economic development to take place through innovative instruments by the community. The municipality’s role is to ensure that the community is equipped with the necessary skills and foundation for them to be self-sufficient and sustainable.

Against this background municipalities in South Africa don’t prioritise strengthening the capabilities of the small business sector. There seems to be lack of support towards the empowerment of small businesses whether informal or formal. The small business sector, especially in the townships, contributes to job creation and income generation in local communities.

During Apartheid, Dimbaza was an industrial hub with over 200 factories operating in the area. After 1994, about more than 130 factories closed down (Gowa, 2016). Gowa (2016) reported in the Daily Dispatch reported that the Buffalo City Metropolitan Municipality allocated more than R300 million to revitalise the Dimbaza Industrial hub in the 2016/2017 financial year. With the revitalisation of the industrial hub in Dimbaza being in the pipeline, there seems to be a disregard of the contribution and potential that the small business sector has and will have on local economic development in the area. The Buffalo City Metropolitan Municipality Report (2016) identifies the small business sector as a vehicle that will drive economic growth in the municipality.

### 1.3 Objectives

The specific objectives of the study are as follows:

- To investigate the magnitude and extent of small businesses in Dimbaza.
- To ascertain the contribution of this sector towards employment creation and income generation.
- To assess the challenges facing the small business sector in Dimbaza.
- To provide policy recommendations based on the findings.

### 1.4 Research Questions

- What role do small businesses play in Dimbaza?
- What role does LED play in employment creation and income generation in Dimbaza?
- Is the small business sector infiltrated mostly by the youth of Dimbaza?
- Are small businesses mostly started by unemployed people who didn't finish their schooling?
- What role does the municipality play in ensuring the development and creation of successful SMMEs in Dimbaza?
- What are the challenges that are faced by SMMEs in Dimbaza?

## **1.5 Research methods**

This research is based on both qualitative and quantitative research methods. In order to provide an accurate presentation of information, face-to-face interviews with the owners of the businesses in Dimbaza were conducted. This study is a combination of a descriptive and explanatory study. The study researched the state of the small business sector and attempted to illustrate the importance of the sector in its contribution to economic development.

### **1.5.1 Sampling procedures**

A non-probability sampling technique was used in this study. The sampling procedure employed was purposive/judgemental sampling. Babbie and Mouton (2003:166) express the opinion that in cases where the researcher has knowledge of the characteristics of the population to be studied and where it is almost impossible to enumerate the whole population, the purposive and judgemental sampling procedure is suitable.

### **1.5.2 Sampling Design**

The Buffalo City Metropolitan Municipality offices were contacted, and they informed the researchers that there is no record of formal or informal small businesses in the study area due to business owners not registering their businesses. Officials at the Municipality offices advised the researcher to go into Dimbaza to do an observation in order to determine the number of small businesses currently operating. The sample size and the number of respondents were determined once an observation of the area was done. The researcher is familiar with the study area and convenient sampling was done.

### **1.5.3 Data collection technique**

Data was collected through questionnaires and interviews. Focus groups were used as a third method for data collection. This was done in order to achieve Denzin's triangulation. Triangulation is described by Cohen and Manion (1986:254) as an "attempt to map out, or explain more fully, the richness and complexity of human behaviour by studying it from more than one standpoint". O'Donoghue and Punch (2003:78) state that triangulation is a "method of cross-checking data

from multiple sources to search for regularities in research data”. The purpose of triangulation in qualitative research is to increase the credibility and validity of the results.

Denzin (1978) identified four basic types of triangulation, namely, data triangulation (involves time, space and persons), investigator triangulation (involves multiple researchers in an investigation), theory triangulation (involves using more than one theoretical scheme in the interpretation of the phenomenon) and methodological triangulation (involves using more than one method to gather data). In this study, the methodological triangulation will be used, which is the use of questionnaires, interviews and focus groups.

- **The questionnaire**

A questionnaire was developed specifically to be used in the interview situation. The questionnaire was divided into four sections; section A to C.

- Section A focused on the demographic profile of the respondent.
- Section B focused on the business and its characteristics
- Section C focused on support structures and municipality.

Some of the questions asked were open-ended. Some of the questions required an explanation. The questionnaire was piloted amongst five small businesses in Dimbaza. The aim of the pilot study was to pre-test the questionnaire because no matter how carefully the questionnaire may be designed, there is always the possibility of error. In order to protect the questionnaire against errors, it is important to pre-test the questionnaire (Barbie and Mouton, 2003:244).

- **Interviews**

The first phase of the interviews was with the small business owners in Dimbaza and BCMM managers.

- **Focus groups**

The study of focus groups originated in American marketing (Fern, 2001). By the middle of the twentieth century, advertising companies were hiring marketing firms to survey the public in order to find out what kinds of products and services were most appealing (Ferm, 2001). While providing useful information, the surveys did not explain why products held so little appeal for some people



nor did these surveys suggest how products on the market might be altered to elicit greater consumer support (Ferm, 2001).

The Focus groups approach gained popularity because this approach allowed participants to explain the reasons behind their reaction to products (Ferm, 2001). It took a while for academic research to catch on to the usefulness of focus groups. It was not until the late 1980s and early 1990s that the social sciences recognised focus group interviews as important data sources (Vaughn, Schumm, and Sinagub, 1996). The participants of the focus group were selected from the respondents. The participants were owners of small businesses in different sectors. The aim of the focus group was to solicit information from a heterogeneous group in order to avoid biases.

#### **1.5.4 Reliability of the research instrument**

It is imperative to calculate and report Cronbach's alpha coefficient for internal consistency reliability for any scales or subscales one may be using (George and Mallery, 2003: 231). Internal consistency is the extent to which tests or procedures assess the same characteristic e.g. skill or quality. It is a measure of the precision between the observers or of the measuring instruments used in a study. Cronbach's alpha is a coefficient (a number between 0 and 1) that is used to rate the reliability of an instrument.

The closer Cronbach's alpha coefficient is to 1.0 the greater the internal consistency of the items in the scale. Based upon the formula  $\alpha = \frac{rk}{1 + (k - 1)r}$  where  $k$  is the number of items considered and  $r$  is the mean of the inter-item correlations the size of alpha is determined by both the number of items in the scale and the mean inter-item correlations. George and Mallery (2003: 231) provide the following rules:

$\geq .9$  = Excellent,

$\geq .8$  = Good,

$\geq .7$  = Acceptable,

$\geq .6$  = Questionable,

$\geq .5$  = Poor, and

$\leq .5$  = Unacceptable.

### **1.5.5 Data analysis**

Data was analysed both qualitatively and quantitatively. The data was analysed using a linear regression model and analysis of variance (ANOVA) technique on a cross-sectional data. It was collected and coded by using the statistical software package (SPSS). Qualitative analysis was done using a thematic analysis method. Furthermore, a literature review, both theoretical and empirical as well as relevant policy documents were analysed in order to provide a conceptual framework of the study.

### **1.6 Significance of the study**

South Africa has high levels of unemployment and poverty, the Eastern Cape Province, in particular, is one of the poorest provinces in South Africa. This is largely because of the former homelands in the province. A study such as this one is necessary in order to investigate more ways which the most vulnerable population can be alleviated. Dimbaza Township seems to be a forgotten place in the Buffalo City Metropolitan Municipality. There is little information about it.

LED is viewed as a strategic tool that is used in the quest to alleviate poverty and unemployment. The development of small businesses is one of the LED initiatives. The Framework states that one of the objectives of LED is to support local economies in realising their full potential and in turn making local community members active in the economy. The LED must approach the development of local economies in a more strategic way and overcome the challenges of the communities. All the District and Metro municipalities must have credible LED programmes which are being effectively implemented.

The study will assist identify the gaps in the LED initiatives that should assist small businesses and aspiring entrepreneurs in Dimbaza. The study will assist the municipality in building a database of small business actors in Dimbaza. It will further come up with possible policy recommendations that will assist small businesses in Dimbaza to overcome their challenges with the assistance of a credible and effective LED programme.

### **1.7 A Brief Literature Review**

This section presents a brief literature review on various theories of economic development and introduces local economic development as a concept.

### **1.7.1 The Lewis Theory of development**

This model is one of the best-known early theories of development that focused on structural transformation (Todaro and Smith, 2011:115). In this Lewis model, the underdeveloped economy consists of two sectors; a traditional rural sector which has zero marginal labour productivity and a high productivity modern urban industrial sector. The primary focus of this model is the process of labour transfer and the growth of output and employment in the modern sector (Todaro and Smith, 2011:115). Lewis makes two assumptions in his model. He states that the traditional sector has a surplus of labour which may be caused by unemployment.

### **1.7.2 The Neo-colonial Dependence Model**

Todaro and Smith (2011:122) describe this model as Marxist indirect thinking of growth. It is about the continuing of underdevelopment caused by the historical highly unequal capitalist system of the relationship between a rich country and poor country (Todaro and Smith, 2011:122). The Model states that the rich nations are exploitative intentionally or they are unintentionally neglectful. The unequal power relationship is between the centre which are the developed countries and the periphery which are the developing countries (Todaro and Smith, 2011:123).

(Nthekeleng, 2017) states that Local Economic Development exists to build the local economic capacity of a local community. Building economic capacity is done by improving the communities' economic future and quality of life for everyone. In addressing the concept of small business development and revitalization of an informal township economy, one needs to interrogate some of the theories that inspired such. This research will be anchored around the belief that LED initiatives have a direct impact on the livelihoods of local communities. The belief was also based on the premise that there should be correct systems and channels put in place by the government to support small businesses in communities as part of local economic development initiatives with the potential to receive tangible economic results. The LED strategy was not created in South Africa, it was conceived in Europe. It has been successfully implemented and practised there (Nthekeleng, 2017)

### **1.7.3 Local Economic Development: International Context**

LED is not a new concept, it can be dated back to the 1960s in Europe (Nthekeleng, 2017). The international mandate on LED is quite clear in terms and objectives which are to be achieved by respective international states. The World Bank in 2005, states that LED should serve as initiatives by locals to work parallel to each other to achieve economic growth which is sustainable and improve the quality of life of all the community with an emphasis on economic benefits, alleviating poverty and lessen unemployment. In Phillip (2003:3) indicates that “LED has been pursued from international level through the establishment of co-operatives which gradually grew from five distinctive traditions such as consumer co-operatives, worker co-operatives, the credit co-operatives, agricultural co-operatives, whose beginnings have been associated with the Rochdale pioneers, France, Germany and Denmark”.

### **1.7.4 Local Economic Development: South African context**

Local Economic Development concept was strongly adopted by the first democratic government after 1994, South Africa was faced with developmental and socio-economic challenges and inequalities, especially in income and basic social services. Most households in South Africa are faced with poverty, illiteracy, chronic unemployment and live in unhygienic environments (Reitzes and Mutran, 2004:3). The gaps between the rich and the poor continue to widen at the expense of the poor who are trapped in a poverty cycle. Marias and Botes (2006) state that LED was established to financially support the local government on projects which were part of poverty alleviation strategies by the national government. The projects ranged from construction projects to long-term jobs, business opportunities, business infrastructure development and stimulation of industries.

Due to the spatial development planning produced by Apartheid, the majority of the population was deliberately alienated from economic activity. The segregation policies of the past regime caused most African communities to leave their original economic means of subsistence and family systems.

### **1.7.5 National Framework for Local Economic Development**

The National Framework for LED was launched in 2006 by the Department of Provincial and Local Government (DPLG). The framework was intended for the time frame between 2006 and 2011. The framework aimed to support the development of sustainable local economies through integrated government action (DPLG, 2006). The government action was intended to stimulate the core of the South African economy which is enterprises that operate in local municipal spaces (DPLG, 2006:3). The framework is based on challenges unique to South Africa. It strived to transition towards new institutionalism which is a concept that breaks down the distinction between economy and society. New institutionalism shows how economic decision making and action are shaped by shared beliefs, norms and values for the formal and informal institutions of society (DPLG, 2006:3).

The evolution of LED policy in South Africa after 1994 is about the transition to developmental local government (DPLG, 2006:3). The local government was declared a sphere of government, the final version of the Constitution declared that a fundamental objective of local government was to promote social and economic development locally. The following policy legislature contributed to the formation of the Framework;

- The Constitution of the Republic of South Africa (1996)
- The White Paper on Local Government (1998)
- Local Government: Municipal Systems Act 32 of 2000

### **1.8 Delimitation of the research**

The study focused on Dimbaza in the Eastern Cape. The research was limited to Dimbaza only and did not include other areas in the Buffalo City Metropolitan Municipality. It, therefore, did not draw conclusions or make generalisations about other areas in the Metropolitan area. The survey questionnaires were administered to small business owners in Dimbaza.

### **1.9 Ethical Considerations**

The permission to conduct this study was sought from the Municipal Manager at the BCMM. The dignity of all research participants, their time and valuable inputs toward accomplishing the intent of this research were taken into consideration. This research did not involve any vulnerable groups

and no name(s) of person(s) were kept confidential in the final report if the respondent did not want their name mentioned.

## **1.10 The organisation of the study**

This study has six chapters which are outlined below:

### **Chapter 1: General introduction to the study**

This chapter presents a general introduction to the study and outlines the background, research objectives and research questions. A broad research methodology is highlighted in this chapter.

### **Chapter 2: Literature review on economic development theories and a review of legal and legislative frameworks.**

This chapter presents theories on economic development and theories on local economic development. The chapter also reviews the legal and legislative frameworks.

### **Chapter 3: Small firms: Formal and Informal**

This chapter presents the theories of small businesses and discusses the informal business sector.

### **Chapter 4: Research Design and Methodology**

This chapter discusses the research methodology which was undertaken for this study and detailing the socio-economic profile of the study.

### **Chapter 5: Analysis of Results**

This chapter presents the analysis of the data and the findings.

### **Chapter 6: Keys Findings and Recommendations**

This chapter discusses the key findings and recommendations of the study and gives a conclusion of the study.

# **Chapter 2: Literature Review on Economic Development Theories and Review of Legal and Policy Frameworks**

## **2.1 Introduction**

This chapter begins with the discussion of economic development and local economic development theories as a basis for the literature review. It further defines Local Economic Development (LED) as a concept. The chapter also provides the legislative frameworks and policies on LED, the history of LED and comparing the South African and international context of LED.

## **2.2 Economic Development theories**

Economic development is said to occur when people can develop the capacities given to them so that they may engage and contribute to the economy. The World Bank states that it is improved the quality of life which involves higher incomes, better education, higher standards of health (The World Bank, 2004). Economic development may be narrowed down to changes or improvements in social structures.

### **2.2.1 The Lewis Theory of development**

This model is one of the best-known early theories of development that focused on structural transformation (Todaro and Smith, 2011:115). In this Lewis model, the underdeveloped economy consists of two sectors; a traditional rural sector which has zero marginal labour productivity and a high productivity modern urban industrial sector. The primary focus of this model is the process of labour transfer and the growth of output and employment in the modern sector (Todaro and Smith, 2011:115). Lewis makes two assumptions in his model. He states that the traditional sector has a surplus of labour which may be caused by unemployment.

The Lewis Model is criticized because most of the key assumptions do not reflect the institutional and economic realities of most contemporary developing countries. One of the questionable assumptions which presume that surplus labour exists in rural areas while there is full employment

in urban areas (Todaro and Smith, 2011:116). Recent research has proven that there is little surplus labour in rural locations and there is no full employment in the urban areas.

South African statistics clearly show that there is no full employment in urban areas. Unemployment is present both in rural areas and urban areas. In South Africa, there is a labour surplus in the rural areas which results in many people moving into urban areas to find employment and improve their livelihoods.

### **2.2.2 The Neo-colonial Dependence Model**

Todaro and Smith (2011:122) describe this model as Marxist indirect thinking of growth. It is about the continuing of underdevelopment caused by the historical highly unequal capitalist system of the relationship between a rich country and poor country (Todaro and Smith, 2011:122). The Model states that the rich nations are exploitative intentionally or they are unintentionally neglectful. The unequal power relationship is at the centre which is the developed countries and the periphery which are the developing countries (Todaro and Smith, 2011:123). This relationship forces developing countries to attempt to be self-reliant and independent. There are however certain groups in the developing countries who enjoy high incomes, social status, and political power, they make up the small elite ruling class (Todaro and Smith, 2011:123). Their main interest, unknowingly or not, "is the perpetuation of the international capitalist system of inequality and conformity in which they are rewarded" (Todaro and Smith, 2011:123).

The model states that this elite ruling class is dominated and rewarded by international interest power groups including multinational corporations, national bilateral-aid agencies and multilateral assistance organizations like World Bank and the International Monetary Fund. These organizations are tied by allegiance to the wealthy capitalist countries (Todaro and Smith, 2011:123).

The neo-colonial view of underdevelopment states that a significant part of developing world's continuance of poverty is due to policies of the industrial capitalist countries and their extensions in the form of the small but powerful elite in less developed countries. Under development in this context is seen as an externally induced phenomenon, unlike the linear stages and structural change theories which focus on internal constraints (Todaro and Smith, 2011:123).



### 2.2.3 The Dualistic- Development Thesis

Dual societies are supported by structural-change theories and international dependence theories (Todaro and Smith, 2011:124). The concept of dualism represents the existence and growing divergences between rich and poor nations and between rich and poor people on a number of levels (Todaro and Smith, 2011:124). The concept of dualism is said to have four key arguments (Todaro and Smith, 2011:125):

1. There are conditions of superiority and inferiority which exist in a given space. An example of this includes Lewis's notion of the coexistence of modern and traditional methods of production in urban and rural sectors. Furthermore, the coexistence of wealthy highly educated elites with a huge proportion of the people being illiterate and poor.
2. This coexistence is said to be chronic; it is not a result of the current and temporary phenomenon; it is a historical one that must be rectified over time.
3. The growing superiority and inferiority show no sign of decreasing; the gap shows an inherent tendency of increasing.
4. The interrelations between the poor and the rich do little to pull up the poor from their trap, it is said it develops underdevelopment.

The economic development theories have one thing in common; they reject the exclusive emphasis on traditional neoclassical economic theories that are solely designed for the growth of GDP and uses it as an index of development (Todaro and Smith, 2011:125). They also reject the notion that there should be well-defined empirical patterns of development which must be pursued by poorest countries. Todaro and Smith (2011:125) state that the Dualism model and neo-colonial dependence model puts emphasis on the power imbalances and the dire need for fundamental economic, political and institutional reforms.

## 2.3 Local Economic Development theories

Bingham and Mier (1993) state that four theories of local economic development:

1. Market-based theories of economic development- Firms and individuals that maximise their utility influence the conditions of the individual locality; this is based on different factor prices and own preferences. An example of this was; the decrease in inner-city neighbourhoods in the 1970s in America which was influenced by the desire to live in the suburbs and modern spaces. As a result of this decline the older buildings became dilapidated, which caused the rent to go down and a challenge in maintenance. Localities may revitalize and get a competitive advantage by improving business conditions.
2. Marxian critique- Conditions of the locality are influenced by the class structure of the residents in terms of consumption and division of labour. There are class struggles and exploitation of workers which result in the rising in poverty levels.
3. Political science theories- The focus in this instant is on interest groups, institutions and political powers. The local government is at the centre of growth and development. Due to the government being involved in growth and economic development, the political space becomes increasingly contested.
4. Sociological theories- The community is a network of like-minded people within a geographic space. For some this surpass spatial boundaries such as life-cycle stage, gender, race, income etc.

Bingham and Mier (1993) show how these local economic development theories tend to ignore external economic constraints. Thekiso (2016), agrees by stating that a good theory about local economic development has to include internal economic dynamics of locality and linkages between the neighbourhood and the economy at large.

Koma (2012:60) gives a summary of the local economic development phases. The term LED is relatively new but there is a history of local developmental initiatives that date back to the 1960s in South Africa. This is illustrated in Table 2.1 below.

*Table 2.1: Summary of LED phases*

Phase	Focus	Tools
<b>1960s to 1980s</b>	Development of hard infrastructure and attraction of foreign investment	Employment of grants, subsidized loans for investment by manufacturers, tax relief
<b>1980s to 1990s</b>	Individual businesses, growing existing businesses and inward investment to specific sectors and locations.	Incubators, support to small and medium-sized organisations and investment in soft and hard infrastructure.
<b>1990s to present day</b>	Private/public partnership, soft infrastructure development/investment.	Strategies aimed at building and growing local firms, creating attractive and competitive business environment, encouraging networks, education and general workforce development.

*Source: Koma (2012)*

## 2.4 Understanding Local Economic Development (LED)

Teitz (1987), stated that many cities and communities were going to face problems in the future, where sources of employment and income were going to become scarce. He mentions that economic analysis reiterates the importance of national and international policies and trends in shaping the economic environment in which local economies function. To fully understand the concept of local economic development one has to understand local economies. In (Teitz, 1987) it discusses the approaches to understanding local economies; traditional, structural and developmental.

Nthekeleng (2014:152) states that Local Economic Development exists to build the local economic capacity of a local community. Building economic capacity is done by improving the communities' economic future and quality of life for everyone. In addressing the concept of small business development and revitalization of an informal township economy, one needs to interrogate some of the theories that inspired such. This research will be anchored around the belief that LED initiatives have a direct impact on the livelihoods of local communities. The belief was also based on the idea that there should be relevant systems put in place by the government to support small businesses in communities as part of local economic development initiatives with the potential to receive positive economic results (Nthekeleng, 2014:153).

In Bingham and Mier (1993), economic development is defined as a process to create wealth by putting human, financial, capital, natural resources and physical resources to produce goods and services. LED can be said to be efforts of communities organizing themselves and poverty eradication efforts resourced by the government (Thekiso, 2016).

In Thekiso (2016:12), De Visser (2005) uses three components to define LED:

- Material element: LED is the satisfaction of material needs, the improvement of standards of living and poverty eradication.
- Choice: Development must be initiated and sustained by the people.
- Equity: Development must benefit everyone and be intergenerational, which means the development of one generation must not deny the development of the next generation.

## **2.5 Legal and Legislative Framework: National**

Under apartheid, South Africa had a different regional planning policy regarding settlements and placements of people. There were residential zones according to race, this was supported by the racial segregation laws of that era (Thekiso, 2016). Racial segregation resulted in the majority of the population being forced to live in marginalized townships and homelands. The apartheid government suppressed development in these areas. In 1994, which saw the end of apartheid and birth of democracy, a new vision for development was born.

The International Republican Institute (IRI) and the National Business Initiative (NBI) in 1998 stated that the following is important for LED:

- Create job opportunities.
- Increase income levels enabling people to pay for municipal services.
- Increase tax base local authority.
- Enable local government to provide improved services and facilities.
- Build new institutions for sustainable economic development.
- Promote linkages between developed and underdeveloped areas.

### **2.5.1 The Constitution of the Republic of South Africa (Act 108 of 1996)**

The Constitution of the Republic of South Africa is the highest law of the country and places a huge responsibility on municipalities to facilitate LED. The Constitution states that the government is expected to put in place initiatives that will eradicate poverty and unemployment and promote rural development. It is stated in Section 152 of the Constitution that Local Government must promote social and economic development.

Section 152 of the Constitution of the Republic of South Africa, (Act 108 of 1996) provide the following objects and duties for the existence of local government:

*“152. (1) the objects of local government are:*

- a) To provide democratic and accountable government to local communities;*
- b) To ensure the provision of services to communities in a sustainable manner;*
- c) To promote social and economic development;*
- d) To promote a safe and healthy environment and*
- e) To encourage the involvement of communities and community organisations in the matters of local government”.*

Section 153 of the Constitution of the Republic of South Africa, (Act 108 of 1996), states the developmental duties of local government:

*“153. A municipality must:*

- a) *Structure and manage its administration, budgeting and planning process to give priority to the basic needs of the community and to promote the social and economic development of the community and*
- b) *Participate in national and provincial development programmes”.*

### **2.5.2 The Local Government Transition Act 1993 as amended in 1996**

The Local Government Transition Act of 1993 as amended in 1996 makes provision for LED to be implemented at the local government sphere. The Act encourages initiatives that empower the community, redistribute resources, development of a human resource, poverty alleviation and promotion of creativity locally

### **2.5.3 The White Paper on Local Government, 9 March 1998**

Section 152 of the Constitution was translated by the White Paper on Local Government of 9 March 1998. The White Paper created the term developmental local government, which was defined as a local government whose main responsibility is to work with citizens and groups within the community to find sustainable ways to meet the needs of the community for the improvement of the quality of lives of the people in the communities. The White Paper on Local Government (1998), states that job creation is not the direct responsibility of local government. Local government is responsible for taking necessary steps so that the overall social and economic conditions locally are conducive to create employment opportunities.

### **2.5.1 The Municipal Systems Act, 2000 (Act No 32 of 2000)**

The Municipal System Act makes provision for LED initiatives to be reflected in municipal Integrated Development Plans (Piet, 2011). There are certain legislation, policies and frameworks which LED in South Africa are founded on. The frameworks deal with socio-economic development, community development and poverty reduction of the local community.

## **2.6 National Programmes**

### **2.6.1 The Reconstruction and Development Programme (RDP)**

The purpose of the RDP was to rebuild the economy, address to the issues of land restructuring, create job opportunities, alleviating poverty and economic growth through low taxes and fiscal spending (Thekiso, 2016:14). The RDP was meant for a developmental and pro-poor driven government with integrated socio-economic development government policies aimed at redressing inequalities and injustices created by the apartheid regime (RDP, 1994:84).

The RDP policy further states the extent to which LED initiatives to contribute towards improving the livelihood of the local communities. It states that municipal strategies should upgrade, restoration and maintenance of infrastructure and basic services.

The RDP was discontinued because of the lack of proper inter-departmental coordination, setting up priorities and the capacity of local government (Chikulo, 2004).

### **2.6.2 The Growth, Employment and Redistribution Strategy of 1996 (GEAR)**

GEAR was created and introduced as a strategy to replace the RDP. The strategy was to focus on the explanation of the private sector and achieving high economic growth rates. Aliber (2002:15) states that the strategy prescribed for the transformation of the private and public sectors in order to create sustainable economies that are stable and favourable, to attract private investment.

The problem with the GEAR was that it had limitations on poverty alleviation. Thekiso (2016:14) highlights the criticisms of GEAR stated by Nzimande and Sikhosana in Ramphiri (2010:23):

- It is market-orientated; assuming that everyone has equal access to markets.
- It relies on a trickle-down approach to the economy, which assumed that resource accumulation created by increased production and growth will benefit everyone in the country.
- GEAR proposes, “social accord which reinforces wage restraint by the working class while middle and higher wage earners continue to increase their wages”.

There were rising unemployment levels and a decline in economic growth. It was revealed that GEAR was not compatible with labour legislation, unemployment and poverty (Rampiri, 2010).

### **2.6.3 The Accelerated Shared Growth Initiative in South Africa (ASGI-SA) of 2004**

The Accelerated Shared Growth Initiative in South Africa (ASGI-SA) core objective was to halve poverty and unemployment by 2014. Through ASGI-SA the government and various state agencies aimed to focus on accelerating growth which would lead to a large-scale social transformation. The large-scale transformation would then impact on the largely marginalized townships and rural areas.

### **2.6.4 The National Framework for Local Economic Development in South Africa (2006-2011)**

The National Framework for LED was launched in 2006 by the Department of Provincial and Local Government (DPLG). The framework was intended for the time frame between 2006 and 2011. The framework aimed to support the development of sustainable local economies through integrated government action (DPLG, 2006:3). The government action was intended to stimulate the core of the South African economy which is enterprises that operate in local municipal spaces (DPLG, 2006:3). The framework is based on challenges unique to South Africa. It strived to transition towards new institutionalism which is a concept that breaks down the distinction between economy and society. New institutionalism shows how economic decision making and action are shaped by shared beliefs, norms and values for the formal and informal institutions of society (DPLG, 2006:3).

The evolution of LED policy in South Africa after 1994 is about the transition to developmental local government (DPLG, 2006:3). The local government was declared a sphere of government, the final version of the Constitution declared that a fundamental objective of local government was to promote social and economic development locally.

There are seven objectives of the Framework (DPLG, 2006:7):

- *“To shift towards a more strategic approach to the development of local economies and overcome challenges and failures in respect of instances where municipalities themselves try to manage a litany of non-viable projects or startups.*
- *To support local economies in realising their optimal potentials and making local communities’ active participants in the economy of the country.*



- *To elevate the importance and centrality of effectively functioning local economies in growing the national economy.*
- *To wage the national fight against poverty more effectively through local-level debates, strategies and actions.*
- *To improve community access to economic initiatives, support programmes and information.*
- *To improve the coordination of economic development planning and implementation across government and between government and non-governmental actors.*
- *To build greater awareness about the importance and role of localities and regions which globally are playing an increasingly significant role as points of investment facilitated by supportive national policies.”*

The Framework shifts away from narrow municipal interests and promotes a strategic approach to the developmental of local economies. There is two major policy thrust identified in the Framework: Public Sector Leadership and Governance and Sustainable Community Investment Programs. The four key strategies from these policy thrusts are (DPLG, 2006):

- Improving good governance, service delivery, public and market confidence in municipalities.
- Spatial development planning and exploiting the comparative advantage and competitiveness of Districts and Metros.
- Enterprise support and business infrastructure development.
- Introduce sustainable community investment programs focusing on organizing communities for development and maximizing circulation of public spend in local economies.

The third strategy; Enterprise support and business infrastructure development, exists to improve the quality of small business management. It is about the provision of business training and advice (DPLG,2006:27). The Framework states that business development should be part of the customized sector programmes and it should be monitored (DPLG, 2006:27). The development of small businesses is linked to productivity, skills development and technology choices. The Framework makes an example about countries such as Peru and Indonesia where entrepreneurs are given vouchers for Business Development Services (BDS), which they can use at their BDS

supplier of their choice (DPLG, 2006:27). Furthermore, the Department of Trade and Industry established the Small Enterprise Development Agency (SEDA) (DPLG, 2006:27). This was established so that it can be the key for localized enterprise support (DPLG, 2006:27). It is imperative that municipalities work with SEDA offices and provide their communities with information regarding available support services.

## **2.6.5 National Development Plan (NDP), Vision 2030**

The National Development Plan is a plan to expand economic opportunity through investment in infrastructure, innovation and entrepreneurship. It is a plan for the country to eliminate poverty and reduce inequality by 2030. The NDP aims to grow an inclusive economy, building capacities, enhancing the capability of the state and leaders. The plan presents a long-term strategy to increase employment, improve the quality of education, skills development, innovation and building the capacity of the state to play a developmental and transformative role.

## **2.7 Policy Frameworks: Local**

### **2.7.1 Eastern Cape Vision 2030 Provincial Development Plan**

In 2014, the Eastern Cape Planning Commission (Eastern Cape Planning Commission, 2014) launched the Eastern Cape Vision 2030 Provincial Development Plan after the National Development Plan (NDP) was presented to the nation in 2011.

The Provincial Development Plan states five goals crucial for a sustainable future for the Eastern Cape:

- An inclusive, equitable and growing economy for the province.
- An educated, innovative and empowered citizenry.
- A healthy population.
- Vibrant equitably enabled communities.
- Capable agents across government and other institutional partners committed to the development of the province.

The goals mentioned are said to be pursued with a focus on rural development in order to address historical-cultural deficiencies. The (Eastern Cape Planning Commission, 2014) states that

economic opportunities are important for human development. Economic infrastructure and material resources need to be equitable and distributed fairly. Its further states that there needs to be an improvement in the ability of people to obtain employment, ownership of enterprises and assets that will, in the end, provide the economic basis for human development. “There should be a focus on economic opportunities for under-educated and unskilled young people, as well as for people living in the underdeveloped rural regions of the province”

### 2.7.2 Buffalo City Metro Municipality Growth and Development Strategy Vision 2030

Dimbaza falls under the Buffalo City Metro Municipality in the Eastern Cape. In 2015 the Municipality launched its Vision 2030 Growth and Development Strategy. One of the critical challenges highlighted in the strategy is the creation of robust and sustainable local economies that will empower the communities in fighting poverty, unemployment and inequality. The Municipality intends to create a conducive environment for economic growth and development by creating an enabling environment for businesses. It is stated in the strategy that the Municipality has the obligation to create opportunities for upcoming small businesses, promote the formation of small businesses, improve access to funds and empowerment programmes by training and mentoring small business owners. The growth and development strategy states that the municipality is going to invest resources for community development and support local economic development initiatives. The strategy highlights the importance of investing in the construction of social and economic overhead capital infrastructure and to provide service delivery to create preconditions for economic development in the Buffalo City Metro Municipality.

The growth and development strategy has five key pillars:

- An inclusive and sustainable economic growth,
- A globally connected municipality.
- A clean and environmentally sustainable municipality
- A spatially transformed municipality.
- A well-governed municipality.

The strategy also includes SMME, entrepreneurship and youth development. The municipality is implementing skills' development capacitation programmes for SMME's. The growth and development strategy however do not highlight the revitalization of the Dimbaza Industrial hub. It highlights the revitalization of the Westbank Industrial Area and the revitalization of the Bisho-King Williams Town corridor.

### **2.7.3 Buffalo City Metro Municipality Integrated Development Plan: 2016-2021**

In 2016 the Buffalo City Municipality created its new Integrated Development Plan (IDP), which spans from 2016 to 2021. The five strategic outcomes were identified by the Buffalo City Metro Growth and Development Strategy (MGDS). Five key performance areas (strategic objectives) were outlined:

- Municipal transformation and organizational development
- Basic service delivery and infrastructure development
- Local economic development
- Municipal financial management and viability
- Good governance and public participation

## **2.8 Local Economic Development approaches**

The LED concept was adapted as a response to issues created by the past. As previously mentioned, these main issues are; unemployment, poverty and inequality. Nel and Rogerson (2005), state there are elements which characterize the current and modern age, these elements are:

- Neo-liberal area- which saw the decline in the role of the central government in the economy. This is because of the decentralisation of and decision making to local government.
- Globalization forces- due to the decentralisation, a local level response to economic marginalization and opportunities is required.
- De-industrialization- which requires local innovation and local leadership initiative.

The World Bank in 2004 stated that the above-mentioned challenges are greater in this day and have the following dimensions:

- **International:** Globalization can increase economic and political competition for investment. There is a creation of opportunities for international competitors that want to enter local markets, at the same time there is also an opportunity for local businesses to enter into new markets. A community's opportunity is determined by local conditions and the ability to attract and retain foreign and local investments.
- **National:** There are legal structures and national regulation that have an effect on local businesses. These elements can impact local economies negatively or positively. Macroeconomic and monetary policies also have an impact on local economies.
- **Regional:** A collaboration or partnership between communities and various regions will help and enhance competitiveness. This will result in economic growth.
- **Municipal:** Municipalities need to take full advantage of business opportunities because organisations usually prefer urban areas for various businesses. Municipalities need to invest to create an environment where business development can take place. Business development is also dependent on social development such as; basic human needs, infrastructure, safety and security. Improvement in processes pertaining to business registration is important for business development.

## 2.9 Local Economic Development: International Context

LED is not a new concept, it can be dated back to the 1960s in Europe (Nthekeleng, 2014:153). The international mandate on LED is quite clear in terms of objectives which are to be achieved by respective international states. The World Bank in 2005, states that LED should serve as initiatives by locals to work parallel to each other to achieve economic growth which is sustainable and improve the quality of life of all the community with an emphasis on economic benefits, alleviating poverty and lessen unemployment. In Piet (2011:8), it states that Phillip (2003:3) indicates that "LED has been pursued from international level through the establishment of co-operatives which gradually grew from five distinctive traditions such as consumer co-operatives, worker co-operatives, the credit co-operatives, agricultural co-operatives, whose beginnings have been associated with the Rochdale pioneers, France, Germany and Denmark".

The World Bank (2003), views LED as a process where the public, private businesses and non-governmental organisations work together to create better conditions where economic growth and employment can generate. Blakely (1994) and Nel (2001), together further define LED as a process

by which local government and community organisations encourage business activity and employment.

Since the 1960s, it has passed through three developmental stages. Namely, “1960-1980 (agricultural investments, local and international), 1980-1990 (multi-sectoral investment) and 1990 to date (shift from individual to collective conducive business)” (Nthekeleng, 2014:153). There has been a shift in the traditional view of an LED. It was traditionally viewed as a process of having developmental initiatives aligned to local development. Now, LED is geared towards promoting self-sufficiency. Local communities now become participants and are active in their own development rather than being the objects of development. “Community-driven initiatives are identified as ways in which communities could express their desire to conserve local customs and traditions and earn a living at the same” (Pretorius and Blaauw, 2008) in Piet (2011:9).

There was an international shift in Local Economic Development in the 1990s, when economic growth strategies were adopted to promote development towards LED driven strategies. There was a preference of small scale and community-based initiatives that were aimed at using local skills and active participation of the community, in order to ensure sustainability. LED initiatives were defined as proactive actions by the people to create economic opportunities and further improve the social conditions in their own communities. Various LED initiatives were identified by Abrahams (2003:189), to address economic and social challenges at a local level. These initiatives focused on the mobilization of local resources, redistribution of resources, promotion of local creativity and innovation, the provision of technical assistance, investment in human capital and the training for self-employment and business start-up and support for business creation.

Nel and Rogerson (2005:17) state that some view economic development from a pro-poor or pro-growth while others view it as a combination of the two. “The distinction of the two is clearly depicted by pro-growth focusing on creating conducive environments for investment while pro-poor’s objective is poverty alleviation through job creation. In some instances, municipalities maintain a middle route of building a globally competitive region from which all communities can benefit” (Piet, 2011:11). LED, in summary, is a process where the public, business and non-governmental sector work in partnership to create better conditions for economic growth and the generation of employment (World Bank, 2004:5).

## 2.10 Local Economic Development: South African context

Local Economic Development was created because, after 1994, South Africa was faced with developmental and socio-economic challenges and inequalities, especially in income and basic social services. Most households in South Africa are faced with poverty, illiteracy, chronic unemployment and live in unhygienic environments (Reitzes and Mutran, 2004). The gaps between the rich and the poor continue to widen at the expense of the poor who are trapped in a poverty cycle. Marias and Botes (2006) state that LED was established to financially support the local government on projects which were part of poverty alleviation strategies by the national government. The projects ranged from construction projects to long-term jobs, business opportunities, business infrastructure development and stimulation of industries.

Due to the spatial development planning produced by Apartheid, the majority of the population was deliberately alienated from economic activity. The segregation policies of the past regime caused most African communities to leave their original economic means of subsistence and family systems. Development before 1994 was racially based, with the majority population disadvantaged regarding service provision. The UNDP Human Development Report (2003) states that the economic gap between the rich-poor is widening and is due to a number of social factors such as; poverty and inequality which is due to the biased wealth distribution, inequality in earnings, low-income growth, degradation of the environment and HIV/AIDS. A people-centred approach was adopted by the South African government which was aimed at enhancing the capacity and skills of the public and to encourage the public to participate in the development processes (Theron, 2005:120).

Research by the United Nations Development Programme (UNDP) in 2003 revealed that there was an increase in poverty levels since the end of Apartheid in 1994, it is therefore imperative that LED in Dimbaza Township should be entrenched to address economic needs of the community, in an attempt to reduce poverty and unemployment. It is clear from the evidence provided by UNDP in 2003 that their challenges with implementing, planning and funding of LED strategies and initiatives. LED initiatives should alleviate poverty, create jobs, reduce unemployment and provide relevant skills and training to the beneficiaries

It is argued by that LED is perceived as a municipal intervention, but it is not implemented efficiently in most municipalities. Nel and Rogerson (2005) further declare that the legislation on

LED has encouraged local governments to pro-actively intervene in local economies to assist in job creation. Despite the provisions being laid down in the Municipal Systems Act of 2000, the municipalities operate with no authority or progress in the assessment of the implementation strategies of LED (Malefane and Mashakoe, 2008:54). There are currently some disparities between municipalities on the location of resources for LED. It is argued by Nel and Rogerson (2005:19) that “the ability to impact meaningfully on poverty and encourage economic growth is dependent on resources allocated to LED” (Piet, 2011:14).

South Africa is said to be a unique situation when it comes to LED. In other countries LED is a voluntary act of local government, in South Africa, it is a statutory activity. The South African government has given local governments a developmental mandate. Local governments must stimulate economic growth and ensure that local economic development takes place. The Constitution of the Republic of South Africa (Act 108 of 1996) and the Local Municipal Systems Act (Act 32 of 2000) affirm the importance of LED initiatives towards sustainable development. The White Paper on Local Government of 1998 also affirms the importance of LED and it introduced the concept of a developmental local government.

## **2.11 Conclusion**

The purpose of this chapter was to provide a literature review on economic development theories, define local economic development as a concept, discuss the legislative frameworks for LED and to discuss the international context of LED compared to the South African context.

This chapter highlights the important role government must play in economic development and local economic development. Economic development can summarise to improvements in social structures. These social structures cannot improve without the intervention by the government. The legal and legislative framework of LED policies makes sure and outlines that intervention.

The chapter highlights the importance of LED in creating job opportunities in communities, eradicating poverty, decreasing unemployment and creating a space for sustainable development within the communities.



## **Chapter 3: Small Firms: Formal and Informal**

### **3.1 Introduction**

This chapter discussed the theory of small firms in South Africa and entrepreneurship in economic theory. Furthermore, it looked at SMMEs including informal business sector and the importance of SMMEs and their performance. Lastly, this chapter will examine the challenges faced by SMMEs.

### **3.2 Small businesses in South Africa**

The main challenges that South Africa is facing are; high unemployment, skills shortages, high illiteracy rate, high crime rates and rural poverty. These challenges are most prevalent in communities that are of a rural nature. Thus, in (Chimucheka, 2013) it highlights the need for SMMEs to be empowered, so that they may be used as one of the tools to combat these challenges faced by many communities in South Africa. The South African government has acknowledged the important role that a strong and vibrant small business sector plays in economic growth in the country. Jili, Masuku and Selepe (2017), reiterate the significant role SMMEs play in addressing the challenges of job creation, economic growth and equity in South Africa.

In 2014, the former President of the country, Jacob Zuma created the Department of Small Business Development. The aim of the department when it was created was to strengthen SMMEs to create jobs opportunities and stimulate the economy. When the National Business Act 102 of 1996 was passed it demonstrated the commitment the government had to promote and support small businesses. The National Business Act 102 of 1996 provides the regulations and support framework, this is to ensure that there is an increase in new small enterprises and to create an environment that is enabling to ensure that the enterprises grow. The guidelines that have been set out in the National Business Act 102 of 1996 ascertain that small businesses can be defined as qualitatively and quantitatively. Before Act 102 of 1996 was passed, in March 1995 the government presented the White Paper which presented measures to create an enabling environment on national strategy on the development and promotion of SMMEs in South (DTI, 2005).

In Chimucheka (2013), qualitative criteria means that SMMEs should be separate and distinct business entities, they cannot exist part of a group of companies, they should be managed with its owners and can be a natural person in the form of a sole trader or a partnership (Nieman and Pretorius, 2004). The Act classifies business ventures into very small, micro, medium and small sizes, this is using the quantitative criteria (Nieman and Pretorius, 2004). Other classifications under the quantitative criteria are; total full-time paid employees, total annual turnover and the gross asset value (Nieman and Pretorius, 2004).

The Act provided for the National Small Business Council to be established. The purpose of the council is to represent, promote the interests of small businesses, provide advice for all the three spheres of government on social and economic policy that promotes small business development (Thekiso, 2016). The National Small Business Council also created the Ntsika Enterprise Promotion Agency, which would provide the support that is non-financial and training.

Despite the Agency created, small business growth has failed to reach its potential. In 2004, the Small Enterprise Development Agency (SEDA) was created and it brought together three entities, namely; Ntsika Enterprise Promotion Agency, the National Manufacturing Advisory Centre (NAMAC) and the Community Public Private Partnership Programme (CPPP) (SEDA, 2016). In 2012, the government created the Small Enterprise Finance Agency (SEFA) for the purpose of simplifying and expanding financing for small businesses. SEDA is housed in the Department of Trade and Industry and it aims to provide development for small businesses (The DTI, 2018).

The government has made several efforts to help small businesses, but it is currently still difficult and risky to run a small business. One of every seven small business in South Africa, five of them will fail within the first year (SEDA, 2016). In 2013, the Global Entrepreneurship Monitor (GEM) research project showed that South Africans don't have a favourable attitude towards starting a business. The report showed that only 37,8 % of the adult population thought that there are good opportunities to start a business in South Africa.

Ndou (2014) agrees that the South African government has acknowledged the pivotal role SMMEs play in the South African economy. SMMEs not only contribute to job creation and economic growth but they play a crucial part in the economy by introducing new products and services which improve the standard of living of South Africans (Jali, Masuku and Selepe, 2017). "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” (Jali, Masuku and Selepe, 2017).

### 3.3 Entrepreneurship

Baumol (1968:65) states that entrepreneurship is an important component as far as economic growth is concerned. Baumol (1968), further states that there is some empirical evidence that confirms the above statement which has concluded that capital accumulation and expansion of the labour force has an unexplained substantial proportion of the historical growth of USA’s output. This unexplained growth output is by entrepreneurs. “Ignoring entrepreneurs we are prevented from accounting fully for a very substantial proportion of our historic growth” (Baumol, 1968:66).

It is stated in Luiz and Mariotti (2011:47) that entrepreneurs have a very vital function in the economy, entrepreneurs create employment, grow productivity levels, produce high-quality innovations and commercialise them. These firms created by entrepreneurs create important spill-over that ultimately affect an entire region’s long-term employment growth rates (Luiz and Mariotti, 2011:47).

Poor communities in developing countries are dominated by small businesses, particularly informal small businesses. Small businesses are convenience shops for lower-income communities. The City of Johannesburg in 2005 did a survey which showed that almost half the retail expenditure of low-income households was spent at small businesses in Soweto in 2004. A study by Ayyagari, Beck and Demircuc-Kunt (2007) revealed that SMEs on average make up 64 per cent of the economy and the informal economy makes up 26 per cent of GDP in developing countries.

The definition of SMMEs encompasses a very broad range of firms, some of which includes formally registered, informal and non-VAT registered organisations (THE DTI, 2005).

Since South Africa has such a high unemployment rate, Kingdon and Knight (2004) state that they would expect the informal sector to absorb the surplus labour, but South Africa has a relatively small informal sector. One of the many reasons for this situation is that the South

African population does not have an entrepreneurial spirit (Kingdon and Knight, 2004). There are some strategies that have been implemented by the government to promote entrepreneurship within communities but those have not been very successful.

### **3.4 Defining Small, Medium and Micro Enterprises (SMMEs)**

Small, Medium and Micro Enterprises (SMMEs), which are also referred to as small business, play a critical role in the economy. They are one of the key drivers for economic growth, innovation and job creation (SEDA, 2016). Small businesses contribute to the national Gross Domestic Product (GDP). Small businesses range from medium-sized enterprises to informal micro-enterprises (SEDA, 2016). “The definition of SMMEs encompasses a very broad range of firms, some of which includes formally registered, informal and non-VAT registered organisations (The DTI, 2005). Informal micro-enterprises are started by self-employed persons who usually come from the poorest communities. These enterprises include; street vendors, backyard manufacturing services, small spaza shops, informal hair salons and occasional home-based evening jobs. The informal sector comprises of mostly small businesses (The DTI, 2005).

The National Small Business Act 102 of 1996 classifies SMMEs into five categories, namely;

- Survivalist enterprise- this category is the pre-entrepreneurial and includes hawkers, vendors and subsistence farmers. The income that is generated here is less than the minimum income or poverty line.
- Micro enterprises- this category includes businesses that lack formality in terms of registration. They include; spaza shops, minibus taxis and household industries. They employ no more than five people with the turnover of less than the VAT registration limit which is R150 000 annually.
- Very small enterprises- this category includes businesses that operate in the formal market and have access to technology. Very small enterprises employ fewer than ten paid employees, except the mining, electricity, manufacturing and construction sectors in which the figure is 20 employees.
- Small enterprises- this category includes small businesses that are more established than very small enterprises and exhibit more complex business practices. Small enterprises employ no more than 50 employees.

- Medium enterprises- this category includes businesses that are often characterized by decentralization of power to an additional management layer. The minimum number of employees in medium enterprises is 100 or 200 for the mining, electricity, manufacturing and construction sectors.

Policy on SMME development in South Africa was initially documented in the White Paper on SMME development of 1995. The Integrated Small Business Development Strategy provided an action plan which focused on (The DTI, 2005):

- Increasing financial and non-financial support.
- Creating a demand for the products and services provided by SMMEs.
- Reducing regulatory constraints

The characteristics of SMMEs as identified by Cronje *et al* (2001) are:

- Small enterprises are in general more labour intensive than larger organisations.
- Small businesses on average generate more job opportunities per unit of invested capital.
- Small businesses are an instrument of utilising the talents, energy and entrepreneurship of individuals who cannot reach their full potential in big businesses.
- Small business flourishes by providing services to a small or restricted market which larger businesses do not find attractive.
- SMMEs provide growth opportunity for entrepreneurial talent and are a testing ground for new industries.
- SMMEs contribute to the competitive market of the economy.
- SMMEs cause less damage to the environment, unlike large factories.
- SMMEs increase prosperity in rural areas and enhance the population's general level of economic participation.

### 3.5 Small businesses and economic development

David Birch in the 1970s recognized the importance of small businesses in the generation of employment, he found that two-thirds of net new jobs in the USA in that decade had been generated in small firms (Teitz, 1987). Small firms play a crucial role in amplifying the economic impact of industrial investment and they play a key role in the creation of new sectors (Teitz, 1987). Small firms are important for the revitalisation of urban areas as they are the suppliers of business services (Teitz, 1987).

Local economic development as previously stated by Nel (2001) is the process by which local governments, business and non-governmental organisations work collectively to create better conditions for economic growth and employment creation. The definitions of LED suggest that the community, business and local authorities need to work together to achieve economic growth that is sustainable and that benefits the community and the whole metropolitan area. LED and economic development tend to focus around job creation, empowerment, economic growth and sustainable economic environment. Taking into account the aims of economic development and LED in particular small businesses and small business development should receive more focus in order for the developmental plans to be achieved. Small business and the informal sector, in particular, are important to local economic development in poor regions because of the employment and income opportunities they offer to the poor and unemployed.

Small businesses play an important role in the economy and they contribute towards economic growth. They are dynamic, flexible and can easily adapt to market changes. Small businesses provide employment for the local community and assist in diversifying economic activities (Ganbold, 2008). The Supporters of the notion that small businesses are important for economic development have three core arguments (World Bank, 2004):

1. Small businesses enhance competition and entrepreneurship. They have external benefits on the efficiency of the economy, innovation and average growth in productivity.
2. Small business can be generally more productive than larger firms, but financial institutions impede small business development. Improving and broadening access to financial services for small businesses can boost economic growth and development.
3. Small business development increases employment more than large firms because small businesses are more labour intensive.

There are three strategies provided by Dewar (2012) that should be adopted by local governments to use the small businesses sector as a catalyst for LED:

- Local government should create conditions to encourage the establishment of new middle-income business ventures. These ventures would add products or services to the taxable product base of the local economy, create employment opportunities and raise the level of local skills.
- Local government should create conditions to establish business ventures in the below-tax income tax sector of the informal economy. This will add to the capability of the informal economy and increase productivity and earnings.
- Local government should ensure community-based ownership of all LED infrastructure and services.

In developed and developing countries around the world, small businesses have a major contribution to economic development:

- In Zimbabwe, 15% of the population, are employed by SMME in the manufacturing sector,
- in USA, SMMEs create jobs and assist the country in gaining its competitive advantage,
- in South Africa, SMMEs contribute 30% towards GDP.

The National Treasury Research on SMMEs (2008), proves that small businesses provide 60% of jobs in the economy. The World Bank (2012), states that small businesses are important for poverty reduction because small businesses are usually located outside of the cities. They provide employment opportunities to local people, this results in the encouragement of local citizens to engage in economic activity (Thekiso, 2016). In 2008, there were 2.8 million SMMEs in South Africa. They contributed an average of 55% of GDP, stated by the National Treasury Research on SMMEs (2008). SMMEs are vital for an efficient and competitive market because they have a flexible approach to competition which are drivers of efficiency and productivity.

### **3.6 The importance of SMMEs**

As mentioned previously SMMEs are important role players in LED, they create a policy environment to facilitate SMME activities such as creating employment opportunities and developing infrastructure to provide business opportunities for local communities and encourages cooperatives to help communities (Phago and Tsoabisi, 2010; Jali, Masuku and Selepe, 2017).

Small businesses do not exist on their own; they exist to fulfil an important social purpose for the benefit of society (Jali, Masuku and Selepe, 2017). Nieman and Nieuwenhuizen (2009) argue that the promotion of entrepreneurship and small business development is a way of addressing developmental goals, such as:

- Job creation

More attention has been paid to entrepreneurship because of the high and growing number of job seekers in South Africa that want to be absorbed by the formal sector. Entrepreneurship has the potential to contribute to significant economic growth and employment creation.

- Poverty alleviation

Majority of the population lives in poverty; it is only the level of poverty that varies. The government identified SMMEs as a tool to poverty alleviation, this is because small businesses combine the resources and produce goods and services efficiently.

- Equity and community participation

Most of the strategies focus primarily on the development of SMMEs in communities that were and are still disadvantaged. Previously disadvantaged communities are sections of the population that had been disadvantaged by apartheid and segregationist development policies before 1994. It is small businesses that provide economic and employment opportunities to the general members of the community. Income inequality in South Africa is high and the inequality is increasing between population groups.

- Economic growth and development

Small businesses make it possible for people who earn the lowest income in South Africa to gain access to economic opportunities. Experts in Entrepreneur SA (2005) agree that a vibrant SMME sector is central to the growth of the economy. In 2009, SMMEs contributed more than 35% to the GDP. SMMEs provides employment, pay taxes and can be included in the government statistics and in labour market information analyses (Chimucheka, 2013). SMMEs can also contribute significantly to sustainable development in South Africa, especially in areas of economic growth, employment generation, poverty alleviation and community development (Chimucheka, 2013). Small businesses enable people to meet their basic needs and through job



creation, small businesses are able to assist in increasing the standard of living for South African communities.

- Contribution of SMMEs to sustainable development

Improving the performance of SMMEs is one of the key drivers of sustainable development through contribution to the growth of the economy, alleviating poverty, job creation, community development and the reduction of crime. Sustainable development is the development that ensures that current generation meets their needs without compromising the ability of future generations to meet their needs.

### **3.7 The Performance of SMMEs**

The performance of SMMEs is important because of the critical role SMMEs play in the economic development of any country, whether it is developed or still developing. The performance of any business speaks to the efficiency and effectiveness that it produces its products and provides its services (Chimucheka, 2013). The performance of small businesses is indicated by changes in profits, the growth in terms of sales and employment (Chen, 2007).

Growth in small businesses brings the promise of expansion, greater profitability, new enterprises, increase in personnel and the power to attract more highly developed people and create an increase in resources (Chimucheka, 2013). Nieman and Nieuwehuizen (2009) state the following as characteristics of growth; market domination, differentiation, product leadership, flexibility, innovation, orientation towards the future, export activity and related growth. Market domination occurs in niche markets and it is measured in terms of their market share in the niche market. Successful firms dominate in their markets (Nieman and Nieuwehuizen, 2009). Differentiation, on the other hand, make businesses different and unique from their competitors. Flexibility for an SMME refers to the ability for the firm to change direction to gain advantage from new opportunities and counter threats (Chimucheka, 2013). Barreira (2004), states that there four indicators of growth which can be utilised to measure SMME performance. The four indicators are:

- Sales growth- Sales growth takes place when there is an increase in demand for SMMEs products and services. For growth to take place, there must be an increase in sales. It is

argued that SMMEs can increase sales without increasing the number of employees or amount of resources.

- Employment growth- The creation of employment opportunities in South Africa through the development of the SMME sector and entrepreneurship. SMMEs are expected to grow and employ more people.
- Comparison of firms- Comparing firms in the same industry in the SMME sector can assist in accessing critical information.
- Market value growth compared to competitors- When a customer base for a small business grows, it is an indication of effectively reaching target markets (Chimucheka, 2013). Barreira (2004), mentions that a better way to measure performance is to calculate the market value. This is done by dividing gross profits by current year sales.

### **3.8 Informal business sector**

The theory of the informal business sector has been debated by political economists in developing countries. Chen (2007), states that the theory of informal business sector can be categorized into three schools of thoughts, namely; the Dualists, the Legalists and the Voluntarists.

- The Dualists argue that there is interdependence between the informal business sector and the formal sector. Former president of South Africa, Mr Thabo Mbeki, argues that South Africa's economy includes the industrialised formal sector and informal sector.
- The Legalists argue that regulations and bureaucracy intensify the expansion of the informal business sector. The legalists state that it takes more than 100 administrative steps to register a small business in South Africa. The government in recent years has committed to reducing the "red tape" associated with registering a business.
- The Voluntarists state that because of the 'red tape' in the business environment, some business owners are propelled to deliberately avoid regulations and taxation, which also expands the informal business sector.

There are some old and new views that have emerged about the importance of the informal business sector. Table 3.1 below depicts the old and new views of the informal business sector.

*Table 3.1: Old vs new views of the informal business sector*

Informal business sector: Old Views	Informal business sector: New Views
Traditional economy will be replaced by the modern industrial growth.	Informal economy is expanding.
Informal business sector is only marginally productive.	It is a provider of employment and goods and services for low-income earners and it contributes a significant share of GDP.
Informal business sector is independent from the formal economy.	The informal economy is linked to the formal economy. It produces, trades and distributes for the formal economy.
Informal business sector represents a reserve pool of surplus labour.	There has been an increase in employment in the informal sector.
Informal economy comprises mostly of street traders and small-scale producers.	It now comprises of a wide range of occupations.
Most of the businesses in this sector are not registered.	It comprises of non-standard wage workers, entrepreneurs and self-employed people that produce legal good and services.
It comprises mostly of survival activities and its not subject to economic policy.	It now also comprises of established enterprises and dynamic growing enterprises. It includes self-employment and wage employment. Informal employment is affected by most economic policies.

*Source: Adapted from Chen (2007)*

### 3.8.1 Informal business sector defined

#### **Concepts:**

*“The informal business sector consists of units engaged in the production of goods and services with the primary objective of generating employment and incomes to the persons concerned. These units typically operate a low level of organisation with little or no division between labour and capital as factors of production” (UNECA, 2004).*

*“Activities performed by production units of the informal sector are not necessarily performed with the deliberate intention of evading the payment of taxed or social security contributions or infringing labour or other legislations or administrative provisions. Accordingly, the concept of informal sector activities should be distinguished from the concept of activities of the hidden or underground economy” (UNECA, 2004).*

#### **Operational definitions:**

*“All economic activities by workers and economic units that are in law or in practice not covered or insufficiently covered by formal arrangements” (Internal Labour Organisation, 2003).*

*“Is a product of the rational behaviour of entrepreneurs that desire to escape state regulations” (World Bank, 2007).*

The term informal business sector is often seen as illegal because it is misunderstood as the same as the ‘black market’. Informal business sector does not have one single definition. The National Small Business Act (1996) defines the term informal business sector as a survivalist, micro and very small enterprises that have limited resources to conduct their day to day activities. Entrepreneurs in the informal business sector create their own small businesses because they cannot find other work, this may be due to historical reasons or lack of employment opportunities (National Small Business Act, 1996). Hart (2008) state that entrepreneurs in the informal sector are hard-working, poor and are not recognized, protected and regulated by public authorities. The

International Labour Organisation (2003) states that these entrepreneurs operate in small, unsafe and unhealthy working conditions. They have low levels of skills, irregular incomes and they don't have access to information, finance, training and technology.

The International Labour Organisation subdivided the informal business into the following categories:

- Informal self-employment- this category involves employers in informal enterprises, own-account workers in informal enterprises, family workers in informal enterprises and members of informal producer cooperatives.
- Informal wage employment- comprises employees who are hired without social protection contributions by formal or informal enterprises.

Hart (2008) states the following as characteristics for informal businesses:

- Ease of entry
- Reliance on indigenous resources
- Family ownership of enterprises
- Small scale of operation
- Labour intensive and adapted technology
- Skilled required outside of the formal school's system
- Unregulated and competitive markets

When understanding the informal business in South Africa it is imperative to consider the implications of the Apartheid system on the current structure of the economy. Altman (2007), states that the intent of Apartheid was to have separate economies where remote areas relied on lower-skilled labour. The extent and existence of informal businesses in South Africa are also a reflection of market failures. The majority of the South African population is unskilled and unable to access the opportunities in the formal economy. In 2007, 82% of the informal business sector in South Africa was made up of Black people (Altman, 2007).

### 3.9 Challenges faced by small businesses in South Africa

Nieman and Nieuwehuizen (2009) identified some challenges that are faced by small businesses in South Africa:

- Lack of training and education

Education is perceived to be a significant hurdle to entrepreneurial activity. It is also stated that education is positively related to entrepreneurial activity. There is a lack of management skills by small business owners which can be attributed to lack of education and training. Education and training help develop competencies that are required for management and the success of a business. Managerial competencies are a set of knowledge, skills, attitudes and behaviours that can contribute to personal effectiveness. The lack of these skills amongst small business owners is one of the reasons why there is a high failure rate of SMMEs and a low level of entrepreneurial creation.

- Limited access to financial resources

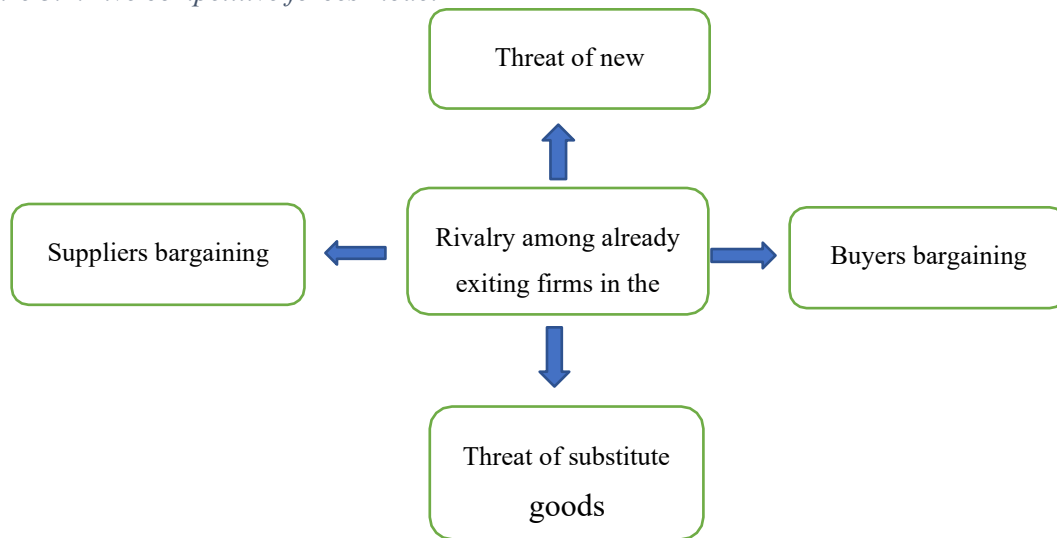
Any time of business requires capital or finances to start trading and functioning. Chimucheka (2013) state that Fatoki and Garwe (2010), provide evidence that a lack of financial resources is the second most reported contributor to the failure rate of SMMEs, this comes after education and training. In 2002 Foxcroft *et al* (2002) showed that 75% of applications for bank loans by SMMEs are often rejected in South Africa. Only 2% of new SMMEs are able to access finances. SMMEs find it challenging to access bank finances due to the lack of collateral security, the bank deposit required or lack of credit record. A poor business plan is another reason that contributes to the failure to access bank finances.

- Inaccessibility of markets

SMME owners and managers must understand the dynamics of competition in their industry and develop skills and competencies that will result in them getting a competitive advantage. To understand the market, small business owners must understand environmental changes and the extent of current and future competition. Competition and potential competition impact the market potential and opportunities for growth for small businesses. Du Toit *et al* (2009) mentions five competitive forces by Michael Porter.

The figure below illustrates the five competitive forces model.

*Figure 3.1: Five competitive forces model*



*Source: Hellrigiel et al (2008)*

All types of businesses face rivalry every day. Rivalry among businesses that are competing is usually the most powerful of the five forces. The intensity of among firms increases as the number of competitors in the market increase. As competitors become more equal, the demand for the industry's goods and services decreases. The rivalry also increases when customers can switch between competing businesses with ease. The threat of new businesses entering the market will increase the competition, but this also depends on how easily new competitors can enter the market. Large and existing businesses take advantage of barriers to entry in the industry and they block SMMEs from competing.

All competitors produce substitute goods and services. When substitute goods and services are introduced in the market by another firm, that can affect the demand of the ones that already exist. Customers will have bargaining power when there are many suppliers and few buyers. When suppliers have the bargaining power, they will control the extent to which they can increase the prices above their costs. The combined forces of all five competitive forces have the capability to affect the long-term profitability of a business.

- Inaccessibility of appropriate technology

Technology plays an important role in the development and sustainability of any business. Technology assists a business to maximise their business opportunities and it can also improve the sales. The use of technology involves finances which most SMMEs have problems accessing.

- Lack of support structures

Most small business owners and aspiring business owners say that they do not receive enough support from the government, while some state that they do not receive any support. Maas and Herrington (2006) mention that this may be a result of a lack of information and a lack of accessibility to the information. Most SMMEs have no knowledge of the different structures that the government has in place to assist them.

- Lack of access to other resources such as human resources

Small businesses need to have access to a pool of qualified, skilled and motivated employees, this is to assist them to perform well and grow sustainably. Small businesses face challenges accessing finance, it will, therefore, be difficult for them to employ skilled labour. South Africa has Employment and Minimum Wage Regulations and labour should be hired according to that regulation. The quality of infrastructure a small business has can also affect the growth prospects of small businesses. Many SMMEs in South Africa don't have proper infrastructures such as telecommunication, electricity, transportation and water.

### 3.10 Conclusion

This chapter focused on small businesses and their role in South Africa and the impact they have on economic development. Small businesses have a crucial role in LED, they create an enabling environment to facilitate SMME activities such as creating employment opportunities and developing infrastructure to provide business opportunities for local communities and encourages cooperatives to help communities. Some of the challenges faced by small business are lack of training and education, lack of support structures and a lack of access to appropriate technology.



## Chapter 4: Research Design and Methodology

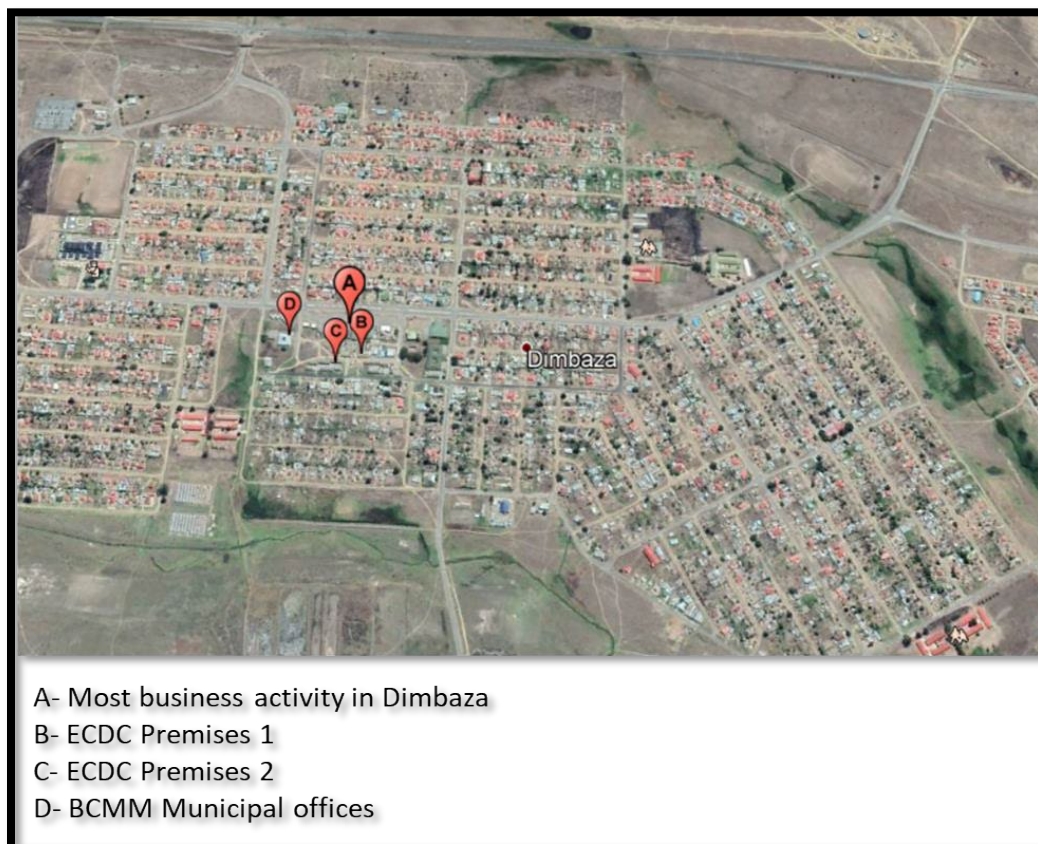
### 4.1 Introduction

This chapter presents a research design undertaken for this study. It describes the socio-economic profile of the study area. The socio-economic analysis provides an insight into the social and economic dynamics and trends of the study area. The last part of this chapter discusses the procedures that were used to collect data, the sampling method and data analysis.

### 4.2 Study area

The map below shows the study area.

*Map 4.1: Dimbaza*



*Source: Google Earth (2019) modified by the researcher*

### 4.3 Socio-demographic profile

This sub-section provides the socio-demographics of the study area by analysing the following factors:

- Population
- Race
- Gender
- Age profile
- Education levels
- Household income
- Employment status
- Labour sector

#### 4.3.1 Population

Table 4.1 below illustrates the total population in Dimbaza and the total population of Buffalo City Metro Municipality. The population is divided into males and females. The total population for the Buffalo City Metro is 785 755 people. Dimbaza makes up almost 36% of that population with 21 788 people in total.

*Table 4.1: Dimbaza vs Buffalo City Metro Municipality Population*

	<b>Buffalo City Metro</b>	<b>Dimbaza</b>
<b>Population</b>	<b>785 755</b>	<b>21 788</b>
<b>Females</b>	<b>408 965</b>	<b>11 576</b>
<b>Males</b>	<b>376 810</b>	<b>10 212</b>

*Source: Census 2011*

Dimbaza has a total population of 21 788 people as of 2016. The population is made up of 53% females and 47% males. While the total population in the Buffalo City Metro equals 785 755.

### 4.3.2 Race groups

*Table 4.2: Race groups (Dimbaza)*

<b>Race</b>	<b>Count</b>
<b>Black</b>	21665
<b>Coloured</b>	37
<b>Indian/Asian</b>	13
<b>White</b>	9
<b>Other</b>	64

*Source: Census 2011*

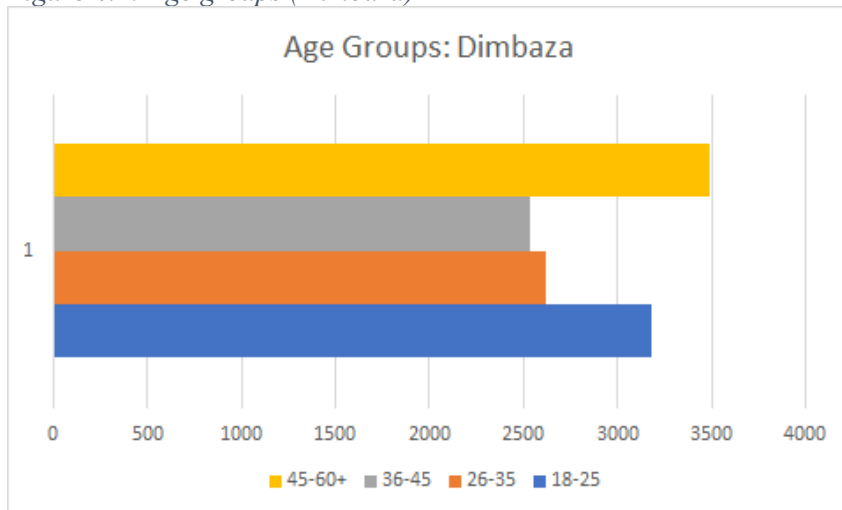
The table above illustrates the race groups in Dimbaza. Black people are the majority, they make up 99% of the population. Coloured people, Asian and White people combined, make up less than 1% of the population in Dimbaza.

### 4.3.3 Age profile

Figure 4.1 below illustrates the different age groups in Dimbaza. The ages are grouped as follows:

- 18- 25 years
- 26 -35years
- 36 -45 years
- 45 -60 (above) years

Figure 4.1: Age groups (Dimbaza)



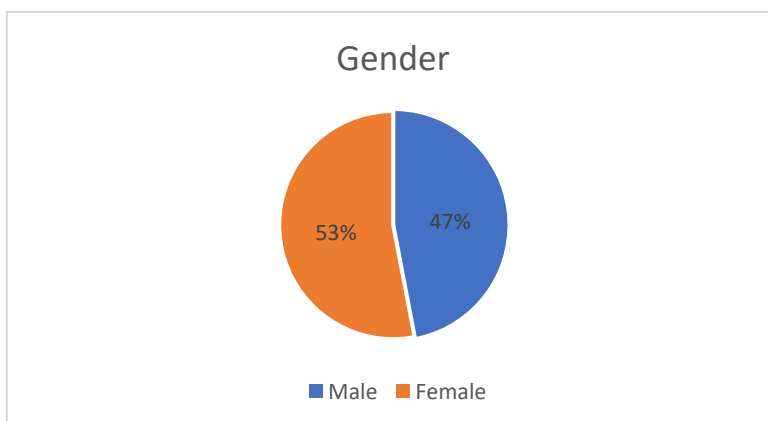
Source: Census 2011

The age profile in Dimbaza is made up mostly of youth, this is depicted by the age groups between 18-25 years and 26-35 years. The age group of 45-60 years and above is the second largest age group in Dimbaza.

#### 4.3.4 Gender

The figure below illustrates the gender demographics of the people who live in Dimbaza. The population is made up of 53% females and 47% males.

Figure 4.2: Gender of Dimbaza residences

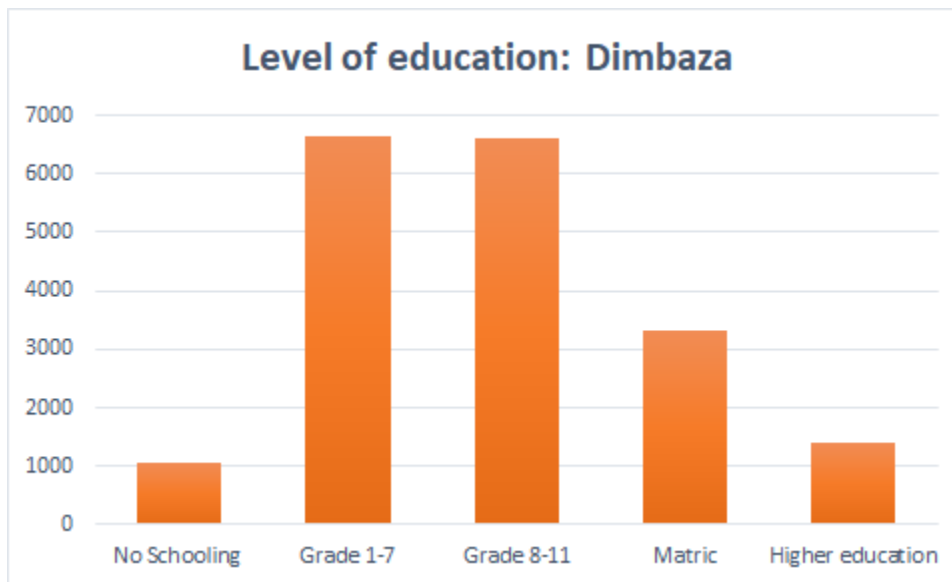


Source: Census 2011

### 4.3.5 Education levels

Figure 4.3 below illustrates the level of education of the people of Dimbaza.

Figure 4.3: Level of Education of people in Dimbaza



Source: Quantec Data (2019)

Most of the people in Dimbaza have education only from grade 1 till grade 7, at 6650 people. This is followed by 6623 who only have schooling from grade 8 to grade 11. Roughly just above 1000 adults have never received any form of formal schooling.

### 4.3.6 Household income

Table 4.3 below depicts the household income in Dimbaza. The table illustrates the monthly and annual household income. The table shows that 9 294 people in Dimbaza do not receive any form of income.

Table 4.3: Monthly and Annual household income in Dimbaza

Household Income	
<b>Total Population</b>	21788
<b>01:</b> Monthly income: no income, Annual income: no income	9294
<b>02:</b> Monthly income: R1 - R400, Annual income: R1 - R4800	4933
<b>03:</b> Monthly income: R401 - R800, Annual income: R4801 - R 9600	783
<b>04:</b> Monthly income: R801 - R 1600, Annual income: R 9601- R 19 200	2728
<b>05:</b> Monthly income: R1601 - R 3200, Annual income: R19 201- R38 400	680
<b>06:</b> Monthly income: R3201 - R6400, Annual income: R38 401 - R76 800	531
<b>07:</b> Monthly income: R6401 - R12 800, Annual income: R76 801 - R153 600	535
<b>08:</b> Monthly income: R12 801 - R25 600, Annual income: R153 601 - R307 200	258
<b>09:</b> Monthly income: R25 601 - R51 200, Annual income: R307 201- R614 400	90
<b>10:</b> Monthly income: R51 201 - R102 400, Annual income: R614 401 - R1 228 800	8
<b>11:</b> Monthly income: R102 401 - R204 800, Annual income: R1 228 801 - R2 457 600	3
<b>12:</b> Monthly income: R204 801 or more, Annual income: R2 457 601 or more	11
<b>Unspecified</b>	1665
<b>Not applicable (institutional population and transients)</b>	269

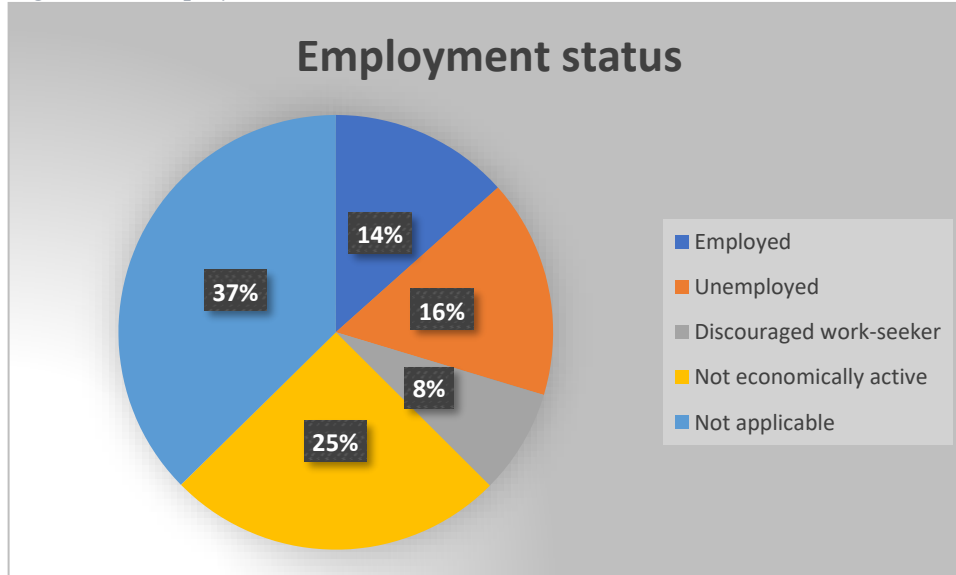
Source: Quantec Data (2019)

Table 4.2 illustrates that there are 1665 people that didn't specify their income and 269 people are part of the institutional population and transient people. Transients are people working or staying in Dimbaza only for a short period. Majority of the people in Dimbaza receive an income of R1 to R400 monthly and R1 to R4800 annually.

### 4.3.7 Employment status

Figure 4.4 below illustrates the employment status of the people in Dimbaza.

Figure 4.4: Employment status



Source: Quantec Data (2019)

Figure 4.4 above depicts that only 14% of the people are employed. While 8% of the population are discouraged work-seekers. The economically inactive portion of the population is 25%. The unemployment rate is sitting at 16%, this is the portion of the population that is not employed but are actively seeking employment.

### 4.3.8 Labour sector

Figure 4.5: Labour sector



Source: Quantec Data (2019)

Figure 4.5 shows that about 10% of the people in Dimbaza work in the formal sector, while less than 5% work in the informal sector or in their private households. More than 85% of the population in Dimbaza do not work in any sector as they are either less than 15 years old, unemployed pensioners, tertiary students, sick people or people who are incarcerated.

## **4.4 Data collection methods**

### **4.4.1 Survey Questionnaire**

The following basic steps were taken to develop the questionnaire and interview questions:

Step 1: The research objectives were developed and decided on the type of survey which was in the form of a questionnaire and interviews.

Step 2: A target population was identified, a pilot test was performed with the questionnaire and selected on the sample size.

Step 3: Located the respondents, conducted the interviews and recorded the data.

The questionnaire had close-ended and open-ended question which required further explanation. The questionnaire survey respondents were the small business owners in Dimbaza. A combination of informal and formal small businesses. The questionnaire was constructed by the researcher and approved by the research supervisor. It was constructed in English to accommodate other nationalities, but questions were translated by the researcher were necessary during the data collection.

### **4.4.2 Semi-structured Interviews**

The interviews were held with two LED officials in the Buffalo City Metropolitan Municipality. The officials were the Local Economic Development Directorate General Manager and Local Economic Development Programme Manager. The interviews were conducted to ascertain the role LED plays in small businesses in Dimbaza and discover how it plans to effectively assist small businesses through LED to create employment opportunities, assist with entrepreneurial development and generate income in Dimbaza.



#### **4.4.3 Focus group**

The participants of the focus groups were randomly selected from the respondents of the survey questionnaire. The participant were five small business owners with different types of businesses. The aim of the focus group was to solicit information from the heterogeneous group to avoid biases. The participants of the focus group did not want their names and businesses disclosed.

#### **4.5 Study Population**

The study population had to reflect the study that was done which means that the target population must be consistent with the objectives of the study. Small businesses, whether informal or formal were the target population of this study. Informal businesses refer to street vending or trading, foods and other minor legal activities which require minimum capital and skills. Non-probability sampling techniques were used in this study due to the unavailability of data with the number of small businesses in Dimbaza.

There were 65 small businesses were identified by the researcher of which a total number of 55 respondents answered the survey questionnaire and 51 respondents answered most questions. The 4 survey questionnaires were excluded from the analysis of this study.

#### **4.6 Data Analysis**

The data was analysed by the researcher using qualitative and quantitative analysis. The researcher coded and entered the survey questionnaire data into SPSS. A descriptive statistical technique was used to illustrate the findings.

#### **4.7 Conclusion**

A socio-economic profile of Dimbaza was illustrated to give context for the study area. The following criteria were used for the socio-economic profile: Population, Race, Gender, Age profile, Education levels, Household income, Employment status and Labour sector. The research methodology such as sampling procedures, data collection techniques, study population and the data analysis techniques were presented in this chapter. A non-probability technique was used as a sampling procedure in the study. The data was collected using a survey questionnaire, focus groups and semi-structured interviews.

## **Chapter 5: Analysis of Results**

### **5.1 Introduction**

The results of the study are presented in this chapter. The results obtained were analysed using descriptive statistics and statistical analysis. The descriptive statistics include the use of bar charts, pie charts, tables and other themes. The statistical analysis was done using Linear Regression and ANOVA tests. The chapter also presents an interpretation of the results obtained.

### **5.2 Analysis Methods**

The data was analysed by the researcher using qualitative and quantitative analysis.

#### **5.2.1 Quantitative analysis**

The data was collected using a survey questionnaire and the data was coded and analysed with the IBM SPSS. The data was analysed using linear regression analysis.

#### **5.2.2 Qualitative analysis**

The data from the semi-structured interviews with the BCMM officials and information collected during the focus groups with small business owners were analysed using thematic analysis. The thematic analysis consists of identifying, coding, and categorizing patterns or themes that are found in the data. The table below presents the thematic analysis approach used in analysing the data (Braun and Clauke, 2006).

*Table 5.1: Phases of thematic analysis*

<b>Phase</b>	<b>Description of the process</b>
<b>Familiarizing with the data</b>	Transcribing the data, reading and re-reading the data, noting down initial ideas.
<b>Generalizing initial codes</b>	Coding interesting features of the data in a systematic fashion across the entire data set, collating data relevant to each code.
<b>Searching for themes</b>	Collating codes into potential themes, gathering all data relevant to each potential theme.
<b>Reviewing themes</b>	Checking if themes work in relation to the coded extracts, generating a thematic map of the analysis.
<b>Defining and naming themes</b>	On-going analysis to refine the specifics of each theme and the overall story the analysis tells, generating clear definitions and names for each theme.

*Source: (Adapted from Braun and Clarke, 2006)*

### **5.2.3 Data format**

A survey questionnaire (Appendix 3) and semi-structured interviews were used to collect quantitative and qualitative data.

### **5.2.4 Sample**

The sample was drawn from a target population in Dimbaza using non-probability sampling method and BCMM managers in the LED Directorate. From the 65 respondents identified, 51 respondents completed the survey questionnaire.

## 5.3 Descriptive analysis and interpretation

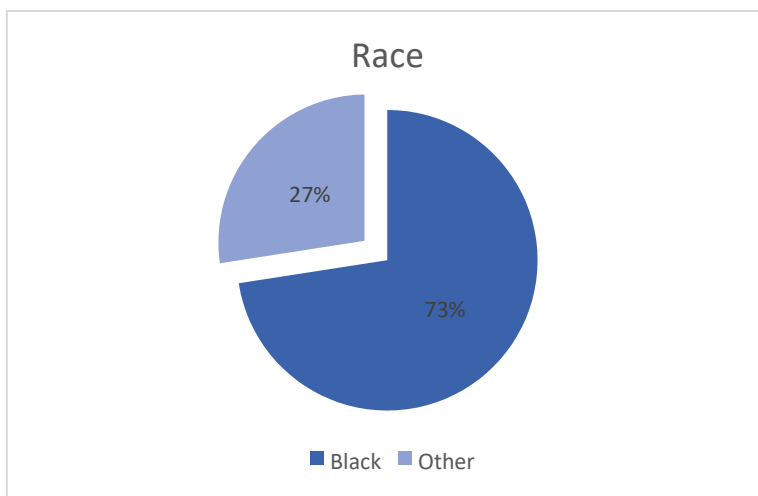
### 5.3.1 Demographic profiles of respondents

This section the demographic profiles of the respondents will be discussed. These include; gender, race, nationality, age group and level of education.

#### 5.3.1.1 Race

The figure below illustrates the racial demographics of the respondents.

*Figure 5.1: Race group of the respondents*



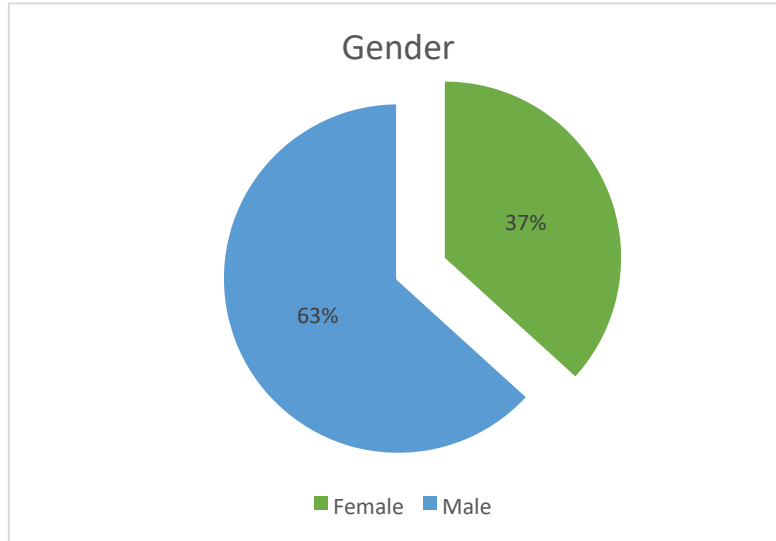
#### ***Description and interpretation***

It is illustrated in figure 5.1 that 73% of the small business owners surveyed are black. The other 27% represents foreign nationals who didn't identify with any of the races presented in the survey. The other race group included: White, Coloured, Indian and Chinese. According to the Census (2011), Black people in Dimbaza make up 99,4% of the population.

### 5.3.1.2 Gender

The figure below presents the gender demographics of the respondents of the study.

*Figure 5.2: Gender of the respondents*



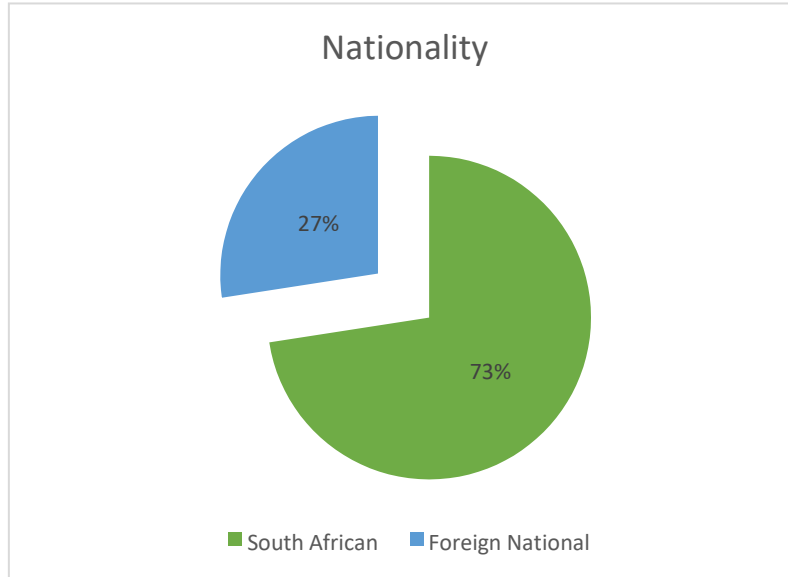
#### ***Description and interpretation***

Figure 5.2 above illustrates that 63% of the respondents are male, while 37% are female. Census (2011) state that the population of Dimbaza is made up of a majority of women at 53%, while their male counterparts make up 47% of the population. There are many reasons for this disparity; one could be linked to the fact that Dimbaza is a rural town, it may be that the norm in the town is still one where males in the family go out to work and bring income into the household while the woman stays at home and take care of the household. The other reason could be that the females or women have moved away from Dimbaza and are working and making a living elsewhere.

### 5.3.1.3 Nationality

The figure below illustrates the nationality profile of the respondents.

*Figure 5.3: Nationality of the respondents*



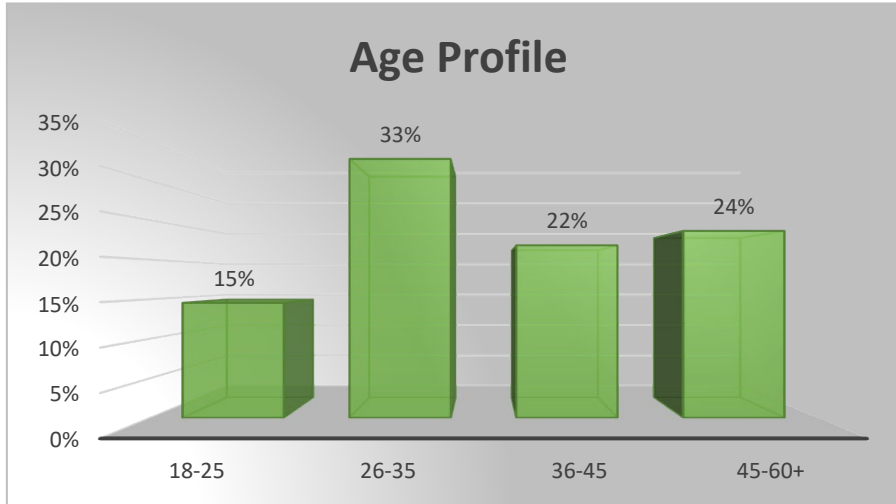
#### ***Description and interpretation***

In figure 5.3 above, it shows that 73% of the respondents are South African nationals, while 27% of the respondents are foreign nationals. The results above are to be expected as Dimbaza has a population of almost 360 foreign nationals (Census, 2011). In the townships and informal areas of South Africa, there are many foreign nationals who have small businesses operating. The White Paper on International Migration (1999) states that self-employed foreigners are protected given that the income they earn is part of the business book's value. With the increase in political instability in the neighbouring countries, there is a continuous growth of other nationalities in informal small businesses in South Africa.

#### 5.3.1.4 Age profile

The figure below illustrates the age profile of the respondents.

Figure 5.4: Age Profile of the respondents



#### ***Description and interpretation***

Figure 5.4 above illustrates the age profile of the respondents. The ages are grouped into age four groups:

- 18 – 25 years
- 26 -35 years
- 36 -45 years
- 45 -60+ years

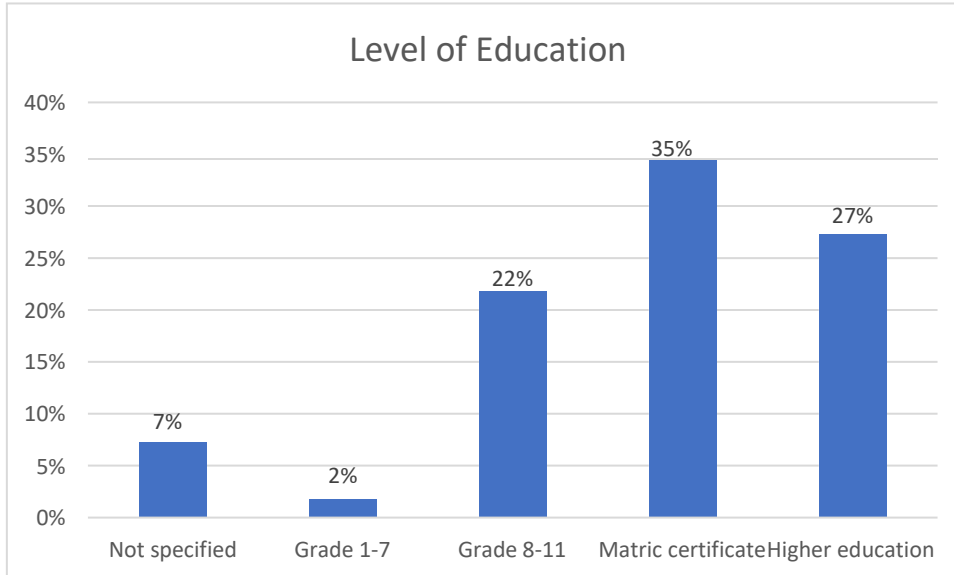
Majority of the respondents are between the ages of 26-35 years, followed by respondents aged between 18-25 years. The youth in South Africa are people aged between 18-35 years. According to Census (2011), the majority of the population in Dimbaza are the youth, aged between 18-35 years.

According to the FinScope (2010) study; one in six individuals within the youth age group generate income through small businesses and informal business activity. The findings presented in Figure 5.5 may allude to that the youth do not possess skills to operate in the formal business sector or that there are no job opportunities available, therefore one has to look for alternative ways to generate income.

### 5.3.1.5 Level of education

The figure below illustrates the level of education of the respondents.

Figure 5.5: Level of education of the respondents



#### ***Description and interpretation***

Figure 5.5 above illustrates the level of education of the respondents. Majority of the respondents have finished their high school education and obtained a matric certificate. There is 27% of respondents who have some form of higher education, while 22% of the respondents have not completed high school and dropped out of school. Only 1 respondent has primary school or foundation phase education.

According to the SSA Census (2011) on BCMM Education levels, majority of the residents at 74,8% in the Metro did not complete high school, they have at least gone up to Grade 8 and 13,6% had higher education.

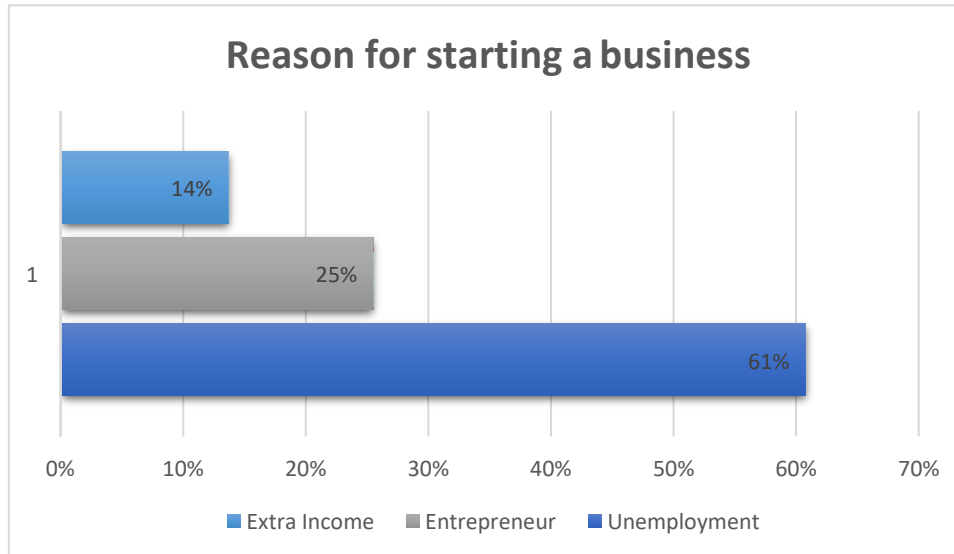


## 5.3.2 Business characteristics

### 5.3.2.1 Reason for starting a business

The figure below illustrates the reasons for starting the small businesses that the respondents stated.

Figure 5.6: Reason for starting a business



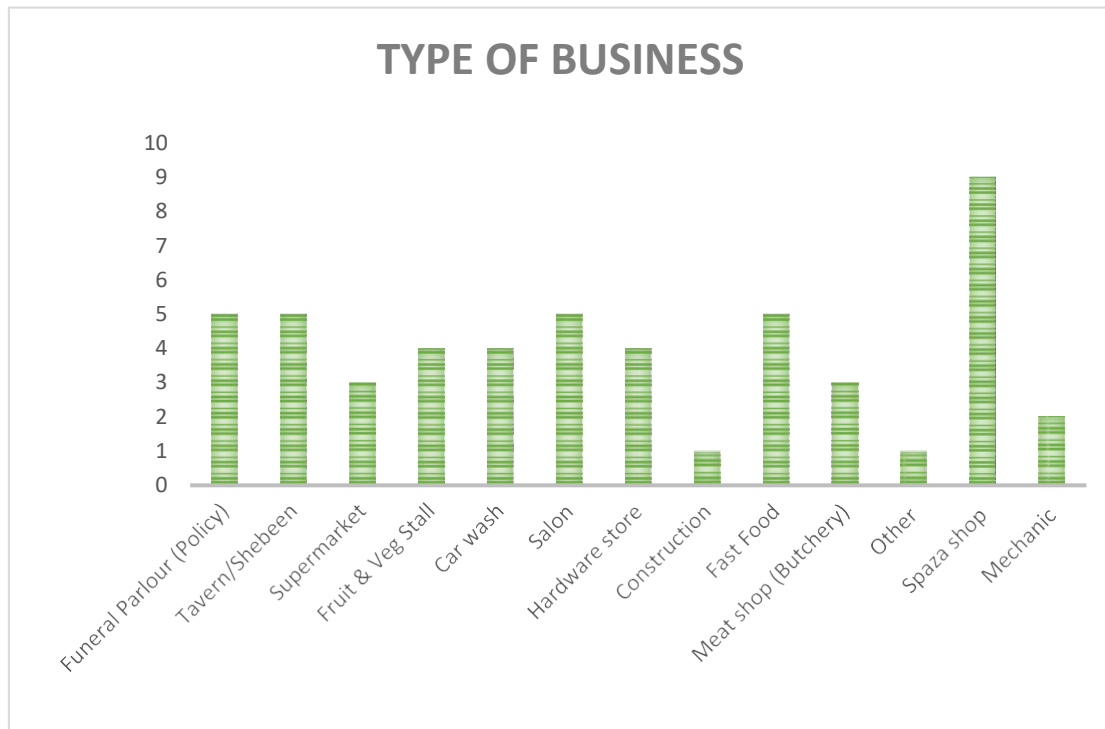
#### *Description and interpretation*

In figure 5.6 above it is evident that majority of the respondents started their small businesses because of unemployment, and they wanted to make a living. Only a few respondents started their businesses for extra income while the rest started their business because they wanted to become entrepreneurs. The reason for starting businesses relates to the unemployment of Dimbaza, where only 14% of the population is employed, while 16% is unemployed (Census, 2011). The results in Figure 5.7 suggest that unemployment is not the only reason why people in Dimbaza started their small businesses, although unemployment is a big factor. According to Hita (2013), people quit their jobs in order to be their own boss or make more money.

### 5.3.2.2 Type of business

The figure below illustrates the type of small businesses in Dimbaza. They vary from funeral parlours, taverns (shebeens), supermarket, fruit and vegetable stall, car wash, hair salons, hardware store, construction, fast food, butchery, spaza shops and car mechanics.

Figure 5.7: Type of business



#### ***Description and interpretation***

As illustrated by figure 5.7, the majority of small businesses in Dimbaza are spaza shops, with a total of 9 at the time of the study was conducted. And most of these spaza shops are owned by foreign nationals. Funeral Parlours and Taverns were surprisingly the second most common type of small business in Dimbaza. Funeral parlours and taverns are closely followed by hair salons.

#### ***5.3.2.3 Place where the business operates***

The figure below presents the places which the small businesses operate from.

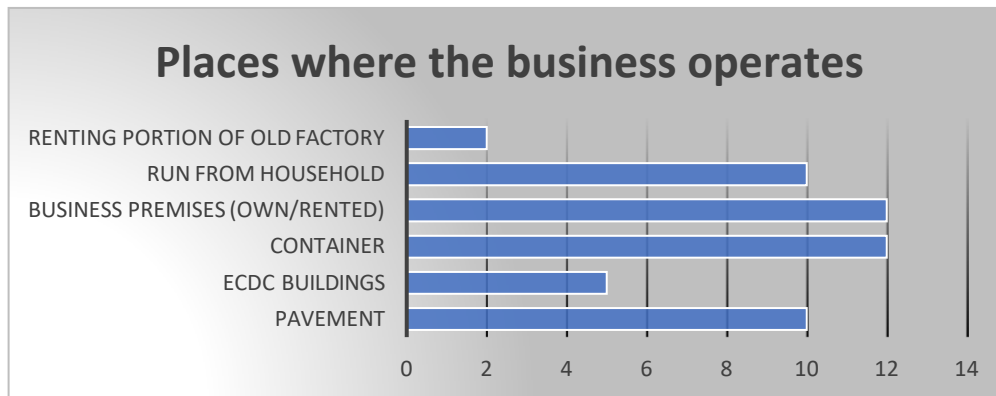


Figure 5.8: Place where the business operates

### ***Description and interpretation***

Figure 5.8 presents that most of the small businesses in Dimbaza operate a shipping container like structure and business premises which are either owned or rented by the respondent. 10 of the respondents operate their small businesses from their own households and another 10 operate their businesses outside on the pavement. There are 5 businesses which operate in the ECDC Buildings. The ECDC buildings are owned by Eastern Cape Development Cooperation. The ECDC is the official economic development agency for the Eastern Cape province and works with all three spheres of government.

#### ***5.3.2.4 Business Registration***

The figure below presents the registration status of a business. The registration status refers to the registration of any company according to the Companies Act of 2008. Companies can be registered as a; Private company, a public company, non-profit company, personal liability company or co-operatives.

Figure 5.9: Business registration

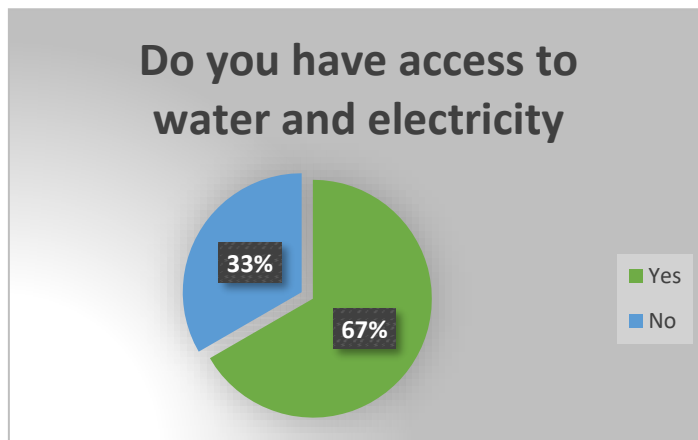


#### ***Description and interpretation***

The figure above illustrates the registration status of the business. The registration status refers to Business registration with the Companies and International Property Commission (CIPC), South Africa Revenue Services (SARS) or a Business license with the local municipality. In figure 5.9 it shows that 35 respondents don't have their business registered in any of the above-mentioned categories, while 16 respondents have registered their businesses in one of the three categories. Out of the 16 businesses registered, 15 are registered as private companies with CIPC and 1 is registered as a co-operative. There was 1 respondent that stated that their business is registered with SARS and pays tax.

#### ***5.3.2.5 Access to water and electricity***

Figure 5.10: Access to water and electricity



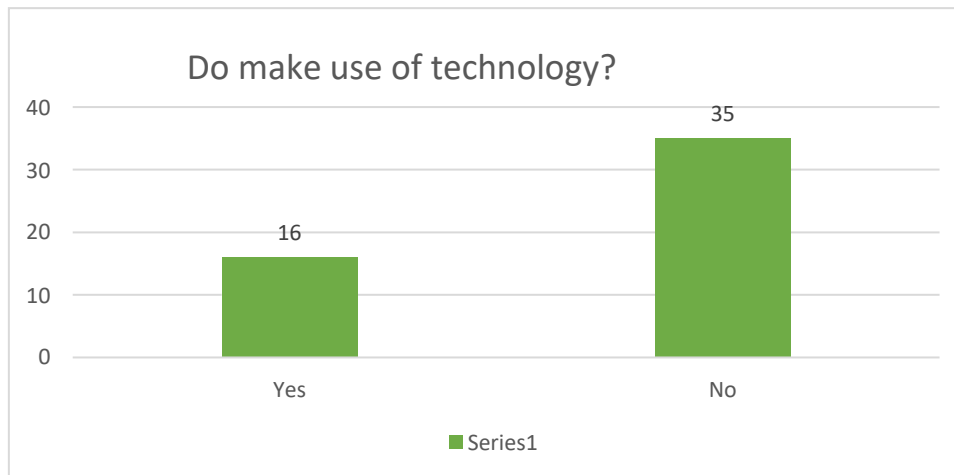
### ***Description and interpretation***

In figure 5.10 above it shows that 33% of the respondents do not have access to water and electricity in their business operations. The remaining 67% of the respondents have access to water and electricity in their businesses. The 33% shown above compliment the results from figure 5.9, where a lot of respondents operate from the pavement and they would not have access to water electricity. The car washes that operate in Dimbaza get their water from the neighbour households or community taps close by.

#### ***5.3.2.6 Use of technology***

Figure 5.11 below illustrates the respondents use of technology of each respondent in their business. The technology referred to in this question is the use of computers, printers and cash registers.

*Figure 5.11: Use of technology*



### ***Description and interpretation***

Most of the respondents do not make use of any form of technology in the daily operations of their business. Most of the small businesses operate in informal structures and therefore the results shown in figure 5.11 are to be expected.

### 5.3.2.7 Income and wage-price

The study revealed that some of the businesses are run by the owners alone and other businesses, the owners have employed workers. The study also revealed that there is a total of 134 people employed. The 134 employees are all residents of Dimbaza. 37 of the respondents stated they pay their employees monthly while 14 stated that they pay their employees weekly, therefore in order, the weekly wage prices were adjusted.

The table below illustrates the income per month of the respondents that provided their monthly income details to the researcher.

*Table 5.1: Income per month*

Descriptive Statistics						
	N	Range	Minimum	Maximum	Mean	Std. Deviation
<b>Income per month</b>	17	R5200.00	R800.00	R6000.00	R2200.00	R1549.55

#### ***Description and interpretation***

In table 5.1 above shows that the average income of the respondents is R2200.00 per month. The maximum income earned per month by the respondents is R6000.00 and the minimum is income earned is R800.00 per month.

*Table 5.2: Wage price per month*

Descriptive Statistics						
	N	Range	Minimum	Maximum	Mean	Std. Deviation
<b>Wage price per month</b>	31	R6200.00	R800.00	R7000.00	R2209.37	R1808.66

### ***Description and interpretation***

Table 4.5 above shows that employees in the small business sector in Dimbaza are paid R2209,37 on average per month. The National Small Business Act, No. 102 of 1996 states that the earning levels of small enterprises differ and there is no legislation which determines the minimum wage in small businesses. The minimum wage employees are paid is R800,00, while the maximum wage an employee is paid is R7000.00 per month. The National Minimum Wage Act, No. 9 of 2018 sets South Africa's first National Minimum Wage at R20 an hour, equivalent to R3 500 per month.

### **5.3.3 Municipal support**

*Figure 5.12: Assistance from the municipality*



Figure 5.13 above illustrates that 94% of the respondents did not receive assistance from the municipality when starting their businesses, while 4% state that they did receive assistance.

The White Paper on Local Government (1998), states that municipalities are not responsible for job creation, but they are responsible for taking certain measures to ensure that overall economic and social conditions of the locality are suitable to the creation of employment opportunities. Support structures such as infrastructure, training for small businesses or community development organisations need to be provided by local government towards social and economic development.

The respondents were asked if they had knowledge of the term LED and if they were any programmes to assistant them in developing their skills and developing their small businesses. All the respondents stated that they were not aware of any programmes relating to LED and there were no programmes in place for their development. Out of the 51 respondents, only 13% of the

respondents were familiar with the term LED. The remaining 87% were not familiar with the term and some had never heard it before.

The respondents were asked if they had access to tender opportunities which are released by the municipality. Only 1 respondent answered yes to this question. The respondent was an owner of a funeral parlour, who stated that when provincial or official funerals take place, they have an opportunity to tender to service such funerals.

*Figure 5.13: Methods to access funding*

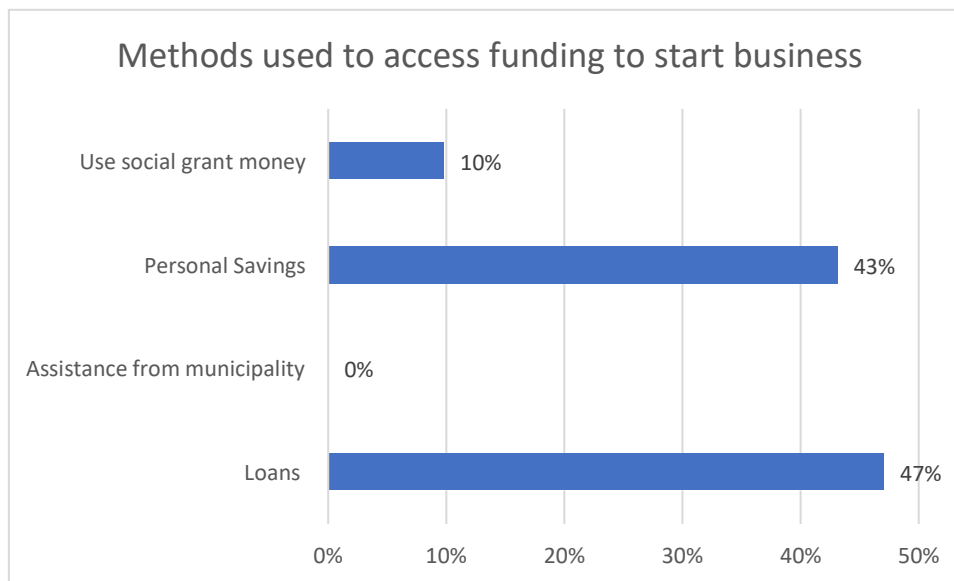


Figure 5.14 above illustrates that 47% of the respondents received a loan in order to start the business, a loan through a financial institution or borrowing money from friends and family. Additionally, 43% used their personal savings and 10% used their social grant money. None of the respondents stated that they received funding from the municipality or any government agency to start their businesses. The findings suggest that the people of Dimbaza do not have access to information pertaining to funding for small business and further suggests that small businesses have limited channels where they can get access to funding.



## 5.4 Statistical analysis and interpretation

The first objective of the study was to investigate the magnitude and extent of small businesses in Dimbaza, therefore the study intended to also see the relationship between the respondents who are the entrepreneurs' socio-economic profile and the reason why the business was started. Therefore the following hypotheses were derived:

- H<sub>1</sub>- There is a relationship between the reason entrepreneurs start their business and their level of education
- H<sub>2</sub>- There is a relationship between the reason entrepreneurs start their business and their age

### 5.4.1 Linear Regression Analysis

- **Testing Hypothesis 1:**

Table 5.3: Model Summary (1)

Model Summary <sup>b</sup>					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.352 <sup>a</sup>	.124	.106	.71208	2.216
a. Predictors: (Constant), Education					
b. Dependent Variable: Reason					

The table above provides the  $R^2$  value which is 12.4%. This means that the entrepreneurs' level of education accounts for only 12.4% of the variation in the reason entrepreneurs start their businesses. The results show that there is a low degree of correlation between the reasons entrepreneurs start their business and their level of education. The Durbin-Watson value is 2.2, which means there is a negative autocorrelation between the two variables.

Table 5.4: Coefficients (1)

Coefficients <sup>a</sup>					
Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1	(Constant)	3.108	.287	10.846	.000
	Education	-.182	.073	-.337	.015
a. Dependent Variable: Reason					

A 95% level of significance was used in this test. Table 5.4 above shows that the level of significance is 0.15 which more than 0.05, this means that there is no significant relationship between the level of education and the reasons entrepreneurs start their businesses.

H<sub>1</sub> of this study may be rejected and concluded that there is no relationship between the reasons entrepreneurs start their business and their level of education.

- **Testing Hypothesis 2:**

*Table 5.5 Model Summary (2)*

<b>Model Summary<sup>b</sup></b>					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.569 <sup>a</sup>	.324	.310	.62532	1.927
a. Predictors: (Constant), Age					
b. Dependent Variable: Reason					

The table above shows the  $R^2$  value which 32.4%. This means that the age which entrepreneurs fall in, only account for 32.4% variation in the entrepreneurs' reasons for starting a business. The results illustrate that there is a low degree of correlation between different age ranges of entrepreneurs and their reasons for starting a business. The Durbin-Watson value is 1.9 which means that their positive autocorrelation between the variables.

*Table 5.6: Coefficients (2)*

<b>Coefficients<sup>a</sup></b>					
Model		Unstandardized Coefficients		Standardized Coefficients	Sig.
		B	Std. Error	Beta	
1	(Constant)	3.429	.232		.000
	Age	-.385	.083	-.552	.000
a. Dependent Variable: Reason					

At a level of 95% significance which was used, Table 5.5 shows that the  $p$ -value, which is the level of significance is less than 0.05. This means that there is a statistically significant relationship between age and the reasons entrepreneurs started their business. H<sub>2</sub> of this study may not be rejected and concluded that there is a relationship between the two variables.

### 5.4.2 One-way ANOVA

The first One-way ANOVA test was done to test the effect of the entrepreneurs' level of education on the reason they start their business. The second One-way ANOVA test was done to test the effect age has on the reason entrepreneurs' start their business. The ANOVA is used to determine if the means of variables are statistically different.

Table 5.7 Descriptive Box (Test 1)

Descriptive								
Dependent Reasons								
	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
					Lower Bound	Upper Bound		
Non-specified	4	2.5000	.57735	.28868	1.5813	3.4187	2.00	3.00
Grade 1-7	1	3.0000	.	.	.	.	3.00	3.00
Grade 8-11	12	2.7500	.62158	.17944	2.3551	3.1449	1.00	3.00
Grade 12 (Matric)	19	2.7368	.65338	.14989	2.4219	3.0518	1.00	3.00
Higher Education	15	1.6667	.48795	.12599	1.3964	1.9369	1.00	2.00
Total	51	2.4118	.75303	.10545	2.2000	2.6236	1.00	3.00

The table above shows the test of the means of the level of education. The number of participants in each level is illustrated by (N).

Table 5.8: ANOVA (Test 1)

ANOVA					
Reason	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	12.085	4	3.021	8.544	.000
Within Groups	16.268	46	.354		
Total	28.353	50			

The table above shows the *p-value* (Sig) is 0.000. The value is less than 0.05. Therefore it can be concluded that there is a statistically significant difference between the means illustrated in Table 5.6.

The second ANOVA tests the effect age has on the reason entrepreneurs start their businesses.

Table 5.9: Descriptive Box (Test 2)

Descriptive								
Dependent Reasons								
	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
					Lower Bound	Upper Bound		
18-25	8	2.8750	.35355	.12500	2.5794	3.1706	2.00	3.00
26-35	18	2.8889	.32338	.07622	2.7281	3.0497	2.00	3.00
36-45	12	1.9167	.90034	.25990	1.3446	2.4887	1.00	3.00
45-60+	13	1.9231	.64051	.17765	1.5360	2.3101	1.00	3.00
Total	51	2.4118	.75303	.10545	2.2000	2.6236	1.00	3.00

The table above shows the means for the different age groups.

Table 5.10: ANOVA (Test 2)

ANOVA					
Reason					
	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	11.860	3	3.953	11.267	.000
Within Groups	16.493	47	.351		
Total	28.353	50			

Table 5.9 above shows that the *p-value* (sig) is 0.000 which is less than 0.05. Therefore it can be concluded that there is a statistically significant difference in the means in Table 5.8.

The *p-value* (sig.value) in Table 5.9 does not explain which means are different. The solution to this problem is conducting a post hoc test to determine which will determine where the statistical difference is.

Table 5.11: Multiple comparisons (Test 2)

Multiple Comparisons						
Dependent Variable: Reason						
Tukey HSD						
(I) Age	(J) Age	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
					Lower Bound	Upper Bound
1.00	2.00	-.01389	.25171	1.000	-.6843	.6565
	3.00	.95833*	.27038	.005	.2382	1.6785
	4.00	.95192*	.26619	.004	.2430	1.6609
2.00	1.00	.01389	.25171	1.000	-.6565	.6843
	3.00	.97222*	.22076	.000	.3842	1.5602
	4.00	.96581*	.21561	.000	.3916	1.5401
3.00	1.00	-.95833*	.27038	.005	-1.6785	-.2382
	2.00	-.97222*	.22076	.000	-1.5602	-.3842
	4.00	-.00641	.23714	1.000	-.6380	.6252
4.00	1.00	-.95192*	.26619	.004	-1.6609	-.2430
	2.00	-.96581*	.21561	.000	-1.5401	-.3916
	3.00	.00641	.23714	1.000	-.6252	.6380
*. The mean difference is significant at the 0.05 level.						

Table 5.10 above shows the results of the post hoc tests. It can be concluded that (*p-value*) significant values that are equal or less than 0.05 mean that there is a statistically significant difference between the means. It can be concluded that the means of age groups are significantly different in terms of the reasons stated by entrepreneurs.

## 5.5 Challenges faced by small businesses in Dimbaza

The respondents stated the challenges they face as small business entrepreneurs in Dimbaza:

- **Financial constraints-** The respondents stated that sometimes they do not make profit in the business, customers buy goods on service, it is hard to employ more workers as the business cannot afford more employees.
- **Lack of proper infrastructure and facilities-**There is no proper infrastructure for hawkers and other businesses that are run on the pavements of Dimbaza, some of the buildings are not safe, ECDC buildings are run down, when it is raining there is no place for coverage, when it is raining some businesses don't operate, there is no property development taking place.
- **Lack of support from municipality-** Most of the respondents complained that the municipality does not provide any support, they have gone to the municipality multiple times to ask for assistance, there were meetings that took place a few years ago where the municipality promised that the retail zone in Dimbaza would be developed and hawkers would be provided with proper facilities to run their business but nothing had taken place at the time the study was conducted.
- **Lack of proper running water and electricity-** The owners of the hair salons and car washes stated that they do not have running water and electricity which puts limitations on the operations of their businesses. A respondent who has a fast food stall on the street mentioned that she uses a gas to cook her food and sometimes she does not have enough money to refill the gas.
- **High electricity bills from municipality-** Some of the respondents complained that they receive extremely high electricity bills from the municipality even despite not using substantial amounts of electricity. The respondents state that the municipality will cut off their electricity without warning and this has been an ongoing challenge they have with the municipality and additionally have made several formal complaints regarding this issue.
- **Lack of social investment by the municipality-** Some of the respondents stated that they would like to receive some form of skills development and training in order to grow their businesses and be equipped with the relevant entrepreneurial skills.

## 5.6 Interviews with BCMM LED officials

- LED programmes/projects currently running in Dimbaza:
  - BCMM officials mentioned that there are many projects in the pipeline that have not been implemented yet in Dimbaza Township. The municipality does have LED projects currently running in the greater municipality. They indicated that there needs to be more prioritisation with Dimbaza Township as the community is poverty stricken and there are high rates of unemployment.
- Programmes/projects for small business development in Dimbaza:
  - BCMM officials stated that there is a business centre located in Dimbaza which purpose is to provide Dimbaza residents with business enterprise and IT literacy training. They admit that there are improvements that need to be done in the running of the business centre to ensure its effectiveness in the Dimbaza. It is important that such institutions are beneficial to the community.
- Plans to include small businesses in the revitalisation plans of Dimbaza Industrial Zone:
  - The BCMM officials mentioned that the budget has been approved for the revitalisation of the Dimbaza Industrial Zone, and that has been made a priority in the economic development plans of the Municipality. The Dimbaza Industrial area is a strategic project in the municipality. There have been no finalised plans in place to include the small businesses in Dimbaza, but that would be a great opportunity for growth to include them and the municipality will work together with the community to achieve the goal of revitalising the Township.
  - The officials indicated that SMMEs do contribute to BCMM's economic development with regards to job creation, income generation and poverty alleviation.
- Challenges faced by small businesses in Dimbaza:
  - The municipality is aware of the challenges faced by small businesses, in particular, small businesses in the informal business sector. The officials indicated that even though there are programmes to assist small business entrepreneurs, that is not enough and more needs to be done by the municipality.
  - The managers indicated that regarding the informal business sector; proper infrastructure has been the main challenge over the years. They mention that a

challenge they face is that there is no data to determine informal businesses or small businesses in the municipality as a whole.

- Plans to refurbish the ECDC buildings:
  - A few years ago the municipality had talks with the Eastern Cape Development Council regarding the buildings, nothing was finalised, but they are an important part of Dimbaza, and they should be refurbished. The buildings were once a commercial hub in Dimbaza.
- Additional comments:
  - The officials state the importance of informal business in economic growth and development. There are initiatives regarding business skills but more still needs to be done to achieve local economic development through small businesses. Certain SMMEs and informal businesses do not have to adhere to any legal requirements, this makes it very hard to monitor them. Small business entrepreneurs are encouraged to register their business with the municipality so that a database can be established.

## 5.7 Reliability Analysis

### 5.7.1 Reliability testing

To test reliability a Cronbach's alpha test was done to measure the internal consistency. The Cronbach's alpha value is equal to 0,712 which is above the acceptable level of 0,7.

*Table 5.12: Reliability statistics*

Reliability Statistics		
Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.712	.785	8



## 5.8 Research limitations

Research limitation are inevitable. The limitations are as follows:

- Most of the respondents were semi-literate and did not fully understand the study, this presented a problem in completing the survey questionnaire. The researcher interpreted the survey questionnaire to avert this limitation.
- The study focused on Dimbaza because of the significance of the study. Other areas within the BCMM could not be assessed for comparison purposes, thus this research study only deals with small business in Dimbaza.
- Some of the respondents were not willing to disclose their financial information.
- 65 small business were identified but only 51 respondents were used in the analysis.

## 5.9 Conclusion

This chapter analysed and interpreted data based on the interviews conducted with small business owners and BCMM officials who participated this research study. The chapter presented the findings based on the survey questionnaire, which was given to respondents, it also highlighted the challenges that the small businesses in Dimbaza face. The researcher used qualitative and quantitative analysis tools for this study. The quantitative data was analysed using IBM software. The descriptive results of the study were divided into three main sections: Demographic profile of respondents, business characteristics and municipal support. The results presented in the statistical analysis were obtained by testing two hypotheses using the Linear Regression and ANOVA test. A reliability test was also done using Cronbach's alpha test and it found that the data was reliable as a score above the acceptable level was obtained.

## **Chapter 6: Findings and Recommendations**

### **6.1 Introduction**

This chapter will present the findings of this study in relation to the objectives of the study. Furthermore, it will also present the unintended outcomes discovered during the study. The chapter will provide recommendations that should be taken by the municipality.

### **6.2 Magnitude and extent of small businesses in Dimbaza**

The study revealed that the small business sector in Dimbaza is underdeveloped and there are predominantly informal businesses in Dimbaza.

#### **6.2.1 Demographic profile**

The study revealed that majority of small business owners in Dimbaza are between the ages of 18-35 years old, this is regarded as the youth. This finding led to the following conclusions; that unemployment amongst the youth in Dimbaza is the highest, the youth possess entrepreneurial skills and they want to become entrepreneurs.

Most small business owners in Dimbaza have obtained a matric certificate and have some form of higher education and almost 58% of the respondents started their small businesses because of unemployment and they looked at other avenues to generate income and make a living.

#### **6.2.2 Business characteristics**

The study revealed 13 types of small businesses that operate in Dimbaza, majority of them being spaza jobs. The study showed that majority of businesses that operate in Dimbaza are informal and are not formally registered. Dimbaza has a prevalent informal business sector which shows potential of more growth. There are 69% small businesses that are not registered. Basic requirements of the functionality of any business is the physical infrastructure and water and electricity. There are 67% of small businesses that do not have access to running water and electricity. There are no proper sanitation facilities for most of the businesses.

### **6.2.3 Municipal Support**

Upon completion of the study, it became evident that the municipality provides very little support to small business owners in Dimbaza. Study showed that 94% of the respondents did not receive any form of assistance from the municipality to start or run their enterprise. The municipality has not prioritised Dimbaza with regard to LED programmes pertaining to skills development and training. Very few respondents had knowledge of the term “LED” and were not aware of any LED programmes in LED. The funding to start their businesses came from social grants, personal savings and loans from individuals or banks.

## **6.3 Contribution of the small business sector towards employment creation and income generation**

The study demonstrates that it contributes considerably towards employment creation. The small businesses owners have collectively employed more than 100 people at the time the study was conducted. The owners only employ residents of Dimbaza. From an income generation perspective, the sector provides various advantages to Dimbaza and there is potential for greater contribution from a socio-economic development perspective.

The respondents were reluctant in giving the full details of their finances, 33% of the owners revealed how much income they generate monthly. Of the owners who disclosed their income per month, the minimum income generated per month is R800,00 and a maximum of R6000,00. The average monthly income is R2200,00. Only 61% of the owners revealed the wage-price they pay their employees. These employees earn between R800, 00 and R7000,00. The average wage price is R2209,37.

Despite the wage-price being below the national minimum wage, the sector is contributing to income generation in Dimbaza, considering the underdevelopment of the sector. If economic development is measured by job creation and poverty alleviation, the research may conclude that the small business sector in Dimbaza do contribution to local economic development.

## **6.4 Challenges facing the small business sector in Dimbaza**

The small business sector does not have proper infrastructure, financial constraints, no proper running water and electricity and high electricity bills from the municipality.

The study found that a dominant issue within the small business sector is the lack of responsiveness and assistance from the municipality. Upon the interviews with the BCMM managers, the study shows that the municipality does not have a strategy for small businesses and their development. There are no skills development programmes, mentoring programmes or financial training provided to the residents and business owners of Dimbaza. The study shows that there lacks a relationship between small business sector and the BCMM.

## **6.5 Other findings**

While conducting the study, the researcher found other findings which were not part of the study but impact the recommendations provided and the potential for further research.

### **6.5.1 EDCP Property**

While the research was on a site visit in Dimbaza, the researcher was made aware of the premises below which belong to the ECDC. As shown by the pictures the buildings are run down and most are in no condition for occupation. When interviewing a respondent they stated that they had no knowledge on how to occupy the premises, they asked to share with another business owner. The respondent also stated that a couple of years ago the below ECDC buildings were all occupied by businesses and the area was their commercial zone in Dimbaza. All the images presented below were taken by the researcher while on site in Dimbaza.



*Image 6.1 : ECDC premises*

The image below shows that the buildings were occupied and are now sitting empty. There were only 3 business premises occupied. A business owner stated that there was no electricity in the one they were occupying and no toilet facilities. They stated that the municipality is knowledgeable of the condition of the buildings and the Dimbaza residents' desires to occupy the premises.

*Image 6.2: ECDC Premises*



The image 6.4 and image 6.5 below shows the another ECDC premise that used to be a form shopping centre with a number of different shops for the residence of Dimbaza.

*Image 6.3: ECDC Premises*



*Image 6.4: ECDC Premises*



### **6.5.2 Dimbaza Industrial Zone**

“During apartheid South Africa, factories received high subsidies to establish factories in the Dimbaza area. More than 200 factories were operational then, especially in the textile sector. After 1994 these subsidies were halted, and factories closed. Today most factory buildings are derelict and empty. There are only a few businesses still operational in Dimbaza. Land in Dimbaza is mostly owned by government, especially the Eastern Cape Development Corporation. Many buildings are vacant”. (Invest Buffalo City, 2017).

When the researcher was on a site visit in Dimbaza, the former Industrial Zone was visited and as the statement above states, there were many vacant old factory buildings and vacant spaces where old factories used to be where only the foundation is left. This is shown by the images below.



*Image 6.5: Old factory buildings in Dimbaza Industrial Zone*



## 6.6 Recommendations

Based on the findings of this study, the researcher proposes the following recommendations for the municipality and small business actors:

### 6.6.1 Recommendation one

Nthekeleng (2014:152) states that Local Economic Development exists to build the local economic capacity of a local community. Building economic capacity is done by improving the communities' economic future and quality of life for everyone.

**Accredited training and skills development programme:** The Local Economic Development Directorate should develop and implement a strategy with different programmes in place for skills

development and training in Dimbaza. This should assist the business owners with the day to day running of their businesses so they can develop their businesses and contribute to the local economy of Dimbaza. The municipality can partner with a training institution to provide short courses.

As mentioned previously the LED programme should focus on skills development to build the business capability of the small business owners. This strategy should directly impact local job creation and to build the capacity of other community members to generate income.

The Business Development Department in BCMM should be more accessible and visible to the people of Dimbaza. There should be an entrepreneurship programme. Potential entrepreneurs in Dimbaza should be given information on ways in which they could start any business, business registration, initial funding opportunities and any other components concerning small business development. This programme should be aimed at the vulnerable groups of the area such as unemployed, women and children in high school. This recommendation is essential in the growth of the small business sector in Dimbaza and its contribution to the overall economy of the BCMM.

The municipality can create satellite offices in Dimbaza to assist.

### **6.6.2 Recommendation two**

The Development Planning Department in BCMM should prioritise Dimbaza with regards to infrastructure development and build municipal designated trading areas with all the necessary infrastructure such as water, electricity and proper sanitation. During the focus group sessions, the participants emphasised the need for proper trading areas. This will create an enabling environment for the sector and more people can start businesses.

### **6.6.3 Recommendation four**

The Planning and Economic Development Directorate in BCMM together with the Financial Services Directorate should formulate a proper revitalisation strategy document for the Dimbaza Industrial Zone and work in partnership with the private sector for investments. There seems to be lack of priority in this area.



#### **6.6.4 Recommendation five**

The BCMM Municipality should work together with the ECDC to renovate and refurbish their properties which are in Dimbaza. This will enhance SMME development in the area contribute to the growth of the local economy. Entrepreneurs will have facilities to run their business from. The process to apply to occupy vacant premises should be made public knowledge. The entrepreneurs can then apply to occupy the ECDC premises.

#### **6.6.5 Recommendation six**

Further research:

- There is opportunity for further research to be done pertaining to ways in which small business development can be achieved in Dimbaza in a sustainable way.
- The role which SMMEs in Dimbaza can play in the revitalisation of the industrial hub.
- Further research can be done pertaining to the growth of the local economy of Dimbaza.

### **6.7 Conclusion**

This chapter presented the key findings of the study, it discussed the demographic profile, business characteristics, municipal support, contribution towards the small business sector towards employment creation, challenges faced by the sector, the ECDC properties and the former Dimbaza Industrial Zone. The chapter also presented policy recommendations and a short discussion of the key findings.

As stated in the literature review entrepreneurship is a component of economic growth and economic development. Poor communities are dominated by informal small businesses. Dimbaza is an area that is poverty stricken with high unemployment and low-income earners. Majority of the small businesses are convenience shops for lower income earners in the community. The small business sector in Dimbaza is dominated by survivalist entrepreneurs or micro-entrepreneurs. This conclusion is made because 61% of the respondents of this study stated that they started their business because of unemployment. The lack of employment in Dimbaza lead to the increased dependency on self-employment as a mechanism of survival. Ranyane (2015) states that self-employment is a buffer and provides South African families with an alternative source of income.

The literature highlighted the importance of SMMEs as vehicles in addressing challenges such as; poverty, unemployment, economic growth and inequity. There is a need for survivalist entrepreneurs to be assisted so as to improve their socio-economic conditions (Ranyane, 2015). This involves the creation of an enabling environment for the growth of SMMEs. An enabling environment is created through Local Economic Development. Despite the lack of support these entrepreneurs receive from the municipality, this sector generates income and creates a job for the unemployed in the community.

A study was done by Jili, Masuku and Selepe (2017) in the Umlalazi Local Municipality (ULM) in KwaZulu-Natal. The purpose of that study was to assess the role of SMMEs towards promoting Local Economic Development in rural areas within the ULM. The small towns and townships, like Dimbaza, have high unemployment and poverty levels. The findings of that study indicated that SMMEs play an important role in promoting LED, despite many challenges (Jili, Masuku and Selepe, 2017). It further stated that SMMEs in rural areas require advancement in technology, they will also be able to produce their own goods and services which will develop the local economy. In the case of Dimbaza, the revitalisation of the former industrial zone will assist the growth of the local economy and the growth of small businesses sector and sustainability of the sector.

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## APPENDICES

### Appendix 1: Letter requesting to conduct research



South Campus  
Economics Department  
Tel . +27 (0)41 5043834  
Ronney.Ncwadi@mandela.ac.za

03 September 2018

To whom it may concern

Re: Research Project- Ms Sixolile Gantsho

Dear Sir/Madam

This letter serves to confirm that Ms Sixolile Gantsho is a registered student in the Masters Programme in Economic Research at the Nelson Mandela University, with student **no. 212235222**. She is conducting her research thesis on the topic:

*"Local Economic Development through small businesses in Dimbaza."*

Please offer Ms Gantsho assistance in conducting her research, which I trust will be of benefit to your organization. Please do not hesitate to contact me for any further information.

Yours Sincerely

A handwritten signature in black ink, appearing to read "R. Ncwadi", written over a circular stamp.

PROFESSOR R. NCWADI  
HEAD OF THE ECONOMICS DEPARTMENT



Change the World

PO Box 77000, Nelson Mandela University, Port Elizabeth, 6031, South Africa

### Appendix 2: Letter of Approval from BCMM

Buffalo City Metropolitan  
Municipality

East London | Bisho | King Williams Town  
Province of the Eastern Cape  
South Africa

Website: [www.buffalocity.gov.za](http://www.buffalocity.gov.za)



Office of the City Manager  
10<sup>th</sup> Floor Trust Centre  
Cnr Oxford and North street  
East London  
5201

Tel: 043 705 1045  
Email: [Kholekas@buffalocity.gov.za](mailto:Kholekas@buffalocity.gov.za)

Date: 02 OCTOBER 2018

TO WHOM IT MAY CONCERN

RE: REQUEST FOR PERMISSION TO CONDUCT RESEARCH IN BCMM:  
MISS SIXOLILE GANTSHO

Dear Sir/Madam

It is hereby acknowledged that **Miss Gantsho**, a student at **Nelson Mandela University**, completing **Master's Degree in Economic Research**, has met the prerequisites for conducting data collection at Buffalo City Metropolitan Municipality (BCMM) for partial fulfillment of her degree. She has provided us with all the necessary documentation as per the BCMM Policy on External Students conducting research at the institution.

With reference to the letter to the City Manager dated 03 September 2018, permission was requested to conduct research at BCMM for her Research Report, entitled "**Local Economic Development through Small Businesses in Dimbaza**." This request was scrutinised by the Information and Knowledge Management, Research and Policy Unit for further assistance, and approved in accordance with national and international research ethical and legal norms, standards and guidelines. **Miss. Gantsho** was asked to provide the Unit with the necessary documentation, which she subsequently did.



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The relevant Officials to assist in the research were identified and will duly be informed about the research, and the fact that **Miss. Gantsho** has met all the prerequisites. Their contact details will also be provided to **Miss. Gantsho** and she will be informed to contact them directly for assistance.

We wish **Miss. Gantsho** good luck in her studies.

MR J FINE

  
.....  
ACTING HEAD: IKM, RESEARCH AND POLICY

MR A SIHLAHLA

  
.....  
CITY MANAGER

APPROVED	NOT APPROVED
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BUFFALOCITYMETROPOLITANMUNICIPALITY

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## Appendix 3: Survey Questionnaire

**Sixolile Gantsho**

**Masters in Economic Research Student**

Local Economic Development through small businesses in Dimbaza

### Section A: Demographic Profile

1. Full names of respondent/Name of business:

.....

2. Please indicate your gender:

Female	
Male	

3. Please select your age group.

18-25	26-35	36-45	45-60	61-75	75+
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4. Please indicate your nationality.

.....

5. Please indicate to which race group you belong:

Black	
Coloured	
White	
Indian	
Other	

6. Please indicate your level of education:

No schooling	Grade 1-7	Grade 8-11	Matric certificate	Higher education
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### Section B: Business Characteristics

7. Why did you start your business?

.....

8. Are you the owner of the business? If no, please indicate your role in the business?

.....

9. Please tick the method used to access funding to start the business

Loans	
Social grants	
Funding from municipality	
Personal Savings	

10. Please explain the nature of your business.

.....

11. Is your business registered? If yes, where and when was it registered?

.....

12. How long has your business been operating?

.....

13. How many people are employed in your business?

.....

14. Do you make use of technology in your business? E.g computers

.....

15. Do you have access to water and electricity in your business?

YES	
NO	

16. Is your business registered for tax?E.g VAT/Company tax

.....

17. How often do you pay your employees? E.g. Monthly/ fourth nightly/weekly etc.

.....

18. Approximately how much do you make per month? Are you able to cover all your business expenses?

.....

19. As a business owner, do you have any training in business operations? (Entrepreneurial skills)

.....

### Section C: Support from municipality

20. Do you know the term Local Economic Development (LED)? If yes, are you aware of any LED programmes in this area? How have you benefitted from this programme?

.....

.....

21. Are you aware of any small business (SMME) development programmes in the area?

.....

22. Is your business involved in these SMME programmes/projects?

.....

23. How does your business help the community? (Social responsibility)

.....



24. Does your business employ the local residents of Dimbaza?

.....

25. Did you get any assistance from the municipality when starting your business?

.....

26. Do you have access to tender opportunities as a business owner?

.....

27. How would you like the municipality to help and support small businesses in the area?

.....

.....

28. What are the challenges you are facing as a small business owner?

.....

.....

29. List the training you need that will help in running your business successfully?

.....

Thank you for completing this questionnaire 😊

#### **Appendix 4: Interview question for BCMM representatives**

##### **Questions for the Buffalo City Metropolitan Municipality representatives:**

1. Are there any LED programmes/projects currently running in Dimbaza?
2. Are there any programmes specifically for small businesses or small business development in Dimbaza?
3. Are there any plans to incorporate or work with the existing small businesses in the revitalization of the Dimbaza Industrial Zone? What are the plans, if any?
4. Is the municipality aware of any challenges faced by small businesses in Dimbaza? How does the municipality plan on assisting in this regard?
5. Considering the buildings owned by ECDC for small businesses in Dimbaza, what are the plans, if any to refurbish those buildings to create employment and income opportunities for the community?
6. What are some of the challenges you face as a municipality in terms of community involvement when it comes to LED programmes?