

THE ROLE OF LOCAL GOVERNMENT IN SUPPORTING ENTREPRENEURSHIP AND SMME DEVELOPMENT: THE CASE OF MANGAUNG METROPOLITAN MUNICIPALITY

by

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Declaration

I declare that this extensive mini-dissertation hereby submitted for Masters Programme in Governance and Political Transformation at the University of Free State (Bloemfontein) is my own original work and has not been submitted by me or any other individual at this or any other university. I also declare that all reference materials, used for this study, have been properly acknowledged. I hereby cede copyright of this product in favour of the University of Free State.

Abstract

The objective of the empirical study was to understand what the municipality is doing to address challenges of economic growth and unemployment, increase in income levels of local citizens, enabling people to pay for services, and enabling local government to provide more and better services through entrepreneurship and SMME development.

The role of local government in promoting economic growth, job creation, alleviation of poverty and maintaining a reasonable standard of living for local residents and communities, is further expressed in a number of policy frameworks formulated by the South African government, positioning local government to become developmental and initiate local economic development policies aimed at addressing challenges of poverty, unemployment and inadequate resources

The Constitution of the Republic of South Africa, 1996 (Act 108 of 1996), empowers the municipality to “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”.

It is against this background that it was important to understand what the metropolitan municipality was doing to attain market and public confidence, identify factors the municipality identified as providing competitive advantage and exploiting them accordingly, identify instruments used to attract private sector investment and identify instruments used for enterprise support by Mangaung Metropolitan Municipality.

The most important findings of the study are:

- The Mangaung Metropolitan Municipality is building economic infrastructure by creating Agri Park in Thaba Nchu and rejuvenating its CBD's and providing commonage land to small scale farmers for animal grazing. The aim is to boost business so that economic growth is stimulated, public and private sector investments are attracted and employment is created. Furthermore, the study reveals that the Municipality offers no rebates to SMMEs on rates assessment

charges, sewerage charges, refuse removal charges, water consumption charges and electricity charges.

- The municipality is still to carry out a task describing its own competitive edge in relation to other local municipalities and metropolitan municipalities, to plug leaks in the its local economy, that cause money to fail to circulate in the its local economy but exits to other regional economies. Such a competitive advantage, once identified and described, may help bring about marketing strategy to promote and advertise the local Municipality as the place to be for industries, businesses and people with appropriate skills.
- The municipality aims at attracting public and public sector investments by bringing about the spatial integration and reducing the separateness of Botshabelo and Thaba Nchu from Bloemfontein through establishment of the industrial area on the N8 route between Bloemfontein and Botshabelo and Thaba Nchu. Secondly, by implementing Integrated Transport Network to improve Public Transport Network and building public transport shelters. Thirdly, by tarring and paving gravel roads, resurfacing and re-sealing existing roads and installing storm water drainage pipes.
- The municipality supports the SMMEs by contracting them to do waste removal and cleaning of CBDs and further establishes waste drop off areas to encourage and promote the re-use and recycling of waste products. It supports the SMMEs in the tourism sector by promoting Naval Hill, Maria Moroka Game Reserve, resorts, dams, cultural and historical sites, monuments and museums.

Keywords: Local Economic Development, Small Medium Micro Enterprises, Integrated Development Planning, economic development and job creation.

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Abbreviations

ADS	Agency Development and Support
ANC	African National Congress
CPF	Community Policing Forums
EPWP	Extended Public Works Programme
FDC	Free State Development Corporation
FSGDS	Free State Growth and Development Strategy
GDP	Gross Domestic Product
GEAR	Growth, Employment and Redistribution Strategy
IDC	Industrial Development Corporation
IDP	Integrated Development Plan
IFC	International Finance Corporation
IRI & NBI	International Republican Institute and National Business Initiative
LED	Local Economic Development
LGNF	Local Government Negotiation Forum
NDP	National Development Plan
NEF	National Empowerment Fund
NYDA	National Youth Development Agency
PGDS	Provincial Growth and Development Strategies
RDP	Reconstruction and Development Programme
SAIs	State-Allocated Investments
SAMAF	South African Micro Apex Fund

SDBIP	Service Delivery and Budget Implementation Plan
SDF	Spatial Development Framework
SEDA	Small Enterprise Development Agency
SEFA	Small Enterprise Finance Agency
SME	Small and Medium Enterprises
SMME	Small Medium Micro Enterprise
USA	United States of America

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1. CHAPTER 1: ACTUALITY AND MOTIVATION OF THE RESEARCH

1.1. ACTUALITY/ MOTIVATION

1.1.1. Structure, responsibilities and duties of Local Government

The Constitution of the Republic of South Africa, 1996 (Act 108 of 1996), Chapter seven, stipulates that “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”, and “the national or a provincial government may not compromise or impede a municipality’s ability or right to exercise its powers or perform its functions”. One of the objects of local government, according to the Constitution is to promote social and economic development in localities within which they operate. Moreover, one of the developmental duties of a municipality according to the Constitution is to “structure and manage its administration and budgeting and planning processes to give priority to the basic needs of the community and to promote the social and economic development of the community”.

According to the constitution a category A municipality is a “municipality that has exclusive municipal executive and legislative authority in its area”. In 2011, Mangaung Municipality (Bloemfontein, Thaba Nchu and Botshabelo) became one of the 8 Category A municipalities, i.e. Metropolitan Municipalities, set-up in large cities of over 500 000 voters (South African Government, 2011, [Web:] www.info.gov.za/aboutgovt/locgovt/categories.htm, [Accessed on 02 February and 11 March 2015]).

As poverty is experienced locally, local government has a burden of addressing this, as is the key site of delivery and development (South African Local Government Association, [Web:] <http://www.salga.org.za/pages/Municipalities/About-Municipalities>, [Accessed on 19 February 2015]).

Mayekiso, Taylor and Maphazi (2013:44) stipulate that municipalities are expected to create conducive environments to attract investment and also ensure that

infrastructure is in appropriate and satisfactory standards. Moreover, municipalities must create mechanisms to support and train communities in order to boost them economically through Expanded Public Works Programme (EPWP) or co-operatives, which is also one form of business ownership. According to the Municipal Systems Act, 2000 (Act 32 of 2000), the administration of a municipality must be responsive to the needs of local community. One, therefore, argues that it is the mandate of local government to support entrepreneurship and Small, Micro and Medium Enterprises' (SMMEs) development to boost the standard of living of its citizens.

1.1.2. Integrated Development Plan and Local Economic Development

The Municipal Systems Act, 2000 (Act 32 of 2000), gives guidance on how to plan and facilitate local development initiatives in an integrated manner (i.e. through also public participation, through ward committees, etc.). The Integrated Development Plan (IDP) is a master plan that assists municipalities to spend capital budgets and set their budget priorities over 5 years (Mayekiso, et al.: 2013: 44). Local Economic Development (LED) is, therefore, part of IDP. LED is local community taking control and responsibility for job creation and growth and economic well-being of their own locality (International Republican Institute (IRI) and National Business Initiative (NBI) for Growth, Development and Democracy: 1998: v). According to Gildenhuys (1997:13) municipalities perform economic welfare functions to create circumstances and amenities for the development of economic welfare and prosperity of the individuals in such municipalities. According to Berry, et al. (2002:1) South Africa has been promoting SMME driven economy since 1995 to realise economic growth, job creation and income re-distribution.

1.1.3. The significance of LED in local economy

Local authorities, by virtue of their powers and functions should focus their plans on stimulating economic growth and increase access of previously disadvantaged communities to economic opportunities through policies and by-laws they pass, programmes they support, tendering practices they follow, etc. LED can assist in

creating jobs, thus increasing income levels of individuals and households and this would enable people to pay for services, and the local government could be enabled to provide more and better services as a result of improved revenue base. Other areas of improvements that could be seen are: developing human resource capacities, the building of new institutions for sustainable economic development such as: abattoirs; and the promotion of linkages between developed and under-developed areas, (IRI and NBI; 1998:3).

The purpose of LED is to mobilise and unlock the local economic potential by bringing innovation to growth dimensions such as infrastructure, skills and SMMEs that are able to attract local and foreign investment. Moreover, LED should bring about local competitiveness, strengthen local institutions and ensure better inclusive and sustainable developmental outcomes (Mazibuko, 2012, [Web:] http://led.co.za/sites/default/files/cabinet/orgname-raw/document/2012/salgapresentation-role_of_lg_in_rural_developmentand_led.pdf. <http://southafrica.smetoolkit.org/sa/en/content/en/2625/Types-of-finance-available-for-SMEs>, [Accessed on 28 September 2013]).

1.1.4. The Significance of SMMEs in local economy

One of the ways to address the critical issue of unemployment and poverty alleviation is supporting SMMEs as their expansion boosts employment more than larger firms because SMMEs are labour intensive, so assisting SMMEs may represent poverty alleviation tools in developing countries (Ganbold, 2008:2-3).

According to The Banking Association South Africa, SMMEs are considered important contributors to the economic development of South Africa, to generate employment as “researchers estimate that, in South Africa, small and medium-sized enterprises make up 91% of formalised businesses, provide employment to about 60% of the labour force and total economic output accounts for roughly 34% of GDP” (The Banking Association South Africa, [Web:] <http://www.banking.org.za/index.php/our-industry/small-medium-enterprise>, [Accessed on 15 June 2013 and 01 September 2013]).

According to the National Credit Regulator, there is consensus among policy makers, economists, and business experts that small and medium enterprises (SMEs) are drivers of economic growth. A healthy SMME sector contributes prominently to the economy through creating more employment opportunities, generating higher production volumes, increasing exports and introducing innovation and entrepreneurship skills. The dynamic role of SMMEs in developing countries ensures them as engines through which the growth objectives of developing countries can be achieved (NCR, 2011:7).

According to Ganbold (2008:2-3), proponents of SMME support further base their arguments on the following:

- SMMEs enhance competition and entrepreneurship, therefore render external benefits on economy-wide efficiency, innovation and aggregate productivity growth, so, supporting SMMEs enables the country to exploit social benefits from greater competition and entrepreneurship; and
- SMMEs are generally more productive than larger firms but financial markets impede their development, so, broadening access to financial services to SMMEs can boost economic growth and development.

1.1.5. Disconnection between LED and SMME Development

Governments around the world have assumed the responsibility of providing and facilitating financial assistance to the SMME sector. A common strategy is the partial credit guarantee scheme. The scheme lowers the risk to the lender by guaranteeing repayment of the part of the loan in case of default by the loaner (Sharma and Gounder, 2012:53).

World bank allocates billions of dollars to support SMME programmes worldwide, more than \$10 billion over 1998-2002 and \$1,3 billion in 2003 alone was allocated (Sharma and Gounder, 2012 :53).

The failure rate among the SMMEs is high, it is estimated that between 70% and 80% of South African businesses fail within 05 years (Moodie in Van Eeden, et al.: 3) and millions of rand are lost (Barron in Van Eeden, et al.: 3). Studies have found the SMME sector to be considerably capital constrained, to the extent that inadequate financial resources may well be the primary cause of failure (Coleman in Sharma and Gounder: 2012).

According to Rogerson and Rogerson (2012), Local Economic Development (LED) is a critical challenge in Sub-Saharan Africa; in particular South Africa as there is a disconnection between LED and business development and there's a connection between enterprise development and LED, which must be developed. LED enjoys high profile in development planning in South Africa (Stoquart & Schubert in Rogerson and Rogerson 2012) but its developmental contributions are sub-optimal and disappointing (Marais and Botes in Rogerson and Rogerson: 2012).

According to Statistics South Africa, total population of Mangaung Metropolitan Municipality (known as Mangaung Metro) is 747 431, youth unemployment is 37,2% (26,9% of Mangaung Metro population) and unemployment is at 27% nationally. Mangaung economy is growing at an average growth rate of 1.47% (2001-2011) and the economy of Mangaung Municipality is mainly driven by services sector such as government and finance. Of the 292 971 economically active (employed or unemployed but looking for work) people in Mangaung, 27,7% are unemployed. 37, 2% of the 150 128 economically active youth (15 – 34 years) in the area are unemployed.

The study aims to investigate/enquire about the role of municipalities towards supporting entrepreneurship and SMME development using Mangaung Metropolitan Municipality as a case study. The objective is to understand what the Municipality is doing to address challenges of economic growth and unemployment, increase in income levels of local citizens, enabling people to pay for services, and enabling local government to provide more and better services through entrepreneurship and SMME development. As a result of improved revenue base, human resources capacities can be developed and new institutions for sustainable economic development can be built.

1.2. RESEARCH PROBLEM

The problem statement is the role of the municipalities in supporting entrepreneurship and SMME development with specific reference to Mangaung Metropolitan Municipality. Evidence presented above indicates that municipalities are empowered through statutes to support their local citizens and their development.

The International Finance Corporation (IFC), a World Bank Group (2010:14-16) notes that the following hinder the SMME development across different regions and countries:

- **physical infrastructure:** improvement in infrastructure may enhance the prospects of higher productivity gains and higher rates of return, facilitating access to range of financial services, e.g. electricity shortages may increase the costs of physical outreach for banks. On average 22% of small firms own generators, compared to 35% of medium sized firms and 51% of large firms, probably due to the substantial fixed costs of owning and operating a generator;
- **heavy regulation:** there are differences among countries in terms of time taken and costs incurred registering property and enforcing contracts. These costs are higher in developing countries contrary to developed countries. SMMEs often lack the capacities of larger firms to navigate through the complexities of regulatory and bureaucratic procedures in terms of costs of registering property. Countries with lower costs of registering property have large SMME sector in manufacturing. Mexico and Columbia simplified business registration procedures and that led to increases in the number of registered businesses;
- **heavy taxes:** 33% of SMMEs in low and middle income countries report tax rates as major obstacle to growth. Developing countries impose heavy taxes on the formal sector where informal sector is large to compensate for forgone tax revenue from informal businesses. As a result, the heavy imposition of taxes on the formal sector creates more informal sector business as no taxes are imposed in the informal sector as they do not pay taxes, allowing them to offer lower prices and thereby draw customers away from their formal sector competitors;

- **corruption:** 42% of firms in middle income countries perceive corruption a major obstacle, 34% in low income countries and 18% in high income countries. SMMEs are more likely to pay a bribe to get things done than larger firms, since SMMEs have fewer resources and less bargaining power. This may also mean that SMMEs don't comply with all regulations, making them more likely target for corrupt officials;
- **characteristics of SMMEs (capacities):** The small size implies that managers and owners perform a wide range of tasks than those in larger firms, since there is no room for specialisation. This requires diverse skills that SMMEs owners and managers may not have. Moreover, SMMEs may not take advantage of economies of scale related to accounting, business planning and market research to the same extent that large firms can. As a result; SMMEs under-invest in activities that may enhance their productivity and transparency.

As a result of the disconnection between LED and SMME development; Rogerson and Rogerson (2012:43) classify the four undermentioned strategies as critical for municipalities to bridge the gap brought by disconnection between the two already mentioned variables:

- to improve both market and public confidence in municipalities through good governance;
- to identify and exploit competitive advantage embedded in each municipality;
- to enhance business environment to attract private sector investment; and
- intensify enterprise support to their own localities.

The abovementioned strategies are to be used as instruments to measure the extent of local government towards supporting entrepreneurship and SMME development.

1.3. AIM AND OBJECTIVES OF THE STUDY

The study is descriptive in nature as it seeks to generate understanding and to highlight the assistance offered by the municipality to local citizens to propel entrepreneurship and SMME development. Using the abovementioned strategies as instruments for measurement, the study aims to:

- identify mechanisms through which market and public confidence is attained;
- identify factors the Margaung Metropolitan Municipality identified as providing competitive advantage and exploiting them accordingly;
- identify instruments used to attract private sector investment; and
- identify instruments used for enterprise support by Margaung Metropolitan Municipality in its own locality.

1.4. METHODOLOGY

Methodology is defined as methods, techniques and procedures employed in a research design to collect data, “as well as underlying principles and assumptions that underlie their use” (Babbie and Mouton, 2001:647).

The research tradition (meta-theory) employed by the study is phenomenological/ interpretive. In this tradition; the aim is to understand (not explain). According to the phenomenologist human beings are engaged in the/a process of making sense of their worlds or life, as a result they define, justify and rationalise their actions (Babbie and Mouton, 2001:28).

The qualitative research paradigm will be used in the study. Such a research paradigm takes its departure from insider perspective on social action and the goal of research is to describe and generate an understanding (Babbie and Mouton, 2001:53).

1.5. RESEARCH DESIGN/ LAYOUT

1.5.1. Research design

A research project takes place over a period of time and as a result, requires a clear plan or design to ensure high internal validity (Bless, et al: 2013:130-131). A research design is a structured framework of the study on how the research will be executed (Babbie and Mouton, 2001:104-105).

The researcher utilised Margaung Metropolitan Municipality as a case study.

1.5.2. Research layout

The layout of the research is as follows:

Chapter 1: ACTUALITY AND MOTIVATION OF THE RESEARCH

This Chapter provides actuality and motivation of the research, the problem statement, and aim of the study, methodology and overview of how the study will be carried out.

Chapter 2: SMME DEVELOPMENT SUPPORTED BY LOCAL GOVERNMENT

Chapter two reviews the available literature related to LED and entrepreneurship and SMME developmental support by local government.

Chapter 3: LEGAL AND REGULATORY MECHANISMS of SMMEs

In this chapter the focus is on the analysis of legal and regulatory mechanisms used in the functioning of SMMEs.

Chapter 4: METHODOLOGY, PROCEDURES AND PLANNING OF THE EMPIRICAL STUDY

Chapter four describes the methodology and procedures employed in the study, the research type and planning of the empirical study.

Chapter 5: FINDINGS OF THE EMPIRICAL STUDY

Chapter five summarizes the results of the empirical study.

Chapter 6: SUMMARY, RECOMMENDATIONS AND CONCLUSION

In this chapter a summary of the findings is provided, together with recommendations and conclusion. It summarizes the results of the study and outlines the researcher's conclusions and concludes the study.

1.6. CONCLUSION

The aim of the empirical is generating an understanding of what Marga Mangrove Metropolitan Municipality is doing to propel local economic development and support entrepreneurship and SMME development in order to generate necessary economic

growth, resulting in employment and better living conditions propelled by improved income levels of local citizens, enabling people to pay for services, increasing the revenue base of the municipality.

2. CHAPTER 2: LEGAL AND REGULATORY FRAMEWORK FOR SUPPORT FOR ENTREPRENEURSHIP AND SMME DEVELOPMENT BY LOCAL GOVERNMENT

2.1. INTRODUCTION

Economic inequities in local communities were created by legislation and policies of apartheid of spatial separation; influx control and managing own areas, limiting the extent to which affluent white authorities may render financial assistance to black communities. This necessitated the establishment of Local Government Negotiation Forum (LGNF) in the 1990s, alongside the national negotiating process, which led to the agreement of finance and services to write off debts and arrears of Black Local Authorities (Koma, 2012:53-54). Finally the Constitution of the Republic of South Africa made provision for the different spheres of local government and established and categorised local governments as category A, B and C municipalities.

The role of local government in promoting economic growth, job creation, alleviation of poverty and maintaining a reasonable standard of living for local residents and communities, is further expressed in a number of policy frameworks formulated by the South African government, positioning local government to become developmental and initiate local economic development policies aimed at addressing challenges of poverty, unemployment and inadequate resources. Moreover, local government has to consider available resources when planning and also consider the most cost-effective ways of implementing programmes aimed at economic growth, job creation and poverty alleviation to local communities (Mdhluli, 2013:15).

This chapter defines what LED is and examines the laws and regulations that seek to propel local government to promote Local Economic Development (LED) by stimulating local economies and creating jobs and bettering the living standards of local communities.

2.2. WHAT IS LOCAL ECONOMIC DEVELOPMENT (LED)?

LED is defined by International Republican Institute (IRI) and National Business Initiative (NBI) (1998: 2) as a process driven locally to identify, harness and employ resources to stimulate local economy and create job opportunities. It is not a single action programme; it's a collection of individual contributions of a large/broader portion of the community.

Economic development is defined by American Economic Development Council in Bingham & Mier (1993:vii) as a wealth creation process by putting human, financial, capital, physical and natural resources together to produce marketable goods and services. Moreover, local economic development arises out of efforts of community organising themselves and poverty eradication (anti-poverty) efforts.

De Visser (2005:10-13) uses the following components to define LED, namely:

- **Material element:** integral to the definition of LED is satisfaction of material needs, improvement of living standard and poverty reduction/alleviation.
- **Choice:** such development must be initiated and sustained by the people themselves.
- **Equity:** economic growth does not on its own bring about good life. It must be complemented by equity which is twofold, i.e. inter-social (redistribution), meaning development must benefit everyone and intergenerational (sustainable development), meaning development of one generation must not deny the development of the next generation.

According to De Visser, the definition of LED must comprise of improvement of material being, empowerment with choice and equity in the delivery of development.

Local governments face various challenges of unemployment, poverty and economic growth due to realities of urbanisation, technology globalisation and global competitive environment (Koma, 2013:129). The implementation of LED is therefore dependent upon local governments to work with their communities to better their living standards.

2.3. WHY LED? (LEGAL AND LEGISLATIVE FRAMEWORK)

IRI and NBI (1993:3) state the following as important for LED:

- To create job opportunities;
- To increase income levels enabling people to pay municipal services;
- To increase tax base of local authority;
- To enable local government to provide more improved services and facilities;
- To “build new institutions for sustainable economic development; and
- To promote linkages between developed and underdeveloped areas”.

The local government realises the above through policies and by-laws they pass, developmental programmes they support, tendering practices they promote and follow (IRI and NBI: 1993:3).

2.3.1. The Constitution of the Republic of South Africa Act, 1996 (Act 108 of 1996)

Section 152 and 153 of the Constitution of the Republic of South Africa, 1996 (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 safe and healthy environment; and*
- e) to encourage the involvement of communities and community organisations in the matters of local government.*

(2) A municipality must strive, within its financial and administrative capacity, to achieve objects set out in subsection (1).

Developmental duties of a 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”.*

The 2 above mentioned sections of the Constitution translate into four developmental principles, namely democracy, improving and sustaining living standard, healthy and safe environment and cooperative government (De Visser, 2005:70).

2.3.2. The Reconstruction and Development Programme (RDP)

The aim of RDP was to rebuild and restructure the economy, attending to issues of land restructuring, enhancing job opportunities, alleviating poverty and economic growth through contained fiscal spending and lowered taxes. RDP was replaced by Growth, Employment and Redistribution Strategy (GEAR) as the RDP was declared “unfit to adapt to the making of a national development planning system as it was wished by planners” (Ramaphiri, 2010:22).

2.3.3. Growth, Employment and Redistribution Strategy (GEAR)

GEAR reinforces economic growth by means of exports and investments and promotes redistribution through job creation and reallocating budgetary resources to ensure that people participate in local economic activities (Ramaphiri, 2010:22).

Nzimande and Sikhosana in Ramphiri (2010:23) render the following criticisms towards GEAR, namely:

- it is market orientated; assuming that all have equal access to markets;
- it relies on “trickle down approach to economy”, assuming that resource accumulation created by increased production and growth will benefit everybody”;

- GEAR proposes “social accord which reinforces wage restraint by the working class while middle and higher wage earners continue to increase their wage”.

The rising level of unemployment and economic growth decline led to the questioning of compatibility between GEAR, labour legislation, unemployment and poverty (Bhorat and Kanbur in Ramphiri, 2010: 23). Given these developments; LED is therefore the key in economic growth and creation of employment opportunities. This may be attained through support granted to promote entrepreneurship and SMME development.

2.3.4. The White Paper on Local Government, 9 March 1998

The White Paper on Local Government of 9 March 1998, translated section 152 and 153 of the Constitution as mentioned above into the term developmental local government and the new mandate was defined as local government whose central responsibility is to working with citizens and groups within the community to find sustainable ways to meet social, economic and material needs and improve the quality of their lives.

The White Paper mentioned above affords the following features to developmental local government:

- **Maximising social development and economic growth** i.e. stimulating local economies and creating jobs. Local governments collect revenue through rates and taxes, licence fees, etc. They employ thousands of labour force throughout the country. They also happen to be responsible (in many cases) for the price and quality of water, electricity and roads. Local governments control the land use and its development as they own substantial amounts of it. They may also expedite approval processes geared towards identifying and releasing land for development which could have a significant impact on LED. Local governments procure goods and services and pay wages and salaries, as a result, contribute towards economic activities propelled by the flow of money in the local economy. They set the agenda for local politics through the way they operate, e.g. their tendering practices. Through this they give strong signals to their own

residents and to prospective migrants or investors. They initiate new policies and programmes aimed at alleviating poverty and enhancing job creation; through assisting with the provision of support services to SMMEs and offer training to small businesses or community development organisations to foster economic growth, empowerment and transformation.

These functions give a great influence to local government over local economies to bring about equity through distribution of wealth by mobilising resources and capacities to produce goods and services. They therefore ought to have a clear vision for the local economy, and work in partnership with local businesses to maximise job creation and investment.

It is noted that local governments are not directly responsible for creating jobs, instead they provide conducive environments for stimulating overall economy and job creation.

- **Integrating and coordinating** developmental efforts of various role players such as different agencies, national and provincial departments, parastatals, trade unions, community groups and private sector institutions. Developmental local government provides a vision and leadership for all those who have a role to play in achieving local prosperity. Local governments must have ways to attract resources and investment from both the public and private sectors to meet developmental needs of their localities. One method for achieving greater coordination is through integrated development planning.

The Integrated Development Plan (IDP) is a master plan that assists municipalities to spend capital budgets and set their budget priorities over 5 years (Mayekiso, et al.: 2013:44).

- **Democratising development** by mobilising input of local communities. They must empower local communities and redistribute wealth through service subsidies aimed at the poor below cost so that low income households may improve their livelihoods in a manner affordable to them. The support to

community organisations in the form of finances, technical skills or training by local government may enhance the ability of the poor to take control of their own process of development.

- **Leading and learning:** trust relationships between stakeholders involved in local developmental initiatives must be forged and coordinated by municipalities. That way social capital is built to enable sustainable local solutions to problems of development.

2.3.5. The Municipal Structures Act, 1998 (Act 117 of 1998)

The Municipal Structures Act, 1998 (Act 117 of 1998) creates structures for involvement of community through wards in developmental initiatives of local government. It refers to establishment of Wards and Street Committees, Integrated Development Plan (IDP) Representatives Forum, Community Policing Forums (CPFs), etc. so as to ensure that broader representation of stakeholders when developmental proposals and initiatives are undertaken.

2.3.6. The Municipal Systems Act 32, 2000 (Act 32 of 2000)

Chapter five of The Municipal Systems Act, 2000 (Act 32 of 2000) stipulates that the council of a municipality must adopt a single and inclusive plan for the development of the municipality. Also integrating, coordinating and taking into account all proposals from broader representation of stakeholders for the development of its locality and align its implementation plan to the policy framework and general basis on which the annual review of the budget should be based.

2.3.7. Municipal Finance Management Act, 2003 (Act 56 of 2003)

Municipal Finance Management Act 56, 2003 (Act 56 of 2003) in section 21 (1) stipulates that the mayor of a municipality must coordinate the process of preparing the annual budget and review of a master plan called IDP, that assists municipalities to spend capital budgets and set their budget priorities over 5 years. Budget related policies such as Tariff Policy and Rates and Taxes must also be reviewed and changes adopted together with the annual budget so that developmental initiatives are properly attended to.

The act further emphasises that it is the responsibility of local government to identify; avoid and resolve its own financial problems, with no obligation from national and provincial governments to rescue municipalities that fail to raise sufficient “revenue commensurate with their fiscal capacity and tax base” (De Vries, M.S., Reddy P.S., and Shamsul Haque, M., 2008:59).

2.3.8. Spatial Development Framework (SDF)

The Spatial Development Framework of a municipality must reflect the objectives of the municipality with regards to its spatial form, i.e. desired patterns of land use in respect of location, nature of development and environmental impact assessment of such proposed development. It must be a five year plan and further indicate the desired development and growth patterns of the available space for further ten to twenty years (Mdhluli, 2013:20).

2.3.9. Free State Growth and Development Strategy (FSGDS)

The FSGDS is “a blueprint for the economic development of the province, i.e. a type of business plan for optimised development of the Free State”. The IDPs of

municipalities must align themselves with the Provincial Growth and Development Strategies (PGDS's) such as FSGDS (Dannhauser, 2006).

FSGDS provides guidance to the Provincial Executive Council regarding budgetary framework and implementation and encourages coordination between three spheres of government, namely, national, provincial and local government and private sector investment (Mdhuli, 2013:21).

2.3.10. Development Facilitation Act, 2005 (Act 67 of 2005)

According to Bowler (Polity, [Web:] <http://www.polity.org.za/article/development-facilitation-act-no-67-of-1995-1995-01-01>, [Accessed on 15 March 2015]), the Development Facilitation Act, 2005 (Act 67 of 2005) came into being to introduce means to facilitate and accelerate land reform programme, to establish a Development and Planning Commission aimed at advising government on land reform policy, to provide land reform tribunals aimed at resolving conflicts in land development projects, to generate land development objectives, to generate standard procedures for land development and to also promote the aspect of security of tenure.

2.3.11. National Development Plan (NDP) 2030, 2013

The National Development Plan is a long term perspective of South African government, defining the desired destination of eliminating poverty and reducing inequality by 2030. The government aims to attain poverty elimination and reducing inequality by mobilising the energies of the citizens of South Africa, growing an inclusive economy, building capabilities, enhancing capacity of the state and promoting leadership and partnerships throughout the society.

The plan is to be implemented in phases over the remaining 15 years to 2030, namely:

- aligning the long term plans of government departments with the NDP and to identify areas where policy change is required to ensure consistency and coherence;

- government will engage with all sectors to understand how they are contributing to implementation, and particularly to identify any obstacles to them fulfilling their role effectively as NDP is a plan for the whole country;
- the budget allocation will be shaped by the plan over the next remaining 15 years and entails the need to strengthen the capacity of local government to meet its developmental role.

Government, including Premiers and Mayors are expected to be: "...the active champions of the Plan, with their offices being the catalytic agencies to drive implementation at provincial and municipal levels (South African Government, [Web:] www.gov.za/issues/national-development-plan-2030, [Accessed on 15 March 2015]).

2.4. THE EVOLUTION OF DEVELOPMENTAL LOCAL GOVERNMENT, STIMULATING THE ECONOMY AND JOB CREATION

Markets and the private sector are increasingly recognised as important role players in economic growth and poverty eradication. Markets depend on private sector players for producing goods and services and the state for creating rules, institutions and conducive environment for them to fare well (Lindahl, 2005:14-15).

The poor depend on employment in both formal and informal sectors. The way to eradicating poverty is determined by the ability of SMMEs to absorb them (Lindahl, 2005:23).

The reasons SMMEs would choose to operate in a certain locality within boundaries of certain local governments were historically determined by transportation, access to markets, access to material inputs and the availability and cost of labour. As the economies became more complex and technology orientated, the list has lengthened to include technical expertise of labour force, local rates and taxes charged by local government, local business climate and factors influencing quality of life. Accordingly, if business people state that they are likely to be located in low rates and taxes areas,

public officials may be encouraged to reduce rates and taxes (Bingham & Mier, 1993:3).

Mier & Bingham (1993:81-84) mention four theories significant to understanding local economic development, namely:

- **Market based theories of economic development-** The conditions of individual locality are influenced by firms and individuals maximising utility (satisfaction), based on differing factor prices and their own preferences. An example provided was that the decline in inner-city neighbourhoods (in America in the 70s) was influenced by the desire to live in suburbs and the desire for newer facilities. As a result, older buildings became obsolete and dilapidated. As a result of such conditions, rents go down and maintenance becomes a challenge. Sufficient economic growth may help revitalise some localities depending on location and physical characteristics. Localities may revitalise themselves and gain competitive advantage by improving business conditions, marketing themselves (neighbourhoods) and providing incentives of different kinds.
- **Marxian critiques-** Here, conditions of a locality are influenced by class structure of its residents in terms of consumption and division of labour. Areas are poor because of exploitation and providing reservoir of workers and land. This may also provide basis for class struggle.
- **Political science theories-** focusing on interest groups, political power and institutions. Here, local government takes a centre stage in growth and development and works together with private businesses. As a result of local government's central involvement in pushing for growth and economic development, the political arena becomes an increasingly contested terrain.
- **Sociological theories** of the community. This is where the community is a network of like-minded people within a geographic component. For some this like-mindedness transcends spatial boundaries such as life-cycle stage, gender, race, income, etc.

According to Mier & Bingham (1993:81-86), these theories consider neighbourhoods as accidental results of market process and tend to ignore external economic

constraints and therefore, lack comprehensiveness. Moreover, a good theory about local economic development has to include both internal economic dynamics of a locality and linkages between neighbourhood and larger economy. Furthermore, they argue that understanding of socio-political conditions is required to gain clarity on the basis for intervention at local level, how, when and where the intervention can be effective.

The term of LED is relatively new but is a long history of developmental initiatives undertaken by local authorities dating back to the 19th century in the US and the 1920's and 1930's in Western Europe. As apartheid neared its end in South Africa, local governments introduced LED as part of development of policy for urban reconstruction. Local economic development has gone through various developmental phases, namely: agricultural investment phase (1960's to 1980's); multi-sectoral investment attraction phase (1980's-1990's), collective business phase where partnerships are forged for socio-economic development purposes (1990's to the present), (Koma, 2012:60-61).

Moreover, Koma (2012:60) summarizes the local developmental phases as follows:

Phase	Focus	Tools
1960's to 1980's	Development of hard infrastructure and attraction of foreign investment	Employment of grants, subsidised loans for investment by manufactures, tax relief
1980's to 1990's	Individual businesses, growing existing businesses and inward investment to specific sectors and locations.	Incubators, support to small and medium sized organisations (technical and soft) and investment in soft and hard infrastructure.
1990's to the present	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
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According to the NDP, local government is also to be a catalyst in advancing a developmental agenda contained in it. LED is central to ensuring that the goals of NDP are attained.

2.5. CONCLUSION

The chapter mainly dealt with the laws and regulations with regards to promoting Local Economic Development by local government and the significance of aligning developmental initiatives by different spheres of government. Such laws and regulations are:

- Constitution of the Republic of South Africa, 1996 (Act 108 of 1996).
- The Reconstruction and Development Programme (RDP).
- Growth, Employment and Redistribution Strategy (GEAR).
- The White Paper on Local Government, 9 March 1998.
- Municipal Finance Management Act, 2003 (Act 56 of 2003).
- Municipal Structures Act, 1998 (Act 117 of 1998).
- Municipal Systems Act, 2000 (Act 32 of 2000).
- Spatial Development Framework.
- Free State Growth and Development Strategy.
- Development Facilitation Act 67, 2005 (Act 67 of 2005).
- National Development Plan 2030, 2013.

The chapter further dealt with the significance of market and private investors/ business as role players in the LED. The evolutionary theory of LED is also covered.

Chapter three will focus on the legal and regulatory mechanisms used in the functioning of SMMEs. This chapter will further highlight the challenges faced by SMMEs.

3. CHAPTER 3: LEGAL AND REGULATORY MECHANISMS OF SMMEs

3.1. INTRODUCTION

Since the advent of democracy in South Africa, the country has been faced with the challenges of re-integration into the global markets, achieving economic growth, job creation and income redistribution, uplifting the standard of living of its citizens, while also meeting the expectations of citizens towards a democratic order. As a result, Small Medium Micro Enterprises (SMME) driven economy has been promoted since 1995 (Berry, Von Blottnitz, Cassim, Kesper, Rajaratnam and Van Seventer, 2002:1).

This chapter deals with literature about legal and regulatory mechanism of the SMMEs, focusing on the definition of SMMEs so that it is understood what they are, legal and legislative parameters within which they ought to operate, challenges they face so that the need for their support by local government is understood and interventions by government to help ease the challenges.

As mentioned in chapter two, the constitutional objective and developmental roles of local government is to promote social and economic development of citizens within its locality. The low income levels and unemployment are indicators of poverty (Ramphiri, 2010:14-15). The support towards entrepreneurship and SMME development by local government is, therefore, necessary as SMMEs employ more people as they are often labour intensive, leading to increased income redistribution and poverty reduction, reduction of government's social spending on grants and reduction of crime level (Ntiso, 2010:1). SMMEs are the backbone of any developed economy (Fink, Loidl and Lang, 2013:7).

3.2. DEFINITION OF SMME

The term SMME covers a wide range of definitions and measures. Different organisations and countries set their own guidelines for defining SMMEs.

Berry, et al. (2002:1) state that SMMEs are a broad range of firms from traditional businesses employing over hundred people, to survivalists from the poor layers of the population. In South Africa, the upper end of range of SMMEs is comparable to SMMEs of developed countries; while the majority who are black survivalist firms are concentrated at the very low end.

Egypt defines SMMEs as having more than 5 and fewer than 50 employees, Vietnam considers SMMEs to have between 10 and 300 employees. The World Bank defines SMMEs as those enterprises with a maximum of 300 employees, \$15 million in annual revenue, and \$15 million in assets. The Inter-American Development Bank, meanwhile, describes SMMEs as having a maximum of 100 employees and less than \$3 million in revenue. The European Union definition states that the category of micro, small and medium-sized enterprises is made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding €50 million, and/or an annual balance sheet total not exceeding €43 million. Small and medium enterprises are thus defined as firms with 10 to 250 employees with more than €10 million turnover or annual balance sheet total (Dalberg, 2011:6).

In the United States and Canada, SMMEs include firms with less than 500 employees. In Japan SMMEs are defined as firms with employees of 300 or less and capital size of 300 million yen or less in manufacturing, a firm with employees of 100 or less and capital size of 100 million yen or less in wholesale and a firm with employees of 50-100 or less and capital size of 50 million yen in retail and service sector (Ganbold, 2008:2).

The South African National Small Business Act, 1996 (Act 102 of 1996), defines a small business as:

“A separate and distinct business entity, including co-operative enterprises and non-governmental organisations, managed by one owner or more which, including its branches or subsidiaries, if any, is predominantly carried on in any sector or sub-sector of the economy and which can be classified as micro-, a very small, a small or a medium enterprise”.

The Act classifies the businesses as micro, very small, small, and medium according to a mix of criteria such as sector, turnover, asset base, and number of employees, for example (the Act lists 16 economic sectors):

Sector or subsectors in accordance with the Standard Industrial Classification	Size or class	Total full-time equivalent of paid employees Less than	Total annual turnover Less than	Total gross asset value (fixed property excluded) Less than
1. Agriculture	Medium	120	R 4m	R 4m
	Small	50	R 2m	R 2 m
	Very small	10	R 0.4 m	R 0.4 m
	Micro	5	R 0.15 m	R 0.10 m
2. Mining and Quarrying	Medium	200	R30 m	R18 m
	Small	50	R 750 m	R 450 m
	Very small	20	R 300 m	R 180 m
	Micro	5	R 015 m	R 010 m
3. Manufacturing	Medium	200	R40 m	R15m
	Small	50	R10m	R 3.75 m
	Very small	20	R 4m	R 1.50 m
	Micro	5	R 0.15 m	R 0.10 m
4. Electricity, Gas and Water	Medium	200	R40m	R15 m
	Small	50	R10 m	R 3.75 m
	Very small	20	R 4m	R 1.50 m
	Micro	5	R 0.15 m	R 0.10 m
5. Construction	Medium	200	R20m	R 4m
	Small	50	R 5m	R 1m
	Very small	20	R 2m	R 0.40 m
	Micro	5	R 0.15 m	R 0.10 m
6. Retail and Motor Trade and Repair Services	Medium	120	R30m	R 5 m
	Small	50	R15m	R 2.50 m
	Very small	10	R 3m	R 0.50 m
	Micro	5	R 0.15 m	R 0.10 m

7. Wholesale Trade	Medium	120	R50m	R 8 m
	Small	50	R25m	R 4m
	Very small	10	R 5m	R 0.50 m
	Micro	5	R 0.15 m	R 0.10 m
8. Commercial Agents and Allied Services	Medium	120	R50m	R 8m
	Small	50	R25 m	R 4m
	Very small	10	R 5.00 m	R 0.50 m
	Micro	5	R 0.15 m	R 0.10 m
9. Catering	Medium	120	R10.00 m	R 2.00 m
	Small	50	R 5.00 m	R 1.00 m
	Very small	10	R 1.00 m	R 0.20 m
	Micro	5	R 0.15 m	R 0.10 m
10. Transport	Medium	120	R20.00 m	R 5.00 m
	Small	50	R10.00 m	R 2.50 m
	Very small	10	R 2.00 m	R 0.50 m
	Micro	5	R 0.15 m	R 0.10 m
11. Storage	Medium	120	R20.00 m	R 5.00 m
	Small	50	R10.00 m	R 2.50 m
	Very small	10	R 2.00 m	R 0.50 m
	Micro	5	R 0.15 m	R 0.10 m
12. Communications	Medium	120	R20m	R 5m
	Small	50	R10m	R 2.50 m
	Very small	10	R 2m	R 0.50 m
	Micro	5	R 0.15 m	R 0.10 m
13. Finance	Medium	120	R20m	R 4m
	Small	50	R10m	R 2 m
	Very small	10	R 2m	R 0.40 m
	Micro	5	R 0.15 m	R 0.10 m
14. Business Services	Medium	120	R20m	R 4m
	Small	50	R10m	R 2m
	Very small	10	R 2m	R 0.40 m
	Micro	5	R 0.15 m	R 0.10 m

15. Community	Medium	120	R10m	R 5m
	Small	50	R 5m	R 2.50 m
	Very small	10	R 1m	R 0.50 m
	Micro	5	R 0.15 m	R 0.10 m
16. Social and Personal Services	Medium	120	R10m	R 5m
	Small	50	R 5m	R 2.50 m
	Very small	10	R 1m	R 0.50 m
	Micro	5	R 0.15 m	R 0.10 m

3.3. THE SIGNIFICANCE OF SMMEs IN THE ECONOMY

The significance of the SMMEs in the economy may be viewed from different angles, such as employment and poverty eradication, economic growth, innovation and efficiency.

3.3.1. Employment and poverty eradication

Unemployment, poverty and equality are South Africa's key development challenges; as a result, policies have been developed and implemented to tackle these challenges. Amongst such implemented policies to increase employment are education, skills, training promotion, expanded public works programme, procurement, infrastructure investment, Broad Based Black Economic Empowerment and SMME promotion and development (Amra; Hlatshwayo and McMillan, 2013:1-2).

SMMEs contribute greatly to economic development and growth in both developed and developing economies:

- in the United States of America (USA) SMMEs are known to be creating jobs and assisting the country to gain its competitive advantage,
- in Thailand SMMEs employ 87% of manufacturing sector,
- in Zimbabwe 15% are employed by SMME in the manufacturing sector of the economy,

- in Ghana SMMEs employ 85% of manufacturing sector's labour force and SMMEs constitute 80% of the private sector,
- in Uganda 58% of Gross Domestic Product (GDP) was contributed by SMMEs in 2002,
- in South Africa SMMEs contribute 30% towards GDP and employs 70% of the total labour force (Ntiso, 2010:1).
- SMMEs employ more people as they are often labour intensive, leading to increased income redistribution and poverty reduction, reduction of government's social spending of grants and reduction of crime level (Ntiso, 2010:1).

In South Africa, SMMEs also provide 60% of jobs, and contribute more than 40% to the country's total remuneration, and 8 out of 10 new jobs created in south Africa are in SMMEs according to National Treasury Research on SMMEs (2008). According to the World Bank, SMMEs are critical for poverty reduction, as they are mainly located outside the cities and provide employment opportunities to mostly local people, which reduce poverty and encourage economic activity by local citizens.

SMMEs are identified as an important factor by the National Development Plan (NDP) and by outcome 4 of government's 2014-19 medium term strategic framework (decent employment through inclusive economic growth) in achieving the job creation targets by 2030.

According to Nhlanhla Nene, then Deputy Minister of Finance, in his speech for March 2014, SMMEs are labour intensive more than larger firms, therefore, create more employment for locals. They are able to survive through adverse economic conditions.

3.3.2. Economic growth

By 2008, there were 2.8 million SMMEs in South Africa contributing 52%-57% of GDP, according to National Treasury Research on SMMEs (2008). They manufacture goods and provide services to consumers and other enterprises, including offering goods and

services to foreign clients, thereby contributing to export performance (Berry, et al., 2002:4).

The correct conducive environment required for small business is to realise its potential of transforming South Africa's economy. The Minister of Small Business Development, Ms Lindiwe Zulu, said on the 21 October 2014, that according to “Global Entrepreneurship Monitor’s research small businesses created more than 50 percent of all employment opportunities in South Africa, while contributing more than 45 percent of the country’s GDP” (Industrial Development Corporation, 2014, [Web:] <http://www.idc.co.za/home/media-room/articles/738-small-business,-huge-potential-for-south-africa.html>, [Accessed on 15 June 2015]).

Again, South Africa’s National Development Plan, envisages that new jobs, 90% of them, will be created by SMMEs by 2030 (Industrial Development Corporation, 2014, [Web:] <http://www.idc.co.za/home/media-room/articles/738-small-business,-huge-potential-for-south-africa.html>, [Accessed on 21 July 2015]).

3.3.3. Innovation and Efficiency

To innovate is to exploit change and turn it into competitive advantage (Agreement South Africa, 1999:3). SMMEs are essential for a competitive and efficient market as they approach the competitive game differently from the big corporations, because their quick and flexible approach to competition drives efficiency and productivity.

Opportunities to innovation and SMME improved performance (efficiency) are found in all functions of the enterprise, that is:

- marketing as SMMEs device means to attract customers and promote its product and services,
- quality assurance as SMMEs may introduce quality control systems or improve on existing ones,
- technology as mechanical and electrical innovations bring about increased productivity,

- diversification as broadening the range of products and services that SMMEs offer may increase profitability,
- customer service as promptness, reliability and courtesy bring about new customers and maintain existing ones,
- skills enhancement as lack of skills may hinder SMME development. New skills enhance SMME development,
- enhancing credibility as SMMEs do not often have the track records to successfully penetrate new markets. Registrations/ accreditations with relevant bodies such as National Home Builders Registration Council, Construction Industry Development Board, among others, may enhance credibility,
- the SMMEs form associations with others who live and operate in the same area to gain market share and leverage financial resources, human resources and machinery and equipment,
- Governmental and Non-governmental organisations offer various forms of support to SMMEs. The SMMEs may assess such support to improve on being innovative and efficient (Agreement South Africa, 1999:5).

3.4. CHALLENGES FACED BY SMMEs

The contributions by SMMEs to employment and economic growth in South Africa are low due to apartheid legacy of racial distortions in education, income and economic empowerment. As a result of the above mentioned legacy, the economy is dualistic characterised by a modern, highly productive economy and also a slow productivity, informal sector type of economy, with little interaction between them and division along racial lines, whites being more in modern economy and blacks being more in informal economy. Secondly, a transitional phase from apartheid South Africa to democratic South Africa was marked by the high degree of violence and crime and political uncertainty which impacted adversely on local and foreign direct investment in the modern sector (Berry, et al., 2002:5).

The Banking Association South Africa (2012) identifies a number of challenges faced by SMMEs, namely:

- Crime and corruption.
- Appropriate technology and low production capacity (includes access to electricity).
- A lack of management skills and inadequate skilled labour.
- Finance and obtaining credit.
- Access to markets and developing relationships with customers.
- Recognition by large companies and government bureaucracy.
- Knowledge and support for the role that they play in economic development.
- Regulatory compliance.

As already mentioned in chapter one, the International Finance Corporation (IFC), a World Bank Group (2010:14-16) stipulates that the following factors also hinder the SMME development across different regions and countries, namely, physical infrastructure, heavy regulation, heavy taxes, corruption and capacities of SMMEs.

3.5. GOVERNMENT INTERVENTION

The failure rate among the SMMEs is high. It is estimated that between 70% and 80% of South African businesses fall within 0-5 years (Moodie: 2003 in Van Eeden, Rakhadu, Sharp and Viviers, 2000:3) and millions of rands are lost (Barron in Van Eeden, et al: 2000:1). In Great Britain, access to finance was identified as primary reason for the failure of small businesses due to lack of knowledge on the part of SMMEs about variety of funding options available to them (Mutezo, 2005:6). Ntiso (2010:19) names finance, gender issues, business skills and financial literacy as factors constraining the development of SMMEs.

As a result, governments around the world have assumed the responsibility of assisting SMMEs and the World Bank allocates billions of dollars to support SMME programmes worldwide, more than \$10 billion over 1998-2002 and 1,3 billion in 2003 alone (Sharma and Gounder, 2012: 53).

In South Africa the following were established to assist SMMEs:

3.5.1. National Ministry/ Department of Small Business Development

The Small Business Development ministry came into being after the 2014 South African general elections. According to its website (<http://www.dsbd.gov.za>), the department exists primarily for the following reasons:

- **Economic growth:** to facilitate the development and growth of SMMEs to contribute to economic growth and job creation through public and private sector procurement.
- **Partnerships:** to facilitate cooperation with spheres of government and private sector to benefit the growth of SMMEs, with regards to access to finance and markets in a sustainable manner.
- **Regulations:** to create conducive environment for SMMEs to thrive and to support the goals of the National Development Plan which aims to ensure that that 90% of jobs will be created by SMMEs
- **Radical transformation:** to transform the economy such that there is an increased participation of SMMEs in the mainstream economy.

Furthermore, the department's mandate is informed by a legislative framework such as:

- The National Small Business Act (1996) as amended;
- the Cooperatives Act (2005); and
- the Cooperatives Amendment Act (2013).

According to the Department of Treasury, the Department of Small Business Development has three programmes through which it operates:

- **Administration**, whose purpose is to provide leadership and management and support function to the department;
- **Cooperatives support and development**, whose aim is to create a new model to support the establishment and development of cooperatives as guided by the Cooperatives Amendment Act of 2013, to bring about customized interventions to cooperatives in order to increase their sustainability and economic contribution towards increased employment, poverty reduction and economic growth;

- **Enterprise Development and Entrepreneurship**, which aims to provide customised support to SMMEs in order to increase their contribution towards the Gross Domestic Product (GDP), sustainable livelihoods, job creation and participation in the main stream economy. The department aims to achieve these by implementing the Youth Black Business Supplier Development Programme to provide financial support to 900 businesses over the medium term, secondly by implementing Global Exporter Passport Programme to accelerate SMME participation in the export market by 2017/ 18 financial year, thirdly by providing financial incentives to the SMMEs through Black Business Supplier Development Programme and finally by training 1500 women entrepreneurs through what is called Bavumile Skills Development Programme by 2017/18 financial year.

3.5.2. Small Enterprise Development Agency

The Small Enterprise Development Agency (Seda) is an agency of the Department of Small Business Development, previously, an agency of Department Trade and Industry (the dti). Seda was established in December 2004, through the National Small Business Amendment Act, 2004 (Act 29 of 2004).

It is mandated to implement government's small business strategy; design and implement a standard and common national delivery network for small enterprise development; and integrate government-funded small enterprise support agencies across all tiers of government (www.seda.org.za).

Seda strives to grow the SMME sector and help increase its contribution to sustainable and equitable social and economic development, employment and wealth creation by:

- providing business advice, consultancy, training and mentoring,
- assisting SMMEs with technology through the Technology Programme, which consist of Technology Transfer Fund,
- providing business incubation through incubation centres; and

assisting in the development of rural enterprises and cooperatives through the cooperatives and Community Private Partnerships Programme also known as CPPP (Small Enterprise Development Agency, [Web:] <http://www.seda.org.za>, [Accessed on 27 May 2015]).

3.5.3. Small Enterprise Finance Agency

Small Enterprise Finance Agency (SOF) Ltd, commonly known as Sefa, came into being in April 2012, through a merger of South African Micro Apex Fund (Samaf), Khula Enterprise Finance Ltd and the small business activities of IDC. It renders wholesale and retail finance to SMMEs in South Africa (Small Enterprise Finance Agency. [Web:] <http://www.sefa.org.za> [Accessed on 30 June 2015]).

Sefa's mandate is to foster the establishment, survival and growth of SMMEs and contribute towards poverty alleviation and job creation (Small Enterprise Finance Agency. [Web:] <http://www.sefa.org.za> [Accessed on 30 June 2015]).

Sefa provides the following services:

- **wholesale and direct lending**, through this programme it targets survivalists, micro, small and medium businesses (SMMEs) with loans between R 500 and R 5 million.
- **post disbursement/ loan support** to SMMEs which is designed to provide business support services to enterprises to ensure their viability and sustainability during the life cycle of the business from early stage, as well as the decline phase when the business may be in need of turnaround strategies.
- **credit guarantees** to lenders of SMMEs, i.e. commercial banks and other financial institutions for.
- **institutional strengthening** of SMMEs Financial Intermediaries focusing on business processes such as back office management, asset and liability management, risk management, accounting and internal audit, Human Resource systems and Information Technology system. It further does competency gaps analysis and offers management and leadership training to up-skill business owners.

- creates **strategic partnerships** with a range of institutions for sustainable SMMEs development and support;
- monitors the **effectiveness and impact** of its financing, credit guarantee and capacity development initiatives
- a **Land Reform Facility**, capitalised by the Department of Rural Development and Land Reform, to broaden the control, management and ownership of black South African citizens in land-based high-value income generating assets in the agricultural sector (Small Enterprise Finance Agency, [Web:] <http://www.sefa.org.za> [Accessed on 30 June 2015]).

3.5.4. National Empowerment Fund

The National Empowerment Fund (NEF) is established in terms of National Empowerment Fund Act, 1998 (Act 105 of 1998), and provides financial and non-financial support to SMMEs. The financial support involves loans to SMMEs meant to ensure that the real economic empowerment that helps create jobs and eradicate poverty without deviating from sound economic principles (<http://www.nefcorp.co.za>).

The non-financial support services involve post disbursement support in the form of regular portfolio and SMME monitoring, mentorship and technical assistance, legal compliance, knowledge management and information technology system development, amongst others (National Empowerment Fund, [Web:] <http://www.nefcorp.co.za>, [Accessed on 30 June 2015]).

The NEF realizes its mandate in three ways:

1. **Asset Management:** it fosters and encourages a savings culture creating saving products black people at retail level through its Assets Management Division.
2. **Fund Management:** it offers financial and non-financial solutions and support to black owned businesses in different economic sectors, for start-up, expansion and equity injection purposes.

3. Strategic Projects Fund: it offers venture capital finance and equity finance in identified by the South African government as key drivers to the economic growth

3.5.5. Industrial Development Corporation

The Industrial Development Corporation of South Africa Limited (IDC) came into being in 1940 through an Act of Parliament (Industrial Development Corporation Act, 1940 (Act 22 of 1940) and was mandated to develop domestic industrial capacity, specifically in manufactured goods, as a response to the disrupted trade between Europe and South Africa during World War 2. The mandate was expanded in the 1990s, to include investment in the rest of Africa (<http://www.idc.co.za>).

The IDC grants loans to SMMEs and survives through income from loan and equity investments and exits from mature investments. It provides a range of financial products to SMMEs, namely: commercial loans, equity, quasi-equity, bridging finance, shareware housing, guarantees, suspense sales, wholesale finance, export finance and import finance.

The IDC has the Agency Development and Support Department (ADS) responsible for advancing and leveraging the economic development and job creation through the establishment of development agencies.

These agencies emphasise and focus is on the following:

- The development of the economic potential of a locality by enhancing and building on the competitive strengths of a locality's economy and assets,
- leveraging public and private resources (funds, skills, equipment, etc.) for economic development opportunities,
- encouraging innovative and entrepreneurial thinking and activity to support economic growth, and
- managing the use of public land, meant for private projects in an efficient manner.

The IDC has established and supported 30 agencies in South Africa, such as Mandela Bay Development Agency, Hibiscus Coast Development Agency and Blue Crane Development Agency, amongst others (South African LED Network, [Web:] <http://led.co.za/organisation/industrial-development-corporation-idc>, [Accessed on 21 July 2015])

3.5.6. National Youth Development Agency

The National Youth Development Agency (NYDA) was established by an Act of parliament, 2008 (Act 54 of 2008) and offers capacity building programmes and grant funding from R 1000, 00 to R 100 000, 00 to SMMEs. South African youth represent 42% of total population, i.e. youth between 14 to 35 years of age. As a result South African youth bear largely, the negative effects of socio-economic challenges of poverty, inequality, joblessness and poor health (National Youth Development Agency, [Web:] <http://www.nyda.gov.za>, [Accessed on 06 July 2015]).

Moreover, the NYDA develops and implements initiatives aimed at improving the lives and opportunities available to youth. These initiatives are clustered as follows:

- **At an individual level (Micro level)**, information-provision, skills development and training, career guidance services, mentorship, entrepreneurial development and support, sport involvement and health awareness programmes are offered to the South African youth.
- **At a Community level (Meso Level)**, the NYDA encourages young people to be involved in community development activities, dialogues, social cohesion activities and national youth service programmes.
- **At a Provincial and National level (Macro Level)**, the NYDA facilitates the youth participation in national policy inputs (National Youth Development Agency, [Web] <http://www.nyda.gov.za>, [Accessed on 06 July 2015]).

3.5.7. Free State Development Corporation

The Free State Development Corporation (FDC) is an agency responsible for SMME support and development within the Free State. It does export and investment promotion by attracting foreign and local direct investments to the Free State province. It also owns premises which it lets out to SMMEs at affordable rates. Finally, it offers retail financing to SMMEs in the form of loans (Free State Development Corporation. [Web:] <http://www.fdc.co.za>, [Accessed on 06 July 2015]).

3.6. CONCLUSION

Local governments around the world face challenges of inequality, unemployment, growing poverty levels and limited supply of basic services to local communities (Horn & Lloyd in Koma, 2013:129). In developing countries including South Africa, economies are characterised by market failures, market imperfections, inefficiency, risk and a lack of an entrepreneurial culture. As a result a lot of pressure is put on governments and they bear an enormous responsibility in as far as job creation, poverty alleviation and economic growth is concerned (Koma, 2013:129).

The innovative and viable LED policy strategies by local governments, supported by SMME development agencies as mentioned above, are necessary for the development and support of entrepreneurship and SMMEs with a goal of addressing societal problems manifested through high unemployment, poverty levels and lack of access to basic services.

The LED policy must attend to proper use of available land, established and well maintained transport infrastructure, proper waste disposal facilities and availability of recreational facilities to attract private business investments that will help eradicate unemployment and contribute to economic growth.

4. CHAPTER 4: METHODOLOGY, PROCEDURES AND PLANNING OF THE EMPIRICAL STUDY

4.1 INTRODUCTION

The main area of focus of the study is to describe the role of Mangaung Metropolitan Municipality in supporting entrepreneurship and SMME development by looking at the mechanisms by which market and public confidence is achieved, competitive advantage(s) of the municipality, exploitation of these advantage(s), instruments employed to attract private sector investment and enterprise support. Evidence presented, as shown in previous chapters, shows that local municipalities are empowered through statutes to support their local citizens and their development.

The local government plays a decisive role in the creation of conducive environment where economic and social conditions of the locality are met and addressed through employment creating opportunities, and state and private sector's investment may only be effective where competitive advantages of an area are known and exploited (RSA: DPLG, 2006:7).

In this chapter, the methodology and procedures employed in the study, the research type and planning of the empirical study are described.

4.2 METHODOLOGY AND RESEARCH TRADITION

The study employs qualitative research methodology. The qualitative researcher studies human actions "from the perspective of social actors themselves" (Babbie and Mouton, 2001:270). The attempt is to view matters or the world through the eyes of the authors of the actions (Babbie and Mouton, 2001:271). The studies employing this approach are aimed at describing and understanding human action (Babbie and Mouton, 2001:270).

Methodology is methods, techniques and procedures utilised in the research process to collect data in order to produce a research output (Babbie and Mouton, 2001:647).

The study employs phenomenological/ interpretivist research tradition (meta-theory) as the study is aimed at understanding the role of Mangaung Metropolitan Municipality in supporting entrepreneurship and SMME development. People always attempt to make sense of their worlds or life, as a result they define, justify and rationalise their actions (Babbie and Mouton, 2001:28).

4.3 RESEARCH DESIGN

There are three main research designs, which are:

- Explorative – this research design is employed when little or nothing is known about a particular phenomenon (Babbie & Mouton, 2001:79).
- Descriptive – this research design is employed with the aim of generating understanding and providing specific details about a situation, social setting and relationship. (Babbie & Mouton, 2001:80).
- Explanatory – this research design is employed to help identify the reasons or causes of the phenomenon (Babbie & Mouton, 2001:80).

This empirical study employs the descriptive design approach to generate an understanding of what the municipality does to support SMMEs and entrepreneurship development.

4.4 VALIDITY AND RELIABILITY

Validity refers to the extent to which the measuring instrument measures what it is intended to measure and describe (Ntiso, 2010:79). Validity is referred to as reproducibility of the measure, meaning if the same study is undertaken again, the same results will be realised (Lincoln and Guba in Ntiso, 2010: 79). The official documents of government perused through would grant validity as they were used to generate the overall findings of the study.

4.5 DATA COLLECTION

This section explains the instruments employed to collect data. The institutional documents published by Mangaung Metropolitan Municipality, South African Local Government Association and government departments of the Republic of South Africa were perused and some were considered for this study. Data used in this study is textual data, i.e. documents and texts.

The following documents were used as data sources to help respond to the questions posed by the study:

- Mangaung Metropolitan Municipality's 2015/16 Built Environment Performance Plan Review, 2015/16.
- Mangaung Metropolitan Municipality By-Laws Relating To Property Rates, No 60 of 25 October 2013.
- Mangaung Metropolitan Municipality's 2015/16 Service Delivery and Budget Implementation Plan (SDBIP): 2015/2016.
- Mangaung Metropolitan Municipality. 2015/16. Reviewed Integrated Development Plan.
- Mail and Guardian newspaper in South Africa (mg.co.za/article/2013-10-11-00-rejuvenating-the-inner-city).
- Constitution of the Republic of South Africa, 1996 (Act 108 of 1996).
- The Reconstruction and Development Programme (RDP).
- Growth, Employment and Redistribution Strategy (GEAR).
- The White Paper on Local Government, 9 March 1998.
- Municipal Finance Management Act, 2003 (Act 56 of 2003).
- Municipal Structures Act, 1998 (Act 117 of 1998).
- Municipal Systems Act, 2000. (Act 32 of 2000).
- Spatial Development Framework.
- Free State Growth and Development Strategy.
- Development Facilitation Act, 2005 (Act 67 of 2005).
- National Development Plan 2030, 2013.

4.6 DATA ANALYSIS

The collected data was analysed, i.e. examined, sorted and evaluated to generate the research output using content analysis method. According to Babbie and Mouton (2001:383), content analysis methods may be applied to any form of communication. Official documents of the Margaung Metropolitan Municipality were sampled and used to generate the research findings. There is no clear-cut approach to qualitative data analysis or “even one approach to each specific type of qualitative data analysis” (Babbie & Mouton, 2001:490).

4.7 OBJECTIVITY AND ETHICS

The researcher is the most important instrument in the research process; as a result he is expected to be unbiased at all costs to generate truthful and legitimate descriptions and interpretations (Babbie & Mouton, 2001:273).

The researcher should maintain objectivity and integrity during the course of his research and employ highest ethical standards, indicate the limits of the study, should not change data collected and has to acknowledge sources used in the research study, i.e. avoid any form of plagiarism (Babbie & Mouton, 2001:526-527).

4.8 CONCLUSION

This chapter discussed the methodology and tradition of the empirical study, the research design, and sources of data, analysis of data and objectivity and ethics. Some of these were done through the assistance of established theory in qualitative research paradigm. The next chapter presents the findings generated through employment of methods discussed in this chapter.

5 CHAPTER 5: FINDINGS OF THE EMPIRICAL STUDY

5.1 INTRODUCTION

Chapter five deals with the presentation of the findings of the empirical study; which focuses on the 4 points listed below as it seeks to generate understanding and to highlight the assistance offered by Mangaung Metropolitan Municipality to local citizens to propel entrepreneurship and SMME development.

All of documents containing relevant data were used to generate research results about:

- mechanisms through which market and public confidence is attained,
- factors the Mangaung Metropolitan Municipality identified as providing competitive advantage and exploiting them accordingly,
- instruments used to enhance business environment to attract private sector investment; and
- instruments used for enterprise support.

5.2 ABOUT MANGAUNG METROPOLITAN MUNICIPALITY

The Mangaung Metropolitan Municipality came into being in 2011, after local government elections and is located in the Free State Province. It consists of 3 towns, i.e. Bloemfontein, Botshabelo and Thaba Nchu (South African LED Network, [Web:] <http://led.co.za/municipality/mangaung-metropolitan-municipality>, [Accessed on 19 February 2015]).

Bloemfontein is the capital city and economic hub of the Free State. It is also the referred to judicial capital of South Africa. Furthermore, provincial government administration is headquartered in Bloemfontein.

Botshabelo, is located 55km from Bloemfontein on the national N8 road to Ladybrand and has 154 operational factories, owned by Free State Development Corporation. These factories are leased out to entrepreneurs and SMMEs (South African LED Network, [Web:] <http://led.co.za/municipality/mangaung-metropolitan-municipality>, [Accessed on 19 February 2015]).

Thaba Nchu is located 12km east of Botshabelo, on the N8 national road to Ladybrand. It has 31 villages and further consists of both an urban area with private land ownership and a rural area of both private and communal land. This area lies at the bottom of the well-known Thaba Nchu Mountain. (South African LED Network, [Web:] <http://led.co.za/municipality/mangaung-metropolitan-municipality>, [Accessed on 19 February 2015]).

The main economic activities are in services and government sectors. (South African LED Network, [Web:] <http://led.co.za/municipality/mangaung-metropolitan-municipality>, [Accessed on 19 February 2015]). According to Mangaung Metropolitan Municipality's 2015/16 Built Environment Performance Plan Review, 14, the key economic sectors are trade, finance, transport and community services. Mangaung Metropolitan Municipality is the largest contributor to Gross Domestic Product (GDP) of the Free State province, contributing 30%, with main contributing economic sectors being transport, finance, trade and community services (Mangaung Metropolitan Municipality's 2015/16 Built Environment Performance Plan Review, 2015: 14).

According to Statistics SA, Mangaung has a population of 747 431 people, consisting of 83, 3% black Africans, 11% whites and 5% coloureds. Other populations make up 0.7%, i.e. Indians, etc (Statistics South Africa. [Web:] http://www.statssa.gov.za/?page_id=1021&id=mangaung-municipality, [Accessed on 28 September 2015]).

According to Statistics SA, "Of those aged 20 years and older, 4, 7% has completed primary education, 33, 2% has some secondary education, 30, 3% has completed matric and 14, 2% has some form of higher education. 4, 3% of this group has no formal schooling". (Statistics South Africa. [Web:]

http://www.statssa.gov.za/?page_id=1021&id=mangaung-municipality, [Accessed on 28 September 2015]).

The total municipal area covers 6157 km² and urban areas constitute less than 3% of the total area and 97% of residential properties are in urban areas. Bloemfontein accommodates more than half of the entire population of Mangaung, while Botshabelo and Thaba Nchu accommodate 30% and 15% respectively (Mangaung Metropolitan Municipality's 2015/16 Built Environment Performance Plan Review, 2015, 13).

The population of Bloemfontein increased between 2007 and 2012, while Botshabelo and Thaba Nchu's populations declined, 45 000 people relocated to Bloemfontein from Botshabelo and Thaba Nchu in the same period (Mangaung Metropolitan Municipality's 2015/16 Built Environment Performance Plan Review, 2015:13).

According to Reviewed Integrated Development Plan, (2015/16:140), the rural area of Mangaung Metropolitan Municipality consists of commercial farming in the form of crops and cattle in the west. Intensive farming occurs along the lower drainage area of the Modder River in the north-west and the west. Thaba Nchu and Botshabelo are surrounded by Trust land utilised for subsistence and small scale farming. These areas have high levels of unemployment and of those employed are migrant labourers in Bloemfontein and other places. Prominent water sources are Krugersdrift, Tierpoort, Mockes, Rustfontein and Groothoek dams in the Trust land areas.

The Mangaung Metropolitan Municipality By-Laws Relating To Property Rates no 60 of 25 October 2013, section 4, (1) (a) stipulates that property rates must be implemented in a manner that ensures that development is addressed and (c) economic, social and local development are promoted.

Moreover, according to the same By-Laws, differential rating is applied to different categories of properties according to (a) property use and (b) based on the "promotion of social and economic development of the municipality", in order to set different amounts in rand and cents for each category of property and reduce and provide rebates as guided by the by-law.

In determining the category of the property, the dominant use of the property is considered, regardless of the formal zoning of the property. Circumstantial evidence may be considered and physical inspection may be done to determine the dominant use of the property, in terms of section 5 (4) of the Mangaung Metropolitan Municipality By-Laws Relating to Property Rates.

Furthermore, according to the same By-Laws, the municipality must furnish each person responsible for payment of rates with statements showing:

- amounts payable,
- due date for payments,
- calculation of how the amount was derived,
- the value of the property; and
- reductions and rebates, where applicable.

5.2.1 Mechanisms through which market and public confidence is attained

According to Reddy, Sing & Moodley (2003:180), the provision of services and proper economic infrastructure help boost business confidence; this may stimulate economic growth, investment and job creation in a municipality. One way through which the Mangaung Metropolitan Municipality attempts to attain proper economic infrastructure is through the Service Delivery and Budget Implementation Plan (SDBIP). The SDBIP is a requirement set out in the Municipal Finance Management Act (MFMA), 2003 (Act 56 of 2003), to serve as a monitoring tool for the mayor and council to monitor in-year performance regarding service delivery budget targets (National Treasury, MFMA Circular No 13, 1: 2005). The document propels municipality to have planned service delivery outputs and link such outputs to municipal budget and (inputs) and further provides details of responsibilities of senior managers within the municipality and deadlines for outputs (National Treasury, MFMA Circular No 13, 1: 2005).

The targets and indicators of the SDBIP of Mangaung Metropolitan Municipality should contain measurable performance and service delivery targets and indicators provided to the community, and the impacts they seeks to achieve (SDBIP: 5).

The following objectives are outlined in the 2015/16 SDBIP targets meant to create appropriate infrastructure to propel local economic development and support SMMEs (2015/16 SDBIP: 14-16):

- **Establishment of Agri Park**- the Park is being developed in Thaba Nchu to promote rural development and to support rural enterprises, 50% of this initiative should be implemented by June 2016.
- **Rejuvenation of the Central Business Districts (CBD's)** in Bloemfontein, Thaba Nchu and Botshabelo within the Mangaung Metropolitan Municipality by developing 44 Hawking Stalls in Botshabelo and 20 Hawking Stalls in Thaba Nchu, to be completed by June 2016.

The further explanations of what the rejuvenation of CBD's means were found in the Mail and Guardian newspaper in South Africa, this involved the redevelopment of Hoffman Square in Bloemfontein CBD for R38 million to green and beautify the area, build new bus shelters, plant palm trees and restore and protect the current monument located at the square. ([mg.co.za/article/2013-10-11-00-rejuvenating the inner city](http://mg.co.za/article/2013-10-11-00-rejuvenating-the-inner-city)). The project has since been completed.

Again, Mail and Guardian newspaper in South Africa stated that there was pavement rehabilitation programme for R24 million to renew the side-walks within the municipality and that there was the second avenue precinct overhaul, a private sector initiative representing entertainment sector with pubs, restaurants and gallery. It is on both sides of Nelson Mandela Avenue and Kellner Street in Westdene, not far from Loch Logan Waterfront mall (Mail & Guardian, 2013 [Web:] [mg.co.za/article/2013-10-11-00-rejuvenating the inner city](http://mg.co.za/article/2013-10-11-00-rejuvenating-the-inner-city), [Accessed on 10 October 2015]).

The Reviewed Integrated Development Plan, (2015/16:68), stipulates that Mangaung Metropolitan Municipality provides commonage land to small scale farmers in partnership with the Department of Agriculture for animal grazing.

Generally, property rates are based on:

- Gross or net annual rental values: this is based on potential or actual revenue to the owner in respect of rental market situation (Lee, 1993 in Reddy, PS.,Sing, D., Moodley S., 2003: 24).
- Capital Improved Site Values (land improvements): this is based on the possible or probable market price of the property as improved (McAuslan, 1985 in (Reddy, PS.,Sing, D., Moodley S., 2003: 24).
- Unimproved site values: this is based on the market price of the land if it were vacant, without structures, improvements or any developments (Habitat, 1992 in (Reddy, PS.,Sing, D., Moodley S., 2003: 23).

According to Mangaung Metropolitan Municipality's Revenue and Expenditure Estimates and Determination of General Assessment Rate and Sanitary Fees Notice for the financial year ending 30 June 2015, charges towards local authority for rates, water consumption, sewerage facilities and refuse collection by businesses (SMMEs), are as follows:

- Rates: two comma five cent (2, 5 cent) per rand on the rateable value of business property, i.e. $2.5\% \times R\ 40\ \text{million} = R\ 1\ \text{million per annum or R } 83,333.00$ per month.
- Sewerage: comma three four cent (0, 34 cent) per rand on the rateable value of business property, i.e. $.34\% \times R40\ \text{million} = R\ 136,000.00$ per annum or R 11, 333.00 per month.
- Refuse removal: tariff per month (maximum of one removal per week) R 169.65 per month.
- Water: Mangaung Metropolitan Municipality charges non-residential properties as follows: >100kl, consumption, 20% of the value of the property.
- Businesses pay more towards electricity than households.

According to the above notice, rebates on rates assessment are applicable to residential properties, senior citizens, disabled people and child headed families. There are no rebates on rates assessment applicable to business property. There are also no rebates on sewerage charges, refuse removal and water consumption and electricity charges applicable to business property.

5.2.2 Factors the Mangaung Metropolitan Municipality identified as providing competitive advantage and exploiting them accordingly

As already mentioned, Bloemfontein is the capital city and economic hub of the Free State and Mangaung Metropolitan Municipality. It is also referred to as the judicial capital of South Africa. Furthermore, the provincial government administration is headquartered in Bloemfontein.

Mangaung Metropolitan Municipality has institutions of higher learning to nurture skills of its citizens, namely,

- Motheo Technical Vocational Education and Training College, an institution of the Department of Higher education and Training,
- Central University of Technology, Free State
- University of Free State.

There is a stadium in Bloemfontein currently referred to as Vodacom Park for both soccer and rugby. Major rugby and soccer matches are played at the stadium. There is also a cricket and an athletic stadium just next to Vodacom Park. There is another sport stadium in Botshabelo; called Kaizer Sebothelo where some major Premier Soccer League soccer matches are played at the stadium.

Furthermore, the municipality has schools, both private and public, that cater for different levels of education from pre-school, primary and secondary education to FETs and tertiary institutions.

The municipality has underutilised land in Bloemfontein with the potential to provide strategic location for economic growth along the N8 national road between the eastern edge of the CBD and the incomplete outer ring road some nine kilometres further east (Reviewed Integrated Development Plan, 2015/16:45).

Bloemfontein is located on the N1 route linking Gauteng and the Western Cape, the N8 in the east linking Botshabelo and Thaba Nchu to Lesotho, the N6 linking Bloemfontein to the Eastern Cape and the N8 in the west linking with the Northern Cape. Bloemfontein has an airport called Bram Fischer Airport to the east (Reviewed Integrated Development Plan, 137).

There are under-utilised office spaces in the Bloemfontein CBD due to relocation of services to the suburbs, particularly, western suburbs (Reviewed Integrated Development Plan, 138).

Botshabelo is located 55 km east from Bloemfontein and has an oversupply of school sites and public open spaces than are not developed and there is the Free State Development Corporation (FDC) Industrial Park consisting of hundred and thirty eight warehouses, manufacturing textile, food and electrical products, with a total floor size of 200 000m² and a rand value of R500 million. The occupancy rate at the Industrial park stands at 89, 54% and offer employment to 6000 people (Reviewed Integrated Development Plan, 2015/16:138).

The Department of Transport spends two hundred million rands annually on subsidies towards bus transport services in the Mangaung Metropolitan Municipality, of which the larger part is for transport between Botshabelo; Thaba Nchu and Bloemfontein. Thirteen thousands people commute on daily basis between Bloemfontein and Botshabelo (Reviewed Integrated Development Plan, 2015/16: 139).

Thaba Nchu is located 67km east of Bloemfontein and has thirty seven villages surrounding the urban centre and further has communal land for grazing as residents are mainly small scale livestock farmers (Reviewed Integrated Development Plan, 139).

There is a game reserve near Thaba Nchu Mountain; called Maria Moroka Game Reserve, with a hotel called Black Mountain. There is also a casino in Thaba Nchu CBD called Naledi Sun. Bloemfontein has a casino as well, called Windmill casino where one also finds restaurants, conference facilities and a hotel.

The municipality has cultural and historical places such as Anglo-Boer War sites like: Sannaspos, Queens Fort and the President Acre, museums, monuments, the rich history of areas like Batho location (where the African National Congress (ANC) was established in Bloemfontein). There is also the Naval Hill, which is a tourist destination site and recreational facility with a Zoo.

There are many accommodation places in Bloemfontein, Botshabelo and Thaba Nchu in the form of hotels, Bed and Breakfast and Guest Houses.

Despite all the features of Mangaung Metropolitan Municipality mentioned above, “a process of identifying and agreeing on what is a comparative and competitive edge of the municipality in relation to other municipalities and cities” is still to be carried out by the municipality, to inform future developmental initiatives of the city’s economic growth (Reviewed Integrated Development Plan, 2015/16: 61).

5.2.3 Instruments used to enhance business environment to attract private sector investment

The Mangaung Metropolitan Municipality has the spatial integrations objective aimed at integrating Botshabelo and Thaba Nchu into Bloemfontein through pushing the N8 Development Corridor node, i.e. airport development and Botshabelo and Thaba Nchu node. The town planning designs and survey should be completed by June 2016 (SDBIP; 2015/16:15).

The Municipality has four spatially separated but interdependent land development patterns, namely:

- the CBD,
- the rapid land development in south-eastern and north-western areas,

- Botshabelo and Thaba Nchu as remote urban dependants of Bloemfontein; and
- imbalanced linkages between the urban areas of Bloemfontein, Botshabelo and Thaba Nchu and remote rural dependants and neighbours in other municipalities (Reviewed Integrated Development Plan, 2015/16: 161) .

By bringing about the spatial integration and by reducing the separateness of the abovementioned patterns, the municipality believes that such initiatives will directly contribute to the long-term sustainability of Municipality by reducing competing pressures between each development pattern (Reviewed Integrated Development Plan, 161).

The municipality further has the objective of implementing Integrated Transport Network to improve Public Transport Network (SDBIP, 2015/16: 19). It further aims at building 10 public transport shelters by end of 2015/16 financial year and 10 more by 2016/17 financial year (Reviewed Integrated Development Plan, 2015/16: 106).

Maphisa Road in Mangaung township is targeted to be fully upgraded by 2016(SDBIP, 2015/16: 19). Moreover, the Municipality aims at tarring and paving gravel roads, rehabilitating existing tarred roads, resurfacing existing roads and installing storm water drainage systems by 30 June 2016, as follows:

- 2km of Gravel Road tarred,
- 1 km of gravel road paved,
- 2 km of 7m wide roads resurface,
- 4km resealed roads,
- 3 km of storm water drainage installed (SDBIP, 2015/16: 20-21).

Mangaung Metro Municipality needs a budget of R 130.8 million per annum to replace road and storm water infrastructure. Provision on annual capital budget is R 37, 3 million. As a result, annual shortfall of R 93.4 million is experienced (Reviewed Integrated Development Plan, 2015/16: 59).

The Municipality has a plan and strategy to attend to electricity challenges as follows:

- 100% completed 132/11kV 20MVA Fichardtpark Distribution Centre by June 2016.
- 100% completed 132/11kV 30MVA Cecilia Distribution Centre by June 2016.
- 100% completed 132 KV Northern Ring from Noordstad to Harvard DC by June 2016.
- 100% completed Elite Substation (Airport Development Node) by June 2016 (SDBIP, 25).

The Municipality aims at developing strategic and process plans for the establishment of Metro Police starting from July 2015, and begin recruitment of personnel process by end of June 2016 (SDBIP, 2015/16: 34).

The Municipality has obtained approval for identified land for solar energy production, to reduce carbon footprint and generate relatively cheaper energy. The Municipality has also issued the Requests for Proposal to enlist a suitable developer and operator for the project (Reviewed Integrated Development Plan, 2015/16: 78).

Mangaung Metropolitan Municipality has initiated a plan to install a network of pipes for water supply and sanitation services. As a result, the Municipality will initiate the Gariap Water Pipeline project (Reviewed Integrated Development Plan, 62). Moreover, water demand management programme is to be implemented to reduce the water line losses, focusing on “civic education programme, community plumber’s programme and replacement of aged/ageing infrastructure” (Reviewed Integrated Development Plan, 64). Furthermore, the municipality aims at implementing preventative maintenance programs in the water treatment works and pump stations to avoid unplanned water interruptions ((Reviewed Integrated Development Plan, 2015/16: 96).

The Reviewed Integrated Development Plan, 181-182, mentions the identified commercial development areas for economic investment, namely:

- intersection of Kruger Avenue and the N8 road,
- intersections of the Dewetsdorp road and Inner Ring Road,
- Moshoeshoe Street/Inner Ring Road,

- Highway Supermarket along the Dewetsdorp Road,
- using Corobrik site in Heidedal as an area for providing different mixed land uses for development,
- supporting commercial and light industrial activities along the N1 road due to its strategic location to help enhance the image of the Mangaung Metropolitan Municipal area,
- smaller areas have been identified along the activity corridor in Moshoeshoe Street,
- in Botshabelo, five decentralised areas have been identified to improve accessibility of commercial and other services to the total community of the town,
- in Thaba Nchu, two areas are identified for development, namely at the western access from the N8 to the Thaba Nchu central business area and road to Black mountain and Maria Moroka Game Reserve, where the focus should be on tourism trade; and
- Station Road, at the railway station.

To integrate the Mangaung township with the Bloemfontein CBD and to stimulate economic development within the Mangaung township, developmental projects along the road section comprising Fort Street, Dr Belcher Road, Mkuhlane Street, Brits Street, Ramatsoele Street and Moshoeshoe Street are proposed by the Municipality (Reviewed Integrated Development Plan, 2015/16: 182).

Moreover, establishment of an industrial area along the N8 route between Bloemfontein and Botshabelo/Thaba Nchu, is also proposed by the municipality (Reviewed Integrated Development Plan, 2015/16: 182).

5.2.4 What the Mangaung Metropolitan Municipality is doing to intensify enterprise support to their own localities

The Municipality utilises the services of SMMEs to assist with the removal of domestic waste and to assist with the cleaning of the CBD as part of the programme to support SMMEs (Reviewed Integrated Development Plan, 78).

According to the Reviewed Integrated Development Plan, 80-98, Mangaung Metropolitan Municipality aims to propel economic development and eradicate poverty by:

- supporting viable and sustainable SMMEs. It has set itself a five year target, from 2012 to 2017, of assisting 2000 new SMMEs, 500 new SMMEs in the financial year 2015/16 and 1450 new SMMEs's in the financial year 2016/17,
- rejuvenating the three CBD's of Bloemfontein, Botshabelo and Thaba Nchu,
- enhancing local and international tourism by promoting Naval Hill as a viable recreational facility and tourist attraction destination,
- enhancing local and international tourism by using the intersection of the N8 road towards Black Mountain and the Maria Moroka Game Reserve,
- by also promoting Giel de Wet, Maselspoort and Philip Sanders Resorts as tourist destination places,
- promoting eco-tourism possibilities on Thaba Nchu mountain, i.e. hiking trails and rock climbing, linking it with Botshabelo mountain,
- promoting Rustfontein Dam, Tierpoort Dam, Mockes Dam, Maselspoort, Krugerdrift Dam as tourist destination places,
- promoting cultural and historical features such as Anglo-Boer War sites like Sannaspos, Queens Fort and the President Acre,
- promoting the museums and monuments,
- promoting the rich history of areas like Batho, the fact that the ANC was established in Bloemfontein, Naval Hill and the Zoo,
- marketing the municipality as premier destination for investment and tourism by employing an effective marketing strategy,

- supporting small scale farmers. The Municipality has set itself a five year target of assisting 100 small scale farmers from 2012 to 2017, 40 small scale farmers in the financial year 2015/16 and 50 small scale farmers in the financial year 2016/17,
- Shortening turnaround times to thirty days for incentives for property and business development, including N8 development and previously disadvantaged areas and minimise bureaucratic requirements,
- Establishing waste drop off areas to encourage and promote the re-use and recycling of waste products.

5.3 CONCLUSION

This chapter dealt specifically with programmes of Mangaung Metropolitan Municipality to encourage entrepreneurship and support SMME development. Published documents of the Municipality and other relevant documents for the study were consulted and perused to help respond to questions raised by the study and generate understanding around programmes of municipality.

The next chapter, chapter six will give summary, concluding remarks and necessary recommendation about the results of the empirical study.

6 CHAPTER 6: SUMMARY, RECOMMENDATIONS AND CONCLUSION

6.1 INTRODUCTION

In this chapter, a summary of the findings is provided, together with recommendations and conclusion. The chapter summarises the results of the study and outlines the researcher's conclusions about the study.

The researcher focused on analysis of published documents of government and Municipality to generate research results. The researcher did attempt to communicate with Municipality and provincial government officials to receive assistance towards the empirical research, however; there were challenges receiving getting feedback from the officials.

A letter dated 12 March 2015, was obtained from Programme Administration of Masters in Governance and Political Transformation explaining that the researcher was conducting research in order to write his mini-dissertation. This letter was re-sent on 19 March 2015, to the Local Economic Development Manager at Mangaung Metropolitan Municipality, along with an e-mail explaining the need for assistance from Mangaung Metropolitan Municipality regarding the research study. A follow up e-mail, accompanied by the same letter was sent for the third time on 16 July 2015.

Moreover, the same letter and e-mail explaining the need for assistance from the SMME Manager at Mangaung Metropolitan Municipality were sent. The SMME Manager forwarded the same e-mail to her colleague, the SMME Officer to assist with the research data. The SMME Officer never responded and telephonic follow ups to the SMME Officer were rendered and she could not be reached.

As part of gaining data, the same e-mail and letter were sent to the Media and Parliamentary Liaison Officer: Cooperative Governance, Traditional Affairs and Human Settlements, in the office of Member of Executive Committee (MEC), in the Free State Province. He then referred the researcher to the office of Cooperative Governance and Traditional Affairs (COGTA) in Charlotte Maxeke Street,

Bloemfontein and advised that the researcher should liaise with an identified official there. However, attempts to reach the official were unsuccessful.

As a last resort to gain the information, attempts were made on 25 August 2015; the same letter was forwarded to another official, whom the researcher was told that he was responsible for investment promotion within the Managung Metropolitan Municipality. However, there was no response from the official as well.

6.2 SUMMARY AND OVERVIEW OF THE EMPIRICAL RESEARCH PROJECT

Chapter one provided the motivation to carry out the study stipulating that the aims and objective was to generate understanding and to highlight the assistance offered by municipality to local citizens to propel entrepreneurship and SMME development. It was mentioned that SMME development and support may lead to economic development; which will result in employment creation and poverty eradication as SMMEs happen to be more labour intensive than larger firms. The hindrances faced by SMMEs were identified as physical infrastructure, heavy regulation, heavy taxes, corruption and characteristics of SMMEs (capacities) as they are often small in size and rely on managers and owners performing a wide range of tasks as compared to those in larger firms, thus forcing those people working in SMMEs to have diverse skills to see the businesses moving forward.

Chapter two focused on defining what LED is and the benefits of LED within local government. The laws and regulations and programmes of government which promote LED at local government level were discussed and their alignment to developmental initiatives by different sphere of government was also explained.

Chapter three focused on defining SMMEs, their significant role in the economy being employment and poverty eradication, economic growth, innovation and efficiency, and the initiatives of South African government towards supporting SMMEs since governments around the world have assumed the responsibility of assisting SMME'.

Chapter four described the methodology and procedures employed in the study, the research type and planning of the empirical study.

Chapter five was about the main findings of the study and this chapter (6) renders the summary, recommendations and conclusion.

6.3 MAIN FINDINGS WITH RECOMMENDATION

The study focused on the four points as it seeks to generate understanding and to highlight the assistance offered by Mangaung Metropolitan Municipality to local citizens to propel entrepreneurship and SMME development.

6.3.1 Mechanisms through which market and public confidence is attained

As stipulated in chapter five, the provision of services and proper economic infrastructure help boost business confidence, which in turn, stimulate economic growth, attract investment and create employment. Earlier on in chapter one, it was stated that improvement in economic infrastructure may enhance the prospects of higher productivity gains and higher rates of return and facilitate access to range of financial services.

The municipality is responding to the need for proper economic infrastructure by creating an Agri Park in Thaba Nchu and rejuvenating its CBD's and providing commonage land to small scale farmers for animal grazing.

The municipality offers no rebates on rates assessment charges, sewerage charges, refuse removal charges, water consumption charges and electricity charges applicable to SMMEs. As part of recommendations, municipality should consider offering rebates to SMMEs which may help boost confidence of SMMEs in the local economy and encourage them to stay and operate their business within the municipality.

Moreover, as part of the recommendations, the municipality should develop human resources development programmes focusing on skilling the local citizens within the Municipality so that they have access to the local economy and participate meaningfully within the economy. This may be done through various training programmes to attract high value industries into the local economy.

6.3.2 Factors the Mangaung Metropolitan Municipality identified as providing competitive advantage and exploiting them accordingly

The following were found to be the characteristics of the municipality which could have a bearing on Mangaung's competitive advantage:

- Bloemfontein is the capital city and economic hub of the Free State,
- Bloemfontein is the judicial capital city of South Africa,
- Free State Provincial Government administration head offices are housed in Bloemfontein,
- Mangaung Metropolitan Municipality has three major institutions of higher learning to nurture skills of its citizens, namely, Motheo Technical Vocational Education and Training College; Central University of Technology, Free State and University of Free State,
- There is a stadium in Bloemfontein currently referred to as Vodacom Park for both soccer and rugby,
- There is also cricket and athletic stadiums just next to Vodacom Park,
- There is another sport stadium in Botshabelo called Kaizer Sebothelo and some major Premier Soccer League soccer matches are played at the stadium,
- There are schools, both private and public, that cater for different levels of education from pre-school, primary and secondary education to FETs and tertiary institutions,
- The municipality has underutilised land in Bloemfontein with the potential to provide strategic location for economic growth,
- Bloemfontein is centrally located on the N1 route between Gauteng and the Western Cape,

- There is N8 route linking the Municipality to the neighbouring country of the Kingdom of Lesotho,
- There is N6 route linking Bloemfontein to the Eastern Cape,
- There is N8 in the west linking Bloemfontein to the Northern Cape, in particular Kimberley,
- Bloemfontein has an airport called Bram Fischer Airport to the east, with routes to major cities in South Africa, such as Johannesburg,
- There are under-utilised office spaces in Bloemfontein, due to relocation of offices to the suburbs,
- Botshabelo has an oversupply of school sites and public open spaces that are not developed,
- There is the Free State Development Corporation (FDC) Industrial Park consisting of hundred and thirty eight warehouses in Botshabelo, with a total floor size of 200 000m² and a rand value of R500 million,
- The occupancy rate at the Industrial park stands at 89,54%,
- The Industrial Park offers employment to 6000 people,
- The Department of Transport spends two hundred million rand annually on subsidies towards bus transport services in the municipality, travelling between Botshabelo, Thaba Nchu and Bloemfontein benefitting thirteen thousand people who commute on daily basis between Bloemfontein, Thaba Nchu and Botshabelo,
- There is a game reserve near Thaba Nchu mountain called Maria Moroka Game Reserve, with a hotel called Black Mountain,
- There is also a casino in Thaba Nchu CBD called Naledi Sun, with a hotel in it,
- Bloemfontein houses the Windmill casino where one also finds restaurants, conference facilities and a hotel,
- There are cultural and historical sites such as include Anglo-Boer War sites like Sannaspos, Queens Fort and the President Acre,
- There are also museums and monuments,
- There is Batho location with rich history as the current ruling party of areas like Batho location (the fact that the ANC was established in Bloemfontein),
- There is Naval Hill as a tourist destination site and recreational facility,
- There is a Zoo in Bloemfontein,

- There are many accommodation places in Bloemfontein, Botshabelo and Thaba Nchu in the form of hotels, Bed and Breakfast and Guest Houses.

As mentioned in chapter five as part of the findings, the Municipality has not carried out a task defining its own competitive edge in relation to other local municipalities and metropolitan municipalities.

It is recommended that the municipality should carry the task(s) of ensuring that its competitive advantage is described and exploited accordingly so that the leaks in the local economy; that cause money to fail to circulate in the local economy but exits to other regional economies are plugged, through establishment of credible business retention and expansion strategies. An example of a leak in the economy will be a situation where truckloads of goods are brought into an area from other regional economies, during old age pension pay outs and when majority of the working people have earned their wages and salaries, as soon as the money enters the area, it is taken out immediately.

Identified competitive advantage may help bring about marketing strategy to promote and advertise the local Municipality as the place to be for industries, businesses and people with appropriate skills.

6.3.3 Instruments used to enhance business environment to attract private sector investment

The municipality aims at bringing about the spatial integration and reducing the separateness of Botshabelo and Thaba Nchu from Bloemfontein to contribute to the long-term sustainability of the municipality. The municipality has proposed that the Industrial area along the N8 route between Bloemfontein and Botshabelo/Thaba Nchu be established.

The Municipality further aims at implementing Integrated Transport Network to improve Public Transport Network and building public transport shelters. The

Municipality aims at tarring and paving gravel roads, resurfacing and re-sealing existing roads and installing storm water drainage pipes.

The Municipality is implementing strategies to deal with electricity challenges.

The Municipality is developing plans to establish Metro Police, whose staffing may begin in June 2016 to address challenges of law enforcement.

The Municipality aims at generating cheaper energy and reducing carbon footprint through solar energy production.

The Municipality has initiated a plan to source water from the Gariep Dam, more than 200km in the south of Bloemfontein and aims at implementing water demand management programme to reduce the water line losses. Moreover, the municipality aims at implementing preventative maintenance programs in the water treatment works and pump stations to avoid unplanned water interruptions.

The Municipality has identified commercial development areas for economic investment throughout the three towns of the Municipality.

It is recommended that the municipality should have strategies through which the development of infrastructure is effectively maintained and worn out infrastructure replaced to avoid unplanned breaks in the provision of services to the local economy.

6.3.4 What the Mangaung Metropolitan Municipality is doing to intensify enterprise support to their own localities

The Municipality intensifies its support to SMMEs by contracting SMMEs to do waste removal and cleaning of CBDs and further establishes waste drop off areas to encourage and promote the re-use and recycling of waste products.

It enhances tourism by promoting Naval Hill, Maria Moroka Game Reserve, resorts, dams, cultural and historical sites, monuments and museums. It renders support to

small scale farmers and attempts to shorten turnaround times for applications for incentives for property and business development.

It is recommended that the Municipality should have an LED strategy that further addresses further developmental challenges such as start-up capital, exploitative middlemen and the overtrading in the CBDs. This may be achieved by establishing close working partnerships and relationships with stakeholders found in the SMME development sectors, in Mangaung Metropolitan Municipality. Such stakeholders in Mangaung Municipality are SEDA, SEFA, NEF, IDC, FDC, NYDA and Department of Economic, Small Business, Tourism and Environmental Affairs. These stakeholders collectively provide business advice, consultancy, training and mentoring, technology transfer and business incubation, wholesale and direct lending to SMMEs. The IDC further has a mandate to establish development agencies for the development of the economic potential of an area by leveraging public and private resources (funds, skills, equipment, etc.) for economic development opportunities and manage the use of public land, meant for private projects in an efficient manner.

6.4 CONCLUSION

The findings show that Mangaung Metropolitan Municipality is doing its part to support existing SMMEs and the researcher could not establish if there are existing programmes by the Municipality to skill entrepreneurs to perform better in their ventures. However, it could be that the Municipality relies on the mentioned stakeholders to carry out training and skilling of entrepreneurs as per their mandates.

It is unimaginable to ponder that Mangaung Metropolitan Municipality could come up with a vision, mission, strategies and objectives that are not developmental in nature to address LED challenges of economic growth and job creation.

South African local municipalities have a duty to bring about socio-economic development of their citizens. These may be achieved by playing different roles as coordinators and promoters of local economic development.

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