

THE ROLE OF SMME'S IN LOCAL ECONOMIC DEVELOPMENT
AIMED AT
JOB CREATION, INCOME GENERATION
AND
POVERTY ALLEVIATION IN ZAMDELA

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**The role of SMME's In local economic development aimed at job creation,
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**The role of SMME's in local economic development aimed at job creation,
income generation and poverty alleviation in Zamdela**

ABSTRACT

This dissertation studies the role of SMME's in local economic development aimed at income generation, poverty and unemployment alleviation in Zamdela. The study focuses on five main areas namely, the analysis of SMME's, the measurement of unemployment, the measurement of poverty, the determinants of poverty and the solution of poverty. Poverty is measured by means of the headcount index. Unemployment is identified as the major cause of poverty and the solution to poverty is embodied in an increase of households' income.

High rates of urbanization and unemployment growth created large backlogs in the provision of housing, infrastructural and social services. Specific profiles of poor households, compared with those of non-poor households, depict: the greater size of poor households; their higher dependency rates; lower levels of qualifications; lower average wages of the employed; higher levels of unemployment; and lower formal sector employment.

Unemployment is identified among others, as a major determinant of poverty. Therefore, the main component of any policy aimed at alleviate poverty should focus on employment creation. Employment for unemployed persons attached to poor households, at a mere wage of R600 per month, has the potential to reduce the poverty rate as indicated in the second paragraph.

A micro-analysis of poverty among households in Zamdela shows that the poverty rate was 77 percent in 2004. The unemployment rate was 41 percent in 2004. The poverty gap index was 0.32 in 2004. The poverty gap index will be reduced from 0.32 to 0.21, if an additional 8 072 jobs for poor unemployed persons could be created as welders, textiles workers etc. at an average wage income of R600 per month and that the headcount index will be reduced from 0.77 to 0.25. This implies that the percentage of households below their poverty lines would be reduced from the present 77 percent to 25 percent and the average shortfall in income of the poor households would reduced from the present 32 percent to 21 percent (without taking the multiplier effect into account).

**The role of SMME's in local economic development aimed at job creation,
income generation and poverty alleviation in Zamdela**

To exploit any growth that the Zamdela's economy may produce to the advantage of the poor, it is suggested that employment strategies designed to stimulate labour absorption be put in practice. Such strategies, focusing on the poor unemployed, can be piggy-backed by any amount of growth that is realized. Local authorities are key players in putting these strategies in practice.

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

OPSOMMING

Hierdie verhandeling bestudeer die rol van KMMO's in die plaaslike ekonomiese ontwikkeling, met die doel om inkomste te genereer en om armoede en werkloosheid in Zamdela te verlig. Die studie fokus op vyf areas naamlik: die analise van KMMO's, die meting van werkloosheid en armoede, asook die determinante van, en oplossing vir armoede. Armoede word gemeet deur middel van die headcount index. Werkloosheid word geïdentifiseer as die primêre oorsaak van armoede en die oplossing van armoede word vervat in 'n verhoging in huishoudelike inkomste.

Groot skaalse verstedeliking en groei in armoede het 'n groot agterstand in die voorsiening van behuising, infrastruktuur en maatskaplike dienste veroorsaak. Spesifieke profile van arm huishoudings, in vergelyking met meer welaf huishoudings word gekenmerk deur die volgende: groter gesinne, hul hoër staat van afhanklikheid, laer kwalifikasievlakke, laer gemiddelde lone van werkers, hoër vlakke van werkloosheid en laer indiensneming in die formele sektor.

Werkloosheid word, onder andere, geïdentifiseer as 'n groot oorsaak van armoede. Dus moet die belangrikste komponent van enige beleid, gemik op die verligting van armoede, fokus op werkskepping. Indien werkloos in arm huishoudings in diens geneem word, teen 'n karige salaris van R600 per maand, het dit die potensiaal om die vlak van armoede te verminder, soos aangedui in die tweede paragraaf van hierdie opsomming.

'n Mikro-analise van armoede onder huishoudings in Zamdela, toon dat die vlak van armoede 77% was in 2004. Die werkloosheidskaal was 41% en die armoedegapingsindeks 0,32 in 2004. Die armoedegapingsindeks sal verminder word van 0,32 tot 0,21 en die headcount index van 0,77 tot 0,25, as 8 072 addisionele poste, soos sweisers, tekstielwerkers ens. vir arm, werklose persone geskep word teen 'n gemiddelde inkomste van R600 per maand. Dit beteken dat die persentasie van huishoudings wat onder die broodlyn leef verminder sal word van die huidige 77% tot 25% en die gemiddelde tekort in inkomste van arm huishoudings sal

**The role of SMME's in local economic development aimed at job creation,
income generation and poverty alleviation in Zamdela**

verminder word van die huidige 32% tot 21% (sonder om die vermenigvuldigingseffek in berekening te bring).

Om enige groei wat die Zamdela ekonomie mag genereer tot die voordeel van armes te benut, word voorgestel dat werkskeppingstrategieë, ontwerp om werksabsorpsie te stimuleer, geïmplementeer word. Sulke strategieë wat fokus op die arm werkloses, kan ondersteun word deur enige hoeveelheid groei wat opgelewer word. Plaaslike owerhede is sleutelspelers om hierdie strategieë in werking te stel.

**The role of SMME's in local economic development aimed at job creation,
income generation and poverty alleviation in Zamdela**

TABLE OF CONTENTS

ACKNOWLEDGEMENT	i
ABSTRACT	ii
OPSOMMING	iv
ABBREVIATIONS	xii
LIST OF TABLES	xiv
LIST OF FIGURES	xv

CHAPTER 1

**BACKGROUND, PROBLEM STATEMENT, OBJECTIVES AND
METHOD OF RESEARCH**

1.1	BACKGROUND	1
1.2	THE RESEARCH PROBLEM	2
1.3	OBJECTIVES OF THE STUDY	4
1.4	THE IMPORTANCE OF THE STUDY	4
1.5	HYPOTHESIS	5
1.6	METHODOLOGY	5
1.6.1	Literature study	5
1.6.2	Empirical study	5
1.7	DEPLOYMENT OF STUDY	6

**The role of SMME's in local economic development aimed at job creation,
income generation and poverty alleviation in Zamdela**

CHAPTER 2

UNEMPLOYMENT AND POVERTY

2.1	INTRODUCTION	7
2.2	UNEMPLOYMENT	7
2.2.1	Causes of unemployment	9
2.2.2	Dimensions of unemployment	10
2.3	TYPES OF UNEMPLOYMENT	12
2.3.1	Hidden/disguised unemployment and underemployment	13
2.3.2	Frictional unemployment	13
2.3.3	Structural and technical unemployment	13
2.3.4	Cyclical unemployment	14
2.3.5	Seasonal unemployment	15
2.4	COMBATING UNEMPLOYMENT	15
2.5	MEASURING UNEMPLOYMENT	16
2.5.1	Definition of the unemployment rate in South Africa	17
2.5.2	Interpretation of the unemployment rate in South Africa	18
2.6	POVERTY	19
2.6.1	Introduction	19
2.6.2	Defining poverty	19
2.7	THE CHARACTERISTICS OF POVERTY	23
2.8	THE EXPERIENCE OF POVERTY	24
2.9	MEASUREMENT OF POVERTY	25
2.9.1	Definition of household income	25
2.9.2	Definition of poverty line	27
2.9.3	Measuring Poverty	28

**The role of SMME's in local economic development aimed at job creation,
income generation and poverty alleviation in Zamdela**

2.9.4	The headcount index and the poverty gap	28
2.9.5	The headcount index	30
2.9.6	The poverty gap	30
2.9.7	Dependeny ratio	30
2.10	SUMMARY AND CONCLUSION	32

CHAPTER 3

LOCAL ECONOMIC DEVELOPMENT (LED)

3.1.	INTRODUCTION	34
3.2	DEFINING LED	34
3.3	HISTORY AND BACKGROUND OF LED	36
3.4	THE LEGAL FRAMEWORK FOR LED IN SOUTH AFRICA	38
3.5	THE IMPORTANCE OF LED	40
3.6	THE PRINCIPLES OF AN ADEQUATE LED CONCEPT FOR S.A	41
3.7	METHODS FOR PROMOTING LOCAL ECONOMIC DEVELOPMENT	42
3.8	THE MAIN THEMES OF THE EMERGING AGENDA FOR LOCAL ECONOMIC DEVELOPMENT	43
3.9	COMPARING LED TO GLOBAL ECONOMIES	45
3.10	LOCAL GOVERNMENT'S ROLE IN LED	46
3.11	SMME'S PROMOTION AND SUPPORT	48
3.12	SUMMARY AND CONCLUSION	50

**The role of SMME's in local economic development aimed at job creation,
income generation and poverty alleviation in Zamdela**

CHAPTER 4

SMALL, MEDIUM AND MICRO- ENTERPRISES (SMME'S)

4.1	INTRODUCTION	53
4.2	DEFINING SMME'S	53
4.3	DESCRIBING SMME'S	54
4.4	THE IMPORTANCE OF SMME'S	55
4.5	TYPES OF SMME'S	57
4.5.1	Survival enterprises	57
4.5.2	Micro enterprises	57
4.5.3	Small enterprises	58
4.5.4	Medium sized enterprises	58
4.6	THE ROLE OF SMME'S IN LED	59
4.7	THE NEEDS OF SMME'S	59
4.8	SWOT (STRENGTHS, WEAKNESSES, OPPORTUNITIES AND THREATS) ANALYSIS	61
4.8.1	Strengths	62
4.8.2	Weaknesses	65
4.8.3	Threats	74
4.8.4	Opportunities	77
4.9	SUMMARY AND CONCLUSION	79

**The role of SMME's in local economic development aimed at job creation,
income generation and poverty alleviation in Zamdela**

CHAPTER 5

A PROFILE OF ZAMDELA

5.1	INTRODUCTION	81
5.2	DEMOGRAPHICS	81
5.3	LABOUR FORCE	86
5.3.1	Profile of the employed	87
5.3.2	Profile of the unemployed	88
5.4	POVERTY AND A POVERTY PROFILE	95
5.4.1	Profile of the poor in Zamdela	97
5.4.2	Profile of the poor employed	99
5.4.3	Profile of the poor unemployed	103
5.5	INCOME AND EXPENDITURE	106
5.6	CRIME	113
5.7	JOB CREATION	115
5.8	SUMMARY AND CONCLUSION	117

CHAPTER 6

ANALYSIS OF SMME'S IN ZAMDELA

6.1	INTRODUCTION	120
6.2	METSIMAHOLO LOCAL GOVERNMENT POLICIES	120
6.3	MLM'S MANDATE FOR LED	121
6.4	LED STRATEGIES	122
6.4.1	Attracting investment based on MLM's existing competitive strengths	123
6.4.2	Reducing poverty through special interventions	124
6.4.3	Building on the skills and aspirations of the Zamdela people	124

**The role of SMME's in local economic development aimed at job creation,
income generation and poverty alleviation in Zamdela**

6.4.4	Using local expenditure to support SMME's	125
6.5	THE POSSIBLE ROLE OF SMME'S IN LED IN ZAMDELA	125
6.6	WEAKNESSES OF SMME'S IN ZAMDELA	126
6.7	OPPORTUNITIES OF SMME'S IN ZAMDELA	129
6.8	THREATS OF SMME'S IN ZAMDELA	131
6.9	SUMMARY AND CONCLUSION	134

CHAPTER 7

SUMMARY, CONCLUSION AND RECOMMENDATIONS

7.1	INTRODUCTION	137
7.2	SUMMARY: LITERATURE STUDY	137
7.3	SUMMARY: SURVEY	141
7.4	CONCLUSION	144
7.5	RECOMMENDATIONS	145

ANNEXURE A: Household Survey in Zamdela: 2004	149
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ANNEXURE B: Methodology for the measuring of Unemployment	152
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ANNEXURE C: Methodology for the measuring of poverty	155
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ANNEXURE D: Methodology for impact assessment	157
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ANNEXURE E: Household Surveys in Zamdela: 2004	159
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BIBLIOGRAPHY	170
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**The role of SMME's in local economic development aimed at job creation,
income generation and poverty alleviation in Zamdela**

ABBREVIATIONS

ANC	African National Congress
ANON	Anonymous
BAC	Business Advice Centre
CASE	Community Agency for Social Enquiry
CEAS	Central Economic Advisory Services
CED	Committee on Economic Development
COSAB	Council of South African Banks
DPLG	Department of Provincial and Local Government
DTI	Department of Trade and Industry
EIM	Economisch Instituut Midden
GEAR	Growth, Employment and Redistribution Programme
GGP	Growth Geographical Product
HEL	Household Effective Level
HSL	Household Subsistence Level
IDP	Integrated Development Plan
IFGR	Intergovernmental Fiscal Review
IRI	International Republican Institute
LED	Local Economic Development
LGTA	Local Government Transmission Act
MHSL	Minimum Humane Standard of Living
MLL	Minimum Living Level
MLM	Metsimaholo Local Municipality
NBI	National Business Institute
NGO	Non-Governmental Organisation
NIC	Newly Industrialised Countries

**The role of SMME's in local economic development aimed at job creation,
income generation and poverty alleviation in Zamdela**

PDL	Poverty Datum Line
PPP	Public-Private Partnership
SA	South Africa
SAPPA	South African Participatory Poverty Assessment
SBA	Small Business Administration
SBAB	Small Business Advisory Bureau
SMME'S	Small, Medium and Micro Enterprises
STATS SA	Statistics South Africa
SWOT	Strengths, Weaknesses, Opportunities and Threats

**The role of SMME's in local economic development aimed at job creation,
income generation and poverty alleviation in Zamdela**

LIST OF TABLES

2.1	UNEMPLOYMENT RATE PER PROVINCE: 2002	12
3.1	ROLES OF LOCAL AUTHORITIES IN LED	47
5.1	TOTAL REMUNERATION PER SECTOR FOR EMFULENI: 2002	102
6.1	MLM'S LED, ECONOMIC DEVELOPMENT AND JOB CREATION	122
6.2	ECONOMIC GROWTH, DEVELOPMENT AND EMPLOYMENT IN ZAMDELA: 2004	129
6.3	SOCIAL AND HUMAN DEVELOPMENT IN ZAMDELA: 2004	130
6.4	JUSTICE, CRIME PREVENTION AND SECURITY EFFICIENT GOVERNANCE AND ADMINISTRATION IN ZAMDELA: 2004	131

**The role of SMME's in local economic development aimed at job creation,
income generation and poverty alleviation in Zamdela**

LIST OF FIGURES

5.1	TOTAL POPULATION OF ZAMDELA IN AGE CATERGORIES - 2004	83
5.2	GENDER DISTRIBUTION OF ZAMDELA POPULATION: - 2004	84
5.3	QUALIFICATIONS OF POST-SCHOOL POPULATION: IN- ZAMDELA: 2004 IN ZAMDELA: 2004	85
5.4	AVERAGE LENGTH OF STAY IN THE VAAL TRIANGLE: 2004	86
5.5	COMPOSITION OF THE LABOUR FORCE IN ZAMDELA: 2004	87
5.6	SECTORS OF EMPLOYMENT FOR THE EMPLOYED POPULATION IN ZAMDELA: 2004	88
5.7	DURATION OF UNEMPLOYMENT IN ZAMDELA: 2004	89
5.8	THE UNEMPLOYED IN DIFFERENT AGE CATEGORIES IN ZAMDELA: 2004	90
5.9	QUALIFICATIONS OF THE UNEMPLOYED IN ZAMDELA : 2004	91
5.10	SKILLS OF THE UNEMPLOYED IN ZAMDELA: 2004	92
5.11	SKILLS TRAINING PREFERRED BY THE UNEMPLOYED IN ZAMDELA: 2004	93
5.12	SELF-SUSTAINING ACTIVITIES PREFERRED BY THE UNEMPLOYED: IN ZAMDELA - 2004	95
5.13	POOR HOUSEHOLDS AND THEIR HSL RATIOS IN ZAMDELA: 2004	97
5.14	GENDER DISTRIBUTION OF POOR POPULATION IN ZAMDELA: 2004	98
5.15	QUALIFICATIONS OF THE POST-SCHOOL POOR POPULATION IN ZAMDELA: 2004	99
5.16	COMPOSITION OF THE POOR LABOUR FORCE IN ZAMDELA: 2004	100
5.17	SECTORS OF THE EMPLOYMENT FOR THE POOR EMPLOYED IN ZAMDELA: 2004	101
5.18	AGE CATEGORIES OF THE POOR UNEMPLOYED POPULATION IN ZAMDELA: 2004	103

**The role of SMME's in local economic development aimed at job creation,
income generation and poverty alleviation in Zamdela**

5.19	DURATION OF UNEMPLOYMENT FOR THE POOR UNEMPLOYED POPULATION IN ZAMDELA: 2004	104
5.20	QUALIFICATIONS OF THE POOR UNEMPLOYED IN ZAMDELA: 2004	105
5.21	SKILLS TRAINING PREFERRED BY THE POOR UNEMPLOYED IN ZAMDELA: 2004	106
5.22	PERCENTAGE CONTRIBUTION OF DIFFERENT SOURCES TO HOUSEHOLD INCOME IN ZAMDELA: 2004	107
5.23	MONTHLY EXPENDITURE SPENT BY HOUSEHOLD ON DIFFERENT ITEMS IN ZAMDELA: 2004	108
5.24	PLACE WHERE HOUSEHOLD PRODUCTS ARE BOUGHT IN ZAMDELA: 2004	110
5.25	HOUSEHOLD EXPENDITURE IN ZAMDELA: 2004	111
5.26	HOUSEHOLD AFFECTED BY CRIME IN THE LAST 12 MONTHS IN ZAMDELA: 2004	112
5.27	HOUSEHOLDS AFFECTED BY CRIME: TYPE OF CRIME IN ZAMDELA: 2004	113
5.28	IMPACT OF JOB CREATION ON LEVELS OF POVERTY IN ZAMDELA: 2004	116

CHAPTER 1

BACKGROUND, PROBLEM STATEMENT, OBJECTIVES AND METHOD OF RESEARCH

1.1 BACKGROUND

The original Zamdela township at Sasolburg covers an area of approximately 285 hectare. Layout plans for the Zamdela area was approved by the Village Management Board of Sasolburg on 25 January 1956 (Steenkamp, 2004:1).

A further submission was referred to Council for Development of Natural Resources to earmark the Farms Saltberry plain 137 and Somers Post 137 for future extension of the Zamdela township. In a special journal for town and regional planning, published by the Department of Town and Regional Planning of the University of Stellenbosch, during 1982, the Zamdela residential area was laid out by Max Kirchhofer within the framework of a general development plan, eventually to accommodate 30 000 persons (Steenkamp, 2004:1).

Two residential units were designed and partly developed in accordance with the official standard of accommodation prepared jointly by the former Native Affairs Department, the National Housing Office and the Building Research Institute. Past experience had indicated that the requirements of the urban black population were essentially the same as those of the white inhabitants. For this reason a similar urban pattern was adopted (Steenkamp, 2004:1).

Not only was there a large number of people to use the walkways, but there was urgent need for organizing the sprawl of closely spaced cottages into smaller sections capable of creating a sense of locality. The bands of landscaped open spaces were to reach up close to the homes and to set the stage for the development of community life (Steenkamp, 2004:1).

Zamdela has a very interesting history regarding its administration and was administered by a series of local authorities, since 1994.

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

Following the Sasolburg Village Management Board, Zamdela township was administered by *inter alia* the former Bantu Affairs Administration Board, since May 1967 (formally incorporated by proclamation no. 1445 of 18 August 1972). The Orange Vaal Administration Board, followed as the successor in title, then the provincial Administration of the Orange Free State, then the Lekoa Town Council established on 16 September 1983. Lekoa Town Council was dissolved on 22 May 1991, in terms of Act 61 of 1991, and the then successor in title of the Lekoa Town Council, the Zamdela Council (Steenkamp, 2004:2).

The Sasolburg Transitional Local Council (amalgamation of Sasolburg and Zamdela Councils) was established by proclamation no 47 of 30 September 1994. However, a new municipality known as the Local Municipality of Metsimaholo, has been established with effect from 8 December 2000 and in terms of Provincial Notice no 185 of 2000, published in the Free State Provincial Gazette no 113 dated 28 September 2000, as amended. (Steenkamp, 2004:2).

The number of the first houses in Zamdela was 25, which was completed and handed over on 14 August 1953. In 2001, the number of households was estimated at 16,488 in Zamdela (Stats SA, 2001). The average household size in Zamdela, calculated from Stats SA data (2001), is 3.46 persons per household. The total population of Zamdela is estimated at 57 069.

1.2 THE RESEARCH PROBLEM

The Vaal economy (of which Zamdela is an integral part) experienced a negative real GGP growth of -4.1 percent from 1996 to 1999 (Slabbert, 2004:2).

From 1999 onwards, the economy recovered, but the average annual real GGP growth from 1996 to 2001 remained low at 0.8 percent (Urban-Econ calculations based on data by Global Insight). Between 1991 and 1996, there was a huge decrease in employment opportunities, amounting to 54,000. The manufacturing sector alone shed almost 39,000 jobs in this period (Block & Dorfling, 2000:15).

The future possibilities for formal employment in the Vaal Triangle, and therefore in Zamdela appear to be bleak.

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

The chance for school leavers to get formal employment seems to be extremely meagre. It is suspected that most of them end up unemployed, "hanging around", especially in the townships/squatter areas. The majority (if not all) has never been exposed to any formal technical or entrepreneurial skills or skills training (Slabbert, 2004:2).

For the most part Zamdela is an area in economic decline and a community that experiences high levels of poverty. Unemployment estimates suggests that over 41 percent of residents were unemployed in the year 2004 (Makumula, 2004:98), although a large number of these are working in a formal sector in the area. A large number work in a range of informal activities. These activities include motorcar repairs, spaza retailing, manufacture of burglar bars and shoe repairs. Zamdela's informal economy also encompasses a notable sphere of illicit and criminal activities. Given its history, it is remarkable that only a limited amount of informal fruit and vegetable cultivation occurs in Zamdela (Steenkamp, 2004:13).

As far as employers are concerned, a combination of new economic, social and technological factors has made it uneconomic for them to provide jobs for all. An increasingly competitive international labor market combined with the rising and justified demands of employees for decent pay and working conditions is compelling employers to replace employees with labor-saving technologies, which themselves are becoming continually more effective (Robertson, 1995:9).

Local Economic Development (LED) is an outcome based on local initiative and driven by local stakeholders. It involves identifying and using primarily local resources, ideas and skills to stimulate economic growth and development (Mufamadi, 2000:1).

A small, medium and micro enterprises (SMME's) is an enterprise independently owned and operated but is not dominant in its field (Tate *et al.* 1992:4).

LED and SMME's approach is fundamental to the national economic development programme. The short and medium term ability of the economy to generate employment opportunities through the large corporations is limited. Opportunities

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

and programmes should be explored in how the existing LED and SMME's programmes can be further promoted by the municipalities of the district.

It is important that it is explored how support may be provided to the informal sector as it is recognized that it contributes to the livelihood of many households.

SMME's have rightly received much attention in the past decade. Their contribution towards employment, GDP and export growth is unquestioned. They have been regarded as one of the best ways of economic development in developing countries, also in South Africa (Steenkamp, 1981:29).

1.3 OBJECTIVES OF THE STUDY

The objectives of the study are to:

- Measure and analyse unemployment and poverty in Zamdela by means of a household survey.
- To analyse the status of SMME's in local economic development in Zamdela and to investigate to what extent SMME's can offer a partial if not a complete solution to the current unemployment crises and lay a fundamental basis for future economic development and community empowerment.
- To determine current opportunities for SMME's in Zamdela;
- To draw conclusions and make recommendations from a synthesis between the literature study and the survey results.

1.4 THE IMPORTANCE OF THE STUDY

It is accepted today that SMME's have unique qualities, which enable them to create and provide job opportunities, stimulate initiative and innovations, promote healthy competition and fulfil an extremely important socio-economic role far easier than big businesses (Kroon, 1998:27).

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

Hence, the study of the research is to investigate how SMME's in local economic development can create jobs, generate income and eradicate / alleviate poverty in Zamdela.

1.5 HYPOTHESIS

The establishment of SMME's in Zamdela may play a substantial role in Zamdela's local economic development and may offer solutions to the unemployment and poverty problems in Zamdela.

1.6 METHODOLOGY

The study is based on a literature study and the results of a household survey, conducted in Zamdela in May/June 2004.

1.6.1 Literature study

The literature study was based on a qualitative literature study which includes information obtained from various publications such as textbooks, journals, newspaper articles, business magazines and journals, theses, dissertations, the internet and previous studies on the subject. Information not obtainable from publications was gathered through the use of questionnaires directed at a target group.

1.6.2 Empirical study

A household survey by means of questionnaires was conducted to determine the state of affairs in terms of Zamdela's unemployment and poverty as well as to obtain other important data. A stratified sample of households was interviewed and 100 questionnaires were completed. A list with names and addresses of SMME's in Zamdela was obtained from a geographical map.

The target population includes a sample of households representing all the different ethnic groups in Zamdela. A stratified sample of one hundred households were

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

selected and interviewed by means of questionnaires in a survey that was conducted in May/June 2004. The questionnaire consisted of both closed and open questions, in order to elicit as many freely expressed opinions as possible.

1.7 DEPLOYMENT OF STUDY

Chapter 1 introduces the field of study, the research problem, the purpose and the objectives of the study and research methodology.

Chapter 2 outlines the methodology used to analyse unemployment and poverty in this dissertation. The causes of poverty are also discussed in chapter 2.

Chapter 3 defines local economic development and the role of SMME's in Local economic development. The needs, importance, support and elements involved in operations of SMME's are discussed. The historical background of LED, the differences between LED and global economies have been also given. The main themes of the emerging agenda for LED and the methods for promoting LED have been discussed in this chapter.

Chapter 4 explains SMME's with the aid of SWOT (Strengths, Weaknesses, Opportunities and Threats) analysis.

Chapter 5 measures and analyses the levels of unemployment and poverty in Zamdela. It further constructs a profile of poor households and members of poor households in Zamdela.

Chapter 6 analyses SMME's in Zamdela

Chapter 7 shows a summary, conclusions and recommendations of the study.

CHAPTER 2

UNEMPLOYMENT AND POVERTY

2.1 INTRODUCTION

This chapter is divided into two sections, namely section one, i.e. 2.2 and section two, i.e. 2.5. Section one discusses international and national perspectives on unemployment as a determinant of poverty. The causes, dimensions, types and policies to combat unemployment are discussed. Table 2.1 and Table 2.2 show unemployment rate per province for the year 2002 and the composition of the economically active population of Zamdela for the year 2004 respectively. Methods of measuring unemployment are also discussed.

In section two, poverty is discussed. Ways of assessing poverty, characteristics of poverty, experiences of poverty and the measurement of poverty are discussed.

2.2 UNEMPLOYMENT

The primary objective of economic policy is to improve the material welfare and the quality of life of the population of a country. A certain way of achieving this objective is through high quality economic growth, which ensures a continuously expanding labour market. When the labour market for one reason or the other does not absorb the growing labour force, individuals who are able and willing to work at the current wage rate will become unemployed (Schoeman *et al.* 2000:200).

In an urban setting, the main direct determinant of poverty is argued to be unemployment (Slabbert, 1997:146). A high level of unemployment has economic and social implications. From an economic point of view, the unemployment rate in a country remains one of the key measures of an economy's performance. With a high level of unemployment, it will be difficult to alleviate poverty and inequality in the long run (Mohr *et al.* 2004:542).

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

Unemployment plays an important role in perpetuating the state of poverty. Unemployment is undoubtedly one of the major causes of poverty (Levin & Sofisa 1993:13). Slabbert (1997:69) pointed out that employment or lack of it is one of the main determinants of urban poverty. SALDRU (1995:14) also states that poverty and unemployment are closely linked. Unemployment deprives individuals of income and of opportunities to exploit their skills in production activities.

Among the several different assets of both the urban and rural poor in South Africa, the most important perhaps, is their labour. The question of improving the poor's access to productive income opportunities is therefore of critical significance for poverty eradication (Schoeman *et al.* 2000:43).

Unemployment is one of those things which everybody understands but turns out to be quite difficult to define and to measure (Mohr *et al.* 2004:562). Everyone knows that unemployment is a bad thing – for society as well as for the unemployed. Unemployment entails significant costs – to the individuals who are unemployed as well as to society at large.

According to Mohr *et al.* (2004:128) unemployment is arguably the most important and vexing problem facing the South Africa economy. The unemployed suffer mental and physical hardship and unemployment poses a serious threat to social and political stability. For example, when unemployment increases, crime and social unrest also tend to increase.

Sen (1997:160) listed out various penalties of unemployment as follows:

- Loss of current output and fiscal burden. That is, unemployment involves wastage of productive power which impacts on national output;
- Loss of freedom and social exclusion. The nature of the deprivation of the unemployed includes loss of freedom which goes beyond the decline in income;

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

- Skill loss and long-run damage. People unlearning skills through non-practice of these skills;
- Psychological harm, which refers to low moral and a low sense of self-worth attributable to unemployment;
- Ill health and mortality, which refers to clinically identifiable illnesses and higher rates of mortality due to loss of income;
- Loss of motivation leading to long-term resignation and passivity to the state of unemployment;
- Loss of human relations and family life. Unemployment weakens the harmony and coherence within the family;
- Racial and gender inequality. Unemployment can be a significant caused influence in increasing ethnic tensions and gender divisions;
- Loss of social values and responsibilities, attributable to cynicism about the fairness of social arrangements; and
- Organisational inflexibility and technical conservatism linked to replacement of labour by technology.

2.2.1 Causes of unemployment

The unemployment problem in South Africa is a very complex one and its causes are not obvious (Schoeman *et al.* 2000:205). Schoeman *et al* (2000:205) gives the following as the factors attributing to the causes of unemployment:

- The inability of the formal economy to create sufficient employment opportunities for a growing population;

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

- The presence of foreign work seekers or illegal immigrants. Evidence suggests that there could be between 2.5 million and 4 million illegal foreigners who live and work in South Africa;
- The general low level of skills in the labour force;
- External factors like the globalisation of markets, fewer trade restrictions, availability of cheaper imported goods and the rapid development of new technology; and
- The increasing trend towards capital intensiveness in the South African economy due to labour market unrest, the influence of trade unions, the generally low level of skills, as well as rigid and inflexible labour markets.

2.2.2 Dimension of unemployment

Schoeman *et al* (2000:203) stated that apart from the fact that the unemployment rate has more than doubled over the past decade, the exceptionally high unemployment rate has various dimensions as follows:

- The gender distribution of unemployment shows that unemployment is higher among women than among men in all population groups;
- The highest unemployment rate occurs among blacks. The black rate of unemployment is more than six times as high as that for white people;
- There is a higher incidence of unemployment in non-urban than in Urban areas;
- South Africa's unemployed consists mainly of young people. Approximately two-thirds of the unemployed are younger than 34 years of age; and

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

- People with incomplete schooling have a higher incidence of unemployment than those with no schooling, or those with a grade 12 or higher qualifications.

According to Schoeman *et al* (2000:205) there is an unequal distribution of employment opportunities between South Africa's nine provinces. The following table 2.2 gives a provincial breakdown of the various unemployment rates. The highest unemployment rate occurs in the Eastern Cape, where approximately 30.6 percent of the economically active population is unemployed.

An exceptionally high incidence of unemployment is also being experienced in the Limpopo province, Kwazulu/Natal and North-West. The lowest incidence of unemployment could be found in the Western Cape, where approximately 18 percent of the economically active population is unemployed. The unemployment rate that is calculated from the data obtained in the 2002 survey is therefore unemployment rate based on the expanded definition of unemployment.

**The role of SMME's in local economic development aimed at job creation,
income generation and poverty alleviation in Zamdela**

TABLE 2.1 UNEMPLOYMENT RATE PER PROVINCE: 2002

Province	Unemployment rate
Western Cape	18,7%
Eastern Cape	30,6%
Northern Cape	26,2%
Free State	28,2%
KwaZulu- Natal	26,4%
North West Province	28,2%
Gauteng	25,6%
Mpumalanga	26,7%
Limpopo	29,6%
Total South Africa	24,8%

Source: Department of statistics, 2002.

2.3 TYPES OF UNEMPLOYMENT

There are two economic problems that are of major concern to any politician: the twin evils of inflation and unemployment (Haydam, 1997:197). In the short run and intermediate terms, politicians promise jobs at all costs to gain votes. In the long term, however, high inflation causes unemployment.

In the same way that a doctor diagnoses a patient before prescribing various remedies, economists diagnose a situation when it comes to fighting unemployment. It is simply not good enough to say 'create more jobs', or 'fight unemployment' or 'the workers demand jobs'.

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

Whether an economist operates on a regional or national level, it is important to identify the various types of unemployment first (Haydam, 1997:197).

Haydam (1997:98) distinguishes the various types of unemployment using practical examples as follows:

2.3.1 Hidden/disguised unemployment and underemployment

Hidden unemployment occurs in many ways. First, if hourly-paid labourers (such as in the motor vehicle industry) have to work shortened hours, it is said to be underemployment. These workers are officially still employed, yet their salaries and standard of living have dropped. When workers' overtime is cut, this is considered hidden unemployment (Haydam, 1997:8).

2.3.2 Frictional unemployment

Frictional unemployment arises because it takes time to find a job or to move from one job to another. At any particular time, there will always be workers who are moving from one job to another (Haydam, 1997:8).

2.3.3 Structural and technical unemployment

Mohr *et al* (2004: 611 – 612) stated that structural unemployment is somewhat complex compared to cyclical unemployment as the latter is related to fluctuations in the general state of the economy, structural unemployment is usually confined to certain industries, sectors or categories of workers. Structural unemployment occurs when there is a mismatch between worker qualifications and job requirements or when jobs disappear because of structural changes in the economy.

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

Mohr et al (2004: 611 – 612) listed out various examples of structural unemployment as follows:

- Certain workers lack the necessary education, training or skills required to obtain a job, even when the economy is booming;
- Changes in production methods or techniques can cause a drop in the demand for people with particular qualifications or skills.

Nowadays machines can perform many tasks, which previously required skilled people. For example, the introduction of automatic teller machines reduced the number of job opportunities for bank tellers. People who are replaced by labour-saving machines are sometimes classified as technologically unemployed.

- Changes in the types of goods and services being produced (e.g. because of changing consumer preferences) can also cause unemployment. Thus, a fall in the demand for cigarettes because of the health risk associated with smoking can lead to unemployment in the tobacco industry.
- Foreign competition can also result in a loss of jobs. For example, the growth of the highly competitive textile and clothing industries in Asia has destroyed many jobs in the textile and clothing industries in the industrial countries as well as in South Africa.
- Jobs can also be lost because of a structural decline in certain industries. In South Africa, for example, the closure of gold mines and the general decline in gold production has destroyed many job opportunities.

2.3.4 Cyclical unemployment

Any temporary drops in the aggregate demand of a country results in cyclical unemployment. This causes a so – called recession, and a recession is nothing more than a drop in the real Gross domestic product (GDP) of a country.

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

For example, "Paula van der Merwe is a factory worker who was employed by Defy Industries. During the long recession of the early 1990s, Defy reduced its work force because of the fall in sales of household appliances. Paula was among those who were retrenched. Paula became cyclically unemployed. Paula expects to be hired again when economic activity and appliance sales improve" (Mohr *et al.* 2004:612).

2.3.5 Seasonal unemployment

This type of unemployment occurs when labourers only work during certain times of the year. For example, "Lucy Tomlinson works as a tourist guide on the Cape Wine Route during the summer months. For the rest of the year Lucy is seasonally unemployed" (Mohr *et al.* 2004:612).

2.4 COMBATING UNEMPLOYMENT

Haydam (1997:200) indicated that in order to combat unemployment, one has to consider the type of unemployment encountered and then apply the appropriate measure for counteracting. For example, in Zamdela, many persons rely on Sasol firm as a source of employment (Makumula, 2004) and they do not have any necessary skills, education and training required for an employment, even when there is a boom. As a result, they are being replaced by newly emerging young educated, trained and skilled graduates.

Schoeman *et al* (2000:27) suggested policy strategies to ensure that future economic growth is employment creating as follows:

- Investing in high quality education and training.
- People are an asset, and turning them into an educated and trained labour force is a necessary process for future growth and development;
- Attractiveness and aggressiveness are important policy strategies

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

- Through aggressiveness, South Africa should focus on export markets, which will generate revenues. On the other hand, attractiveness in creating a domestic environment which is conducive to foreign direct investment will lead to new job creation; and
- The promotion of small, medium and micro enterprise (SMME's)
It is widely accepted that SMME's development is one of the most important means of creating jobs and wealth (Erasmus 1999:33). However, the SMME's sector can make a substantial contribution towards job creation only if there is an enabling environment.

2.5 MEASURING UNEMPLOYMENT

Various methods are used to measure unemployment. The following three are more or less standard methods (Slabbert, 1997:69).

- The census method

This method is used for measuring the economic status of the entire population. However, censuses take place only periodically and even then only a limited number of questions pertaining to employment can be included (Slabbert, 1997:69).

- Registration method

This method provides for the unemployed to register at placement offices – in South Africa at offices of the Department of Labour. Registration is compulsory in order to qualify for unemployment benefits. In South Africa, some categories of civil servants, domestic workers, farm workers, casual and seasonal workers, those earning more than the ceiling income and those whose period of benefit (6 months) has run out, are excluded from the fund and therefore many black persons have no reason to register. Registered unemployment figures published by the Department of Labour in South Africa therefore do not show

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

the level of unemployment. They also do not give a breakdown in terms of race (Slabbert, 1997:70).

- **Sample survey**

Surveys are undertaken on a sample basis to obtain the data required to calculate unemployment rates for specific groups of people. Statistical services conducted surveys on a monthly basis for Blacks, Coloureds and Asians called Current Population Survey (CPS), which was later terminated and replaced by the October Household Surveys (OHS) because of the inaccuracy of the inaccuracy of Blacks figures (Barker, 1996:83).

Since 1996, Statistics South Africa has conducted October Household Survey (OHS). It is a survey based on a probability sample of a large number of households. According to the definitions of the International Labour Organisation (ILO), it covers a range of development and poverty indicators, including unemployment (official and expanded). The following method is used to determine the unemployment rate (Barker, 1996:84).

2.5.1 Definition of the unemployment rate in South Africa

According to Statistics South Africa (Stats SA, 2000: xv) unemployed are those people with the economically active population who:

- Did not work during the seven days prior to the interview;
- Want to work and are available to start within a week of the interview; and
- Have taken active steps to look for work or to start some form of self-employment in the four weeks prior to the interview.

These general criteria were translated into statistically meaningful criteria, namely the population of potential working age (i.e. 15 years and older); the economically

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

non – active (i.e. those who prefer not to or cannot work); the economically active population (the employed or self – employed together with the unemployed who are fit to work, wish to work, have no employment and are ready for and actively looking for work) (Slabbert, 1997:71).

The unemployment rate (Ur) is calculated by the standard equation:

$$\frac{\text{number of unemployed}}{\text{Economically active population (EAP)}} \times \frac{100}{1} = Ur$$

2.5.2 Interpretation of the unemployment rate in South Africa

In developed countries the definition in section 2.4.1 is relatively simply to apply. The criteria for unemployment are straight and define. A person is regarded unemployed when she/he is out of work and is actively looking for a job by means of a listing at a placement or other government office (Slabbert, 1997:72).

However, developing countries circumstances are different. Finding employment or seeking work is not easy. Some unemployed persons in South Africa, especially blacks, become discouraged and therefore do not take active steps to seek employment (Slabbert, 1997:72). In the surveys for this study only the fourth criterion, i.e. "had the desire to work and to take up employment or self – employment" was taken as an indication of seeking work. The third criterion was ignored. In fact the question asked was simply: "Do you want to work?" (Slabbert, 1997:72).

The first criterion, which also defines unemployment as "persons who did not work for 5 or more hours for a wage or salary or for profit or family gain during the seven days preceding the survey", was relaxed. The question asked was simply: "Do you work for business, for yourself or for your family?". Working for a business was regarded as formal employment. Self – employment and family employment were taken as working in the informal sector (Slabbert, 1997:72).

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

Regardless of the precautions taken to ensure accuracy in the reporting of unemployment figures in the surveys of May/June 2004, the high levels of involuntary unemployment may have affected the accuracy of the unemployment rates obtained marginally. The deep-rooted desire to escape from the grip of severe poverty caused by the high levels of involuntary unemployment, is translated into a kind of multiplier effect (Slabbert, 1997:72). For instance, if a mother and a grown-up daughter from the same family are unemployed, both will express a desire to take employment.

However, if one of them is successful in obtaining employment, the other will no longer be available for employment. It is not possible to correct or adjust the results for the impact of the multiplier effect. When the standard CSS definition is used, but its strict criteria are relaxed, as was done in the empirical surveys for this study, it is referred to as an expanded definition of unemployment (Stats SA, 2000:xv). The unemployment rate that is calculated from the data obtained in the 2004 survey is therefore unemployment rate based on the expanded definition of unemployment.

2.6 POVERTY

2.6.1 Introduction

As indicated under the introductory part of this chapter, this section discusses different ways of assessing poverty. The characteristics and experiences of poverty are also discussed. Lastly, under this section, measurement of poverty is made.

2.6.2 Defining poverty

It is problematic to define poverty since there is no uniform way of measuring poverty. Poverty cannot and should not always be measured and described in monetary terms; it can also be experienced as a deterioration of living conditions, or the inability to meet basic needs. Poverty can also be viewed as a lack of resources or access to resources or a lack of living with human dignity (May, 1998:2).

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

May (1998:4) despite the obviously large number of people living in poverty, the definition of poverty has been the subject of some debate amongst policy analysts. The emerging consensus sees poverty as generally characterised by the inability of individuals, households or entire communities to command sufficient resources to satisfy a socially acceptable minimum standard of living. According to Jansen van Rensburg (2001:10), poverty was defined at the World Summit for Social Development in Copenhagen in 1995 as having:

"various manifestations, including lack of income and productive resources sufficient to ensure sustainable livelihoods, hunger and malnutrition, ill-health, limited or lack of access to education and other basic services; increased morbidity and mortality from illness; homelessness and inadequate housing; unsafe environments; discrimination and exclusion. It is also characterised by lack of participation in decision-making and in civil, social and cultural life".

United Nations Development Programme South Africa (2000:23) differentiates between extreme / absolute poverty, overall poverty and human poverty. Absolute poverty is then: " a lack of income necessary to satisfy basic food needs – usually defined based on minimum calorie requirements". Overall poverty is defined as: " a lack of income necessary to satisfy essential non-food needs such as for clothing, energy and shelter – as well as food needs".

Furthermore, human poverty is considered to be the "lack of basic human capabilities such as illiteracy, malnutrition, abbreviated life span, poor maternal health, illness from preventable diseases. Indirect measure are lack of access to goods, services and infrastructure – energy, sanitation, education communication, drinking water – necessary to sustain basic human capabilities".

Committee of Inquiry into a Comprehensive System of Social Security for South Africa (2002:34) defines poverty as "the inability of individuals, households or entire communities to command sufficient resources to satisfy a socially acceptable minimum standard of living". According to the research done by the Committee, the poor themselves defined their poverty as, amongst other things, alienation from the

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

community, food insecurity, crowded homes, lack of access to safe and efficient energy sources, lack of adequately paid and secure jobs as well as fragmentation of the family.

The World Bank (1990:35) defines poverty as the 'the inability to attain a minimal standard of living' measured in terms of basic consumption needs or income required to satisfy them.

According to Slabbert (1997:37) conventional literature on poverty divides the definitions of poverty into two approaches, namely the relative and the absolute approach. The idea that people are poor in relation to the community or society they find themselves in is based on the relative approach to poverty, i.e. their income is consistently below the level that would make them achieve a specific average standard of living. The society they are part of, judge this. According to Wratten (1995:12), this approach is normally followed in the North where poverty is less problematic and generally a minority problem. Apart from both the absolute and relative approaches to poverty, is the more recent human scale development approach (Slabbert, 1997:38).

The relative approach is a more subjective measure than the absolute approach. The relative definition of poverty is based upon a comparison between the standard of living of the members of society who are not worse-off. Some measures of the average standard of the whole of the society in which poverty is studied are usually involved (Alcock, 1993:59).

Holman (1978:2) stated that the absolute approach to poverty looks at poverty from the viewpoint of deprivation or the lack of sufficient income to satisfy basic needs. Especially needs of a physiological nature are seen as an absolute poverty. Poverty is referred to as subsistence poverty or poverty below the subsistence level (Holman, 1978:2). Holman (1978:2) refers to the poor as those who have regular though bare income. The very poor are those who, owing to whatever cause, fall far below the subsistence level. The operative word in this approach is income. Income that

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

consistently falls short of supporting the bare necessities of life is viewed as causing poverty.

According to Max-Neef (1991:5) this approach allows a useful reinterpretation of the concept of poverty. Any fundamental human need that is not adequately satisfied reveals a human poverty. Thus in addition to the conventional view of poverty as the poverty of subsistence due to insufficient income, food, shelter amongst others, there could also be a serious poverty of protection due to widespread violence and poor primary health systems; of affection due to oppression, authoritarianism and exploitation of the natural environment; of understanding as a result of poor education; of participation due to discrimination against women, ethnic and other minorities and excessive affirmative action; of identity due to the imposition of alien values upon local and regional cultures, forced removals and exile; and of freedom due to political oppression, censorship and excessive bureaucracy. This approach of a wide range of potential human poverties casts new light on what is often termed the social fabric in a society (Max-Neef, 1991:5).

According to South African Participatory Poverty Assessment (SAPPA) (1998:31) poverty is seen as including the following:

- **Alienation from the community**

The poor are isolated from the institutions of kinship and community. The elderly without care from younger family members were seen as 'poor', even if they had a state pension that provided an income, which was relatively high, by local standards.

- **Food insecurity**

This is due to the inability to provide sufficient or good quality food for the family as an outcome of poverty. Households where children go hungry or are malnourished are seen as living in poverty.

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

- **Crowded homes**

The poor were perceived to live in overcrowded conditions and in homes in need of maintenance.

- **Use of the basic forms of energy**

The poor lack access to safe and efficient sources of energy. In rural communities, the poor, particularly women, walk long distances to gather firewood. In addition, wood collection increases their vulnerability to physical attack and sexual assault.

- **Lack of adequately paid, secure jobs**

The perceived lack of employment opportunities, low wages and lack of job security as major contributing factors to their poverty.

- **Fragmentation of the family**

Many poor households are characterised by absent fathers or children living apart from their parents.

2.9 THE CHARACTERISTICS OF POVERTY

According to Reconstruction and development programme (RDP) (1995:43) the following characteristics (although applicable in South Africa's scenario) explain the probability of being poor:

- Households headed by females have a significantly increased probability of being poor relative to those headed by males;

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

- In terms of household composition, increased numbers of very young and / or school-going children in the household are strongly associated with an increased poverty probability;
- Regional dimension to poverty. Households in the Eastern Cape, Free State and Limpopo province are most likely to be poor, even after controlling other factors like land. Urban households there are shown to be significantly poorer than the metropolitan benchmark, while rural households have an even higher probability of being poor; and
- The educational sub-set generates disturbing results. The positive signs associated with additional members with less than a complete secondary education imply that the education of household members up to such levels is not helping households to escape from poverty.

2.8 THE EXPERIENCE OF POVERTY

The absence of power is almost a defining characteristic of the poor. Clearly, powerlessness is linked to gendered power relations within the household (Nduli, 1995: 46). According to Nduli (1995:47) the experience of poverty is divided as follows:

- **Time poverty**

Time is one of the most important costs associated with many of the livelihood plans constructed by the poor. Women are often singly responsible for child-care, cleaning the house, fetching and heating water, washing and ironing, shopping, collecting firewood, cooking, and washing dishes as well as for many tasks associated with agricultural production (Nduli, 1995:45).

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

- **Seasonality**

Seasonal stress is an important dimension of poverty and has long been recognised as a feature of the livelihoods of the rural poor in many contexts.

- **Poverty traps**

Lack of access by poor households to complementary assets and services resulted in 'poverty of opportunity', whereby individuals were unable to take full advantage of the few assets that they did have access to (May, 1998:34).

2.9 MEASUREMENT OF POVERTY

This section quantifies poverty by using different income-related criteria. The purpose is to define poverty in absolute terms. The aim is not only to calculate the number of the poor, in other words, the extent of poverty, but also to determine how the poor are distributed below the minimum subsistence level, in other words, the magnitude of poverty. The method of measuring poverty used under this item is similar to methods used by the World Bank and other institutions with research credibility (Slabbert, 1997:37).

Defined under this item are the household incomes as well as a poverty line. Also defined are the income indicators of poverty such as the headcount index, poverty gap index and the dependency ratio and these are adapted for the purpose of a microanalysis of poverty.

2.9.1 Definition of household income

Most of the quantitative measurements of poverty are based on income levels. Central Economic Advisory Services (1986:16) includes the following in its definitions of income:

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

- Salaries, wages, overtime and commissions prior to the deduction of pensions and taxes;
- Net profit from business, farming or professional practice;
- Estimated cash value of fringe benefits such as accompany car and housing subsidy, food, clothing and accommodation provided by employers; and
- Any other regular income (pensions, interest, dividends, rent from boarders/lodgers).

Following roughly the same approach in this study, the income for measuring poverty is defined as:

- Salaries, wages, overtime and commissions after the deduction of pensions and taxes, in other words "take home pay"
- Net income from business, professional and informal activities;
- Estimated value of fringe benefits such as housing subsidy, food, clothing and accommodation provided by the employer;
- Any other regular income (pensions, interest, dividends, rent from boarders/lodgers, remittances etc).

The questionnaire used in the survey was constructed in such a manner that income and expenditure information for both the household and the individual members of the household could be obtained. Other information needed for the measuring of poverty with the non-income indicators was also obtained in the same surveys. This included the age and gender of household members, formal training, employment status, and expenditures patterns. With the total incomes of households interviewed in the survey available, what follows in the analysis is to calculate a poverty line for each household (Slabbert, 1997:43).

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

2.9.2 Definition of poverty line

The poverty line shows the income level needed to provide a minimum subsistence level. Until 1973, the term Poverty Datum Line (PDL) was generally used to describe a theoretical minimum cost of living in South Africa. It was based on a calculation of the lowest possible cost of maintaining a person (household) in good health and decency by Western standards, but in the short run only (Potgieter 1980:11).

The most widely used poverty line in South Africa today is the Household Subsistence Level (HSL). Potgieter (1980:4) defines the HSL as an estimate of the theoretical income needed by an individual household to maintain a defined minimum level of health and decency in the short term. The HSL is calculated at the lowest retail cost of a basket of necessities of adequate quality. This comprises the total food, clothing, fuel, lighting, and washing and cleansing materials required for each person, together with fuel, lighting and cleansing materials needed by the household as a whole, and the cost of rent and transport.

The reasons why HSL is mostly selected as compared to MLL is as follows: firstly, because of the fact that it is only the measure which can be used for all the major centers in South Africa. May (1998:7) argue that MLL does not specify separate poverty lines for the urban and rural populations. Hence, the HSL is therefore the only poverty line with specific data regarding households. Secondly, the HSL has been the most frequently used measure in recent years May (1998:7). This allows for meaningful comparisons.

Thirdly, the method of the HSL as employed by Potgieter (1980:63), and the publication of the details, makes it possible to select from the details to calculate a unique HSL for individual households. Potgieter gives a breakdown of the subsistence cost for different age groups of the different genders, as well as certain costs for a household as a whole. By calculating the HSL for an individual household, and comparing this figure with the combined income of the different members of the same household, the degree of poverty can be measured at micro-level or household level.

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

2.9.3 Measuring Poverty

A poor household is defined as a household of which the combined income of all its members is less than the Household Subsistence Level (HSL) as determined for the specific household. If the combined income of a household is described by z_i , the extent of poverty, p_i , of this household is described by $p_i(y_i; z_i)$ (Slabbert, 1997:47).

With a poor household defined, the number of poor households can be calculated. By allocating the amounts suggested by the HSL to the different members, the HSL for each individual household can be determined. Comparing the combined income of a specific household with the HSL of the household, it can be determined whether a person is poor or not. Once the number of poor households has been determined, the different income indicators of poverty can be applied to analyze poverty. The income indicators used are: the headcount index in conjunction with the poverty gap index and the dependency ratio. All of these are adapted for the purpose of micro-analysis (Slabbert, 1997:48).

2.9.4 The headcount index and the poverty gap

The headcount index is defined as the fraction of the population below the poverty line. In this report the headcount index is adapted to indicate the fraction of households that fall below their individual poverty lines, and is described by means of the equation:

$$H(y; z) = M/N$$

Where: H = the fraction of households below the poverty line;

y = household income;

z = the poverty line of households;

M = the number of households with incomes less than z

**The role of SMME's in local economic development aimed at job creation,
income generation and poverty alleviation in Zamdela**

N = the total number of households

The poverty gap usually measures the average shortfall of the incomes of the poor from the poverty line while the poverty gap index measures the extent of the shortfall of incomes below the poverty line. In this report the poverty gap index is adapted to be a measure of a specific household, described by the equation:

$$R_i(y,z) = (z - y_i)/z_i$$

Where: R_i = the income shortfall of a household expressed as a proportion of the household's poverty line;

y_i = the income of a specific household; and

z_i = the poverty line of a specific household.

The poverty gap of an individual household (in monetary terms) can therefore be expressed by the equation:

$$G_i(y,z) = z - y_i$$

Where G_i = the income shortfall of a household

y_i = the income of a specific household; and

z_i = the poverty line of a specific household.

From the three equations above it is clear that the poverty gap can only be reduced by increasing household income (Slabbert, 1997:47).

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

2.9.5 The headcount index

The simplest method of measuring poverty is to express the number of poor as a proportion of the population. This is called the *headcount index* (World Bank 1990a:27). In applying the formula for the headcount index to the data of 2004 survey, the following is found for Zamdela:

Headcount index: $H(y;z) = M/N$

$$H(y;z)^{2004} = 0.77$$

The headcount index of households in Zamdela was therefore 0.77 for 2004. This implies that in 2004 some 77 percent of Zamdela households was below their respective poverty lines.

2.9.6 The poverty gap

Normally the poverty gap measures the average shortfall of the incomes of the poor from the poverty line while the poverty gap index measures the extent of the shortfall of incomes below the poverty line, that is, the difference between the poverty line and the mean income of the poor, expressed as a ratio of the poverty line (World Bank, 1993a:15). The larger the value, the larger the gap between the poverty line and the mean income of the poor, indicating a larger depth in poverty. Applying this formula to the Zamdela survey data for 2004, the poverty gap index was calculated at 0.32. This means that the depth of poverty has also increased, concomitant with the increase in the number of poor households as reflected by the headcount index.

2.9.7 Dependency ratio

Slabbert (1997:56) stated that the proportion of the total population falling between 0 to 15 and 65+ years of age is considered economically unproductive and are therefore not included in the labour force. In many less developed countries (LDCs),

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

the population under the age of 15 accounts for almost half the total population, in this way, posing a burden to the generally small productive labour force and the government. Slabbert (1997:56) further stated that one of the causes of poverty in South Africa is the high dependency in black families. Those who earn income have to support many non-earners with the result that their incomes are spread so thinly that the food, clothes and shelter they can afford are less than the minimum regarded as essential.

Dependency ratios are usually calculated by dividing the total number of non-income earners by the total number of income earners. However, this calculation of the dependency ratio is very insensitive because it is based on averages Slabbert (1997:57).

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

2.10 SUMMARY AND CONCLUSION

Unemployment plays an important role in perpetuating the state of poverty and, the latter cause crime in the country. Unemployment entails significant costs to the individuals who are unemployed as well as to the society. External factors like the globalisation of markets, fewer trade restrictions, availability of cheaper imported goods and the rapid development of new technology and the general low levels of skills more especially among the poor of the poorest in the labour force are regarded as the causes of unemployment. On the other hand, structural type of unemployment is regarded as the one dominating in South Africa since machines are replacing many persons.

According to the dimensions of unemployment shown under item 2.2.2 of section on of this chapter unemployment in the Free state province (of which Zamdela forms part) was estimated at 28 percent for the year 2002 compared to 25 percent in the Gauteng province (of which Bophelong forms part). Comparisons of population profiles of Zamdela and Bophelong are discussed in Chapter 5.

It remains also a true principle that if you give a man a fish you give him a meal but if you teach him how to fish you are providing him with a livelihood. Therefore, a handout approach (such as a social assistance grant) is not necessarily the solution to poverty as was also featured in the problem statement in the previous chapter.

The eradication of poverty cannot, however, be tackled by government alone. There should be a shared responsibility with other role-players, namely civil society and the communities themselves.

The promotion of SMME's is suggested to be one of the policy strategies to ensure that future economic growth is employment – creating. SMME's development is one of the most means of creating jobs and wealth, provided if there is an enabling environment.

In South Africa there are numerous examples where the poor have created programmes (SMME's) to alleviate poverty or to provide support in order to mitigate

**The role of SMME's in local economic development aimed at job creation,
Income generation and poverty alleviation in Zamdela**

the effects of poverty. Also in terms of current government- funded poverty alleviation programmes, the underlying principle remains that the community knows best what is needed in their respective areas.

With the evidence that the reduction of unemployment among the poor will have the greatest impact on the extent and magnitude of poverty in Zamdela, SMME's as the suggested employment – creating policy strategy of Zamdela economy is analysed in chapter 6.

CHAPTER 3

LOCAL ECONOMIC DEVELOPMENT (LED)

3.1 INTRODUCTION

In this chapter, LED is investigated within a South African context. Firstly, LED is defined and described; the importance, the principles of LED and the role of local government are pointed out in this regard. The background and legal framework of LED in South Africa are also discussed. Comparisons between LED and global economies are made. The main themes of the emerging agenda and the methods for promoting LED are discussed. Lastly, summary and conclusion of the chapter are given.

3.2 DEFINING LED

According to Mufamadi (2000:1) LED is an outcome based on local initiative and driven by local stakeholders. It involves identifying and using primarily local resources, ideas and skills to stimulate economic growth and development. The aim of LED is to create employment opportunities for local residents, alleviate poverty, and redistribute resources and opportunities to the benefit of all local residents.

Zaaijer and Sara (1993:1) define local economic development as a vehicle based on local development by local residents and a process to be driven by local residents. It involves identification of resources endowed locally, including ideas and skills necessary towards the anticipated economic growth and development. This initiation advocates recognition of the importance of involving people for the benefit of the same people. It exposes the full effective and efficient utilization of resources that comprises of resources of natural resources and human labour.

LED refers to the improvement of living conditions in the less development areas (of which Zamdela is one). It entails an improvement in the quality of life of the majority

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

of the population because of an increase in the potential production, the reduction of inequality and the eradication of absolute poverty (Mohr, 2004:659).

LED is the process or strategy in which locally based individuals or organisations use resources to modify or expand local economic activity to the benefit of the majority in the local community. Local initiatives may be either self-generated by community members or stimulated by external agencies such as a higher-level government (Nel & Humphrys, 1999:27).

Blakely (1989:58) avers that LED is essentially a process by which local government and/or community-based groups manage their existing resources and enter into new partnership arrangements with the private sector, or with each other, to create new jobs and to stimulate economic activity in a well-defined economic zone. The central feature in locally orientated or –based economic development is the emphasis on “endogenous development” policies, using the potential of local human, institutional and physical resources.

LED is an “outcome”, based on local initiative and driven by local stakeholders. It involves identifying and using primarily local resources, ideas and skills, to stimulate economic growth and development. The aim LED is to create employment opportunities to the benefit of all residents. LED is an ongoing process and encompasses all stakeholders in a local community involved in a number of different initiatives, aimed at addressing a variety of socio-economic needs in that community (Department of Provincial and Local Government – DPLG, 2003:1).

Local Economic Development's aim is to address a socially and economically unacceptable situation. These issues cannot be unpacked from the shelf like ready-made cookies for consumption (Zaaijer & Sara, 1993:3).

In line with the above-mentioned last paragraph, development occurs inside people: either they do it themselves or it does not happen at all. It is simply not possible to give or hand out development to people. People can indeed be given objects (goods & services), but if development is to occur, they have to get actively involved

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

themselves. In short, they have to learn to deliver their own development, i.e. to become more self-reliant (Van Zyl, 1995:10).

3.3 HISTORY AND BACKGROUND OF LED

Just as employees in the modern industrial economy have become dependent on employers to organize their professional careers for them, so have local communities become dependent on outside markets to buy their produce and on policies dictated from a far distance by business and government. Mainstream macroeconomics does not recognize the existence of local socio-economic arrangements as economies in their own right. Hence, many countries have in recent times introduced special measures to deal with depressed areas, and have given responsibility for job creation to local authorities. They have also set up local development units (World Bank, 1990: 87).

World Bank (1990:99) further pointed that a new vision in respect of local development, which focuses strongly on greater self-reliance, would fit in well with a transition to own work. Individual communities, just like people should increasingly be enabled to move away from their current predominant dependence on outsiders to organize their economic fortunes for them. In larger terms, such a viewpoint would imply a significant paradigm shift towards:

- More self-reliant development;
- A conviction that local economies should be allowed to exist and operate in their own right; and
- A supporting policy framework.

World bank (1990:14) stated that the sustainability of Local Economic Development is now the subject of profound concern, because the environment is principally experienced locally, and social deterioration is most apparent locally.

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

According to the World Bank (1993:78) it has become clear, that since 1960s, LED globally passed through two broad stages or so-called waves of development. In these waves, LED practitioners have developed a better understanding of successful and unsuccessful programmes. Although LED has moved through each of these waves, elements of each wave are still practised today. The first wave was from the 1960s to the early 1980s. During this period, the LED focus was on the attraction of manufacturing investment, hard infrastructure investment and attracting outside investment. The late 1990s and onward can be classified as the second wave. During this wave of LED, greater focus was placed on soft infrastructure investments, public-private partnerships (PPPs), networking and making the entire business environment more conducive to business (World Bank, 1993).

Nel and Humphrys (1999:277) state that the commitment of the new government of South Africa after 1994 to promote LED as the solution for its most disadvantaged areas, has occurred in the "post-Fordist" era, when thinking about development is in a state of flux. During the middle third of the twentieth century, when a "Fordist regime of accumulation" was dominant, policies and strategies for the economic development of disadvantaged areas became much clearer.

Keynesian demand management and welfare policies that helped to redistribute wealth were part of the "Fordist regime of accumulation". "Top-down" government intervention was accepted as the required route to achieve better spatial distribution of economic growth and development within nations. The move to "Top-Fordism" became apparent in the 1970s when global economic crises and falling profits led to the adoption of cost-cutting strategies. Wealth redistribution through state welfare programmes came under pressure. Development took on a mosaic pattern, with characteristics differing from place to place, the opposite of the "Fordist" conformity that had previously prevailed (Nel & Humphrys, 1999:278).

Such changes have impacted profoundly on local areas, their growth potential and, by implication, on LED. Such growth potential can focus on either localised or endogenous development, or its increasingly common association with the notion of local areas seeking to enhance their growth potential through participation in the

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

global economy. Such trends parallel the recognition that LED, in recent years, is increasingly focusing on issues such as regional specialisation and niche markets. Shifts in society and the strengthening of the desire by those better off to retain and increase their advantages were identified at the beginning of the 1990s. Governments began to look at the encouragement of and support for "bottom-up" development and local initiatives towards achieving a better distribution of economic development. This view was all the more attractive, since it was a relatively cheap action and seemed to facilitate a reduction in public expenditure (Nel & Humphrys, 1999:277-279).

3.4 THE LEGAL FRAMEWORK FOR LED IN SOUTH AFRICA

Local government has been described as the "hands and feet" of reconstruction and development in South Africa. It is at the heart of the development process in this country. Increasing emphasis therefore is, being placed on LED by South African government, given the paradigm shift away from local government being viewed as simply delivery agents to the concept of developmental local government. The sustainable LED objectives are all consistent with South Africa's guiding policy mandates. South African policy and legislative initiatives clearly provide a sanction for LED. Some of the more important documents in this regard include the following (Nel & Humphrys, 1999 & 156 and IRI & NBI, 1998:52-55):

- The Local Government Transition Act 200 of 1993 (LGTA) and the Amendment Act of 1996 require municipalities to promote economic and social development. Metropolitan areas are empowered to promote integrated economic development. The LGTA requires that local authorities determine, formulate and implement an IDP. The (Integrated Development Plan) IDP is a general framework under which all planning for key social, economic and environmental sectors falls. The new IDP planning scheme requires a paradigm shift in how local authorities approach planning and economic development.
- The vision and objectives associated with LED can also be found in the 1994 Reconstruction and Development Programme (RDP). The RDP insisted, that all

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

spheres of government establish “a co-ordinated and coherent development strategy”.

- The Development Facilitation ACT – DFA (Act 67 of 1995). The clauses and provisions of this Act, allow for actions, which can facilitate development. It empowers municipalities to establish statutory land development objectives (LDOs), which set out a clear approach to land development for each locality.
- The Urban Development Strategy (1995). In the foreword to this document, President Mandela called on urban residents to build their local authorities and promote economic development.
- The Constitution (Act 108 of 1996) of the South Africa (especially 152c and 153a) states, that a local government must give priority to the basic needs of the community and should promote social and economic development of the community.
- The Growth, Employment and Redistribution (GEAR) document and strategy of the ANC government in 1996, offered several objectives that relate to LED. It is mentioned in the document, that there is more scope for increased employment at local government level, associated with social and infrastructural development projects.
- The Rural Development Framework (1997) stresses the success, which has been achieved through local level negotiations in the country and identifies LED as a way forward for local governments.
- The Green paper on Local Government (1997) avers that LED is not something separate from the daily work of a municipality. It does not require a department of its own. Rather, all the activities of a local government need to promote economic growth. The overriding economic challenge for South African local authorities is inequality and poverty – which can and should be addressed through all the functions of the municipality.

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

The Whitepaper on Local Government (1997) argues that developmental local government is local government committed to working with citizens and groups within the community in order to find sustainable ways to meet their social, economic and materials needs and to improve the quality of their lives. LED is identified as one of four developmental outcomes of local government.

3.4 THE IMPORTANCE OF LED

According to the IRI and NBI (1998:2-3) and Nel (1998:153-154) it is especially important for local governments in South Africa to promote LED, the reason being as follows:

- is one of the logic ways in which to address the “apartheid” legacy – to help address socio-economic inequalities, promote urban integration, job creation and service provision;
- can contribute to local employment, empowerment and wealth generation
- can directly, or indirectly, promote economic development and empowerment of community groupings;
- increases income levels and enables people to pay for services. It broadens the tax and revenue base of a local authority;
- enables the local authority to provide more and better services and facilities to the local citizens;
- builds new institutions for sustainable economic development and promotes linkages between developed and under-developed areas;
- can be a key component of, and a supplement to, and a broader process of regional and national development and it can assist with the attainment of macro-economic policy objectives; and

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

- can be a "grass roots" complement to "top-down" national development

3.5 THE PRINCIPLES OF AN ADEQUATE LED CONCEPT FOR S.A

According to CASE (2001:56) the principles of an adequate LED concept for South Africa might be as follows:

- Establish a clear distinction between LED and community development.
LED is about creating functioning markets, which encourage competitive businesses. Community development is about solving social problems (health, housing, education, and neighbourhood), it involves principles such as solidarity and support for the weak and marginalized.

- Introduce a clear market and business focus in LED.

Conceptualise black empowerment and the promotion of emerging entrepreneurs. For instance, townships are full of business opportunities, but also full of market failures. Addressing market failure is the appropriate way to stimulate business opportunities, not subsidising potential entrepreneurs or entertaining them with shallow training courses. One does not solve a problem by throwing money at it.

- Persuade local stakeholders to look for specific project ideas, which are quickly, implement able and make a difference for local businesses.

The idea that innovation can be based on consensus is nonsense. With a huge LED forum aiming at consensus, one gets very boring, conventional ideas, and probably no practical results at all. Encourage local stakeholders to establish a governance structure only when there is something to be governed, i.e. when some practical projects are under way.

- Involve both the public and the private sector in LED.

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

If LED is left to the private sector alone, too narrow perspective might be created. In addition, LED should not be left to the government alone, since government is usually not very good at understanding business matters. LED must be based on a partnership between government and the private sector, and it should involve other stakeholders, which are targeting economic issues.

3.6 METHODS FOR PROMOTING LOCAL ECONOMIC DEVELOPMENT

New economics foundation (1997:40) pointed out the methods for promoting LED as follows:

- Start from the perceived needs of the communities involved.

People's motivation is at its highest when it is directed towards the satisfaction of their own needs. Giving people hope that there is outside help, which enable them to satisfy their needs may generate the motivation, enthusiasm and energy in the community without which any kind of community economic development is unlikely to be forthcoming.

- Build partnerships in the locality of people from the private, public and voluntary sectors.

Such partnerships have multiple objectives as follows:

- ❖ to establish personal relationships between people working in different sectors of the same community;
- ❖ to unite the often separate spheres of economic development , regeneration, service provision, community development and environmental protection;
- to generate a broad understanding about the locality and its problems, and a commitment to deal the latter; and

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

- ❖ to build a capacity to mobilize appropriate resources to address the problems when the opportunities arise.
- Bring to the locality a detailed knowledge of successful approaches and examples of LED

Seek to build local institutions and catalyse initiatives that will both encourage people to create wealth and will keep that wealth in the community so that what might seem large in one field would be definitely small in another.

3.7 THE MAIN THEMES OF THE EMERGING AGENDA FOR LOCAL ECONOMIC DEVELOPMENT

Ekins and Newby (1996:9) listed the main themes of the emerging agenda for LED as follows:

- Capacity building and training.

If development from within is to flourish, communities and individuals need to have the capacity both to take the opportunities made available and to create new opportunities of their own. This requires a mixture of confidence, skills and knowledge, together with access to supportive contacts and institutions, and the motivation to act. Education, community development and capacity building have a vital role to play in this respect, as does addressing the often-crippling effect of poverty on self-belief and enterprise.

- Community enterprise and economic solutions.

These are often supported by initiatives that promote the development and exchange of skills and services outside the formal economy (e.g. through – Local Exchange Trading Systems (LETS)) or which allow individuals and enterprises easier access to credit and capital – for instance through credit unions and micro-finance initiatives.

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

- Responsible and responsive business development.

The vast majority of economic activity will continue to be in the private sector, and local business development is entirely consistent with the theme of development from within. The twin challenge that exists is, on the one hand, to provide a supportive climate for new enterprises and existing local businesses alike, and on the other, to encourage responsible business practice in terms of environmental and human impact, employment policy and links with the local community.

- Access to sustainable and fulfilling work.

Community enterprise and business development both contribute to employment generation. However, there is also a need to consider a wider agenda that addresses the nature and distribution of work as well as the number of jobs available. Given the central role work plays in the lives of most people, and the aim of stimulating economic activity that leads to increased well-being, emphasis should be placed on promoting work that is fulfilling for the individual and which makes a positive contribution to society.

- Meeting local needs through local resources.

It is unrealistic to expect all needs to be met using local resources. However, there remains much untapped potential to link local production with local consumption, and exploiting this could generate wide-ranging benefits. Transport use and pollution would be reduced, potential for many small-scale enterprises enhanced, and a sense of local interconnectedness would be developed. Equally, local purchasing encourages the circulation and multiplication of local wealth, which may be especially beneficial in relatively disadvantaged areas.

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The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

3.8 COMPARING LED TO GLOBAL ECONOMIES

Environ (1996:19) stated the differences between LED and global economies as follows:

- Global markets will never involve everyone. Based on global competition, they create global winners and global losers.

Without active local economies, the losers become unable to participate in any kind of economic activity and a disadvantaged, unemployed, marginalized and alienated underclass emerges. Local Economic Development can provide opportunities for people who have been excluded from the global market either to re-enter it or to be productive outside it.

- Global economies create social and environmental distancing.

As more and more people buy from, and work to produce for, global markets, the economic relationships that are an important cohesive force in local communities become less strong. Local Economic Development can maintain local economic networks and social coherence.

- Globalization fosters cultural homogenization.

Cultural identity is an important aspect of social coherence and creativity, which is undermined by globalization. Local Economic Development can celebrate and promote local distinctiveness.

- Globalization creates economic vulnerability.

Because it is based on increasing levels of specialization, globalization makes localities more vulnerable to economic restructuring when the demands of the market change. A vigorous local economic base can give stability in times of

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

restructuring and provide opportunities for new areas of specialization and comparative advantage to emerge.

3.9 LOCAL GOVERNMENT'S ROLE IN LED

Local authorities can and must play a central role in LED by virtue of their powers and functions on the local level. Municipalities employ people from the local area, purchase goods and services, develop the infrastructure, regulate the development of land, influence the economic environment of the locality through policies and by-laws they pass and the programmes they support. All of these activities have an impact on the local economy.

Local government's developmental mandate from the South African Constitution (1996) and the White paper on Local Government (SA, 1997), encourages municipalities to seek to address poverty, unemployment and redistribution in their local areas. They are also required to participate in various economic development programmes of provincial and national governments.

Municipalities can promote LED in their areas in a number of different ways. They assume different roles at different times and they may play a more direct role in some LED initiatives than in others. Nearly every effort to develop a local economy will require some input, participation and support from local government. Table 3.1 provides some examples of the different or combination of roles that municipalities can play in LED.

**The role of SMME's in local economic development aimed at job creation,
income generation and poverty alleviation in Zamdela**

TABLE 3.1: ROLES OF LOCAL AUTHORITIES IN LED

Municipal role	Explanation of municipal role
Co-ordinator	In this role, the municipality acts as a co-ordinating body. An important tool for co-ordination, is the Integrated Development Plan (IDP), which draws together the developmental objectives, priorities, strategies and programmes of a municipality. The IDP can be used to ensure that LED Initiatives are co-ordinating with other municipal programmes, and approximately linked to national and provincial initiatives.
Facilitator	In this role the municipality improves the investment environment in the area. For example, the municipality may streamline the development, or improve planning procedures and zoning regulations.
Stimulator	In this, role municipalities stimulate business creation or expansion. For example, the municipality may provide premises at low rent to small, Medium and micro enterprises (SMME's), or compile brochures on local investment opportunities, or promote a particular tourism theme or activity in a key venue.
Entrepreneur or developer	In this role the municipality takes on the full responsibility of operating a business enterprise. A municipality can also enter into a joint venture partnership with the private sector or a Non-governmental organisation (NGO).

Source: DPLG, 2003

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

3.10 SMME'S PROMOTION AND SUPPORT

Many LED initiatives focus on providing support to SMME's. This strategy is often used to create employment opportunities. The DPLG (2003:39) states that a global decline in the number of jobs created by large manufacturing industries has occurred, with the result that municipalities have focussed on developing small businesses as a way of creating new job opportunities.

The potential for job creation through SMME's development is receiving considerable attention in South Africa. National government, through the DTI, has adopted a range of policies to promote the development of SMME's. Several programmes have been put in place to support small business by facilitating access to finance, training and development, research and information, markets and linkages, incentives and new technology (IRI & NBI, 1998:8).

Whilst these national programmes provide a valuable support base for SMME's assistance, local authorities can help ensure that local businesses have access to these resources and are supported by an enabling local policy environment. Local authorities can achieve these objectives by providing information, establishing (Local Business Service Centres (LBSCs), creating a regulatory environment suitable for SMME's development, reforming tender processes and providing public facilities for small business incubators and other support projects. By pursuing these initiatives, local authorities can contribute to job creation in their communities (IRI & NBI, 1998:8).

Local businesses constantly need information and action from local authorities on a wide range of issues including licensing, tendering, rates, permits, zoning and building approvals. Long delays and confusing procedures associated with these processes can create difficult barriers. One of the most effective ways in which local authorities can support both and big businesses is to establish a central information centre. This centre can be the key contact point between all types of businesses and government, and can streamline and expedite approval- and other procedures (IRI & NBI, 1998:13).

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

Another highly effective way, in which local authorities can assist SMME's, is by working with stakeholders to establish (LBSCs). The failure rate among new and small firms is substantial. The need, therefore, for management and business training, counselling, research and other forms of support, is critical. LBSCs are community resource centres, which provide this service to help small businesses get on their feet and eventually graduate into formal business enterprises. Since it first opened in 1986, the Empangeni Business Advice Centre (BAC) has played a pioneering role in the development of emerging businesses and it is one of the first LBSCs to become fully accredited by the DTI (IRI & NBI, 1998:9).

In South Africa, previous governments had little interest in promoting LED in favour of the disenfranchised section of the population. The ANC government formulated such LED policies for the first time in the late 1990s (Nel & Humphrys, 1999:277-279).

Richards and Stetten (2000:11) state that after 1994, and to be more specific, by 1998, the South African government had in terms of LED done little more than constitutionally mandate local government to promote economic and social development. It is only more recently that various local authorities, community groups and NGOs are pursuing LED. A range of new government policies support LED. In addition, NGOs are playing a key role as development agencies promoting LED in various towns and regions. In the Western Cape, Wesgro, an independent body, has been established to promote the interests of the region. A wide range of community-based activities is another contemporary focus.

**The role of SMME's in local economic development aimed at job creation,
income generation and poverty alleviation in Zamdela**

3.11 SUMMARY AND CONCLUSION

LED is defined as local initiatives driven by local resources, ideas and skills to stimulate economic growth and social development. In this, the three focus areas are creating employment opportunities, promoting existing business and supporting the establishment of new business. As such, LED should be the driving force for development and progress within the community.

LED is one of the logic ways in which to address the "apartheid" legacy to help address socio-economic inequalities, promote urban integration, job creation and service provision, for this reason, it is important for local government in South Africa to promote LED.

Principles of an adequate LED concept is about creating functioning markets which encourage competitive business than community development which only solve social problems (health, housing, education and neighbourhood). Black empowerment and the promotion of emerging entrepreneurs are conceptualised by LED, for instance, townships are full of business opportunities, but also full of market failures. As such addressing market failure is the appropriate way to stimulate business opportunities, not, subsidising potential entrepreneurs or entertaining them, with shallow training courses, i.e. one does not solve a problem by throwing money at it. Local stakeholders to look for specific project ideas, which are quit implementable and make a difference for local businesses are persuaded by an adequate LED concept. LED must be based on a partnership between government and the private sector, and it should involve other stakeholders, which are targeting economic issues, since if it can be left to private sector alone, too narrow perspective might be created.

Local government can and must play a central role in LED by virtue of their powers and functions on the local level. This is because municipalities employ local people, buy locally manufactured goods, services develop the infrastructure and regulate the development of land, and all these activities have an impact on local economy.

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

Local government encourages municipalities to seek address poverty, unemployment and redistribution in their local areas. They are also required to participate in various development programmes of provincial governments. Roles that local government can play in LED include amongst others, stimulating business creation or expansion by providing premises at low rent to SMME's and compiling brochures on local investment opportunities. The local government can improve the investment environment in the area by streamlining the development or improving planning procedures and zoning regulations.

Supporting SMME's is one of LED initiatives. This kind of strategy is used to create employment opportunities. Because of global decline in the number of jobs created by large manufacturing industries, the focus on development SMME's is seen as away of creating new job opportunities. In South Africa, the potential for job creation through SMME's development is receiving considerable attention. Through the help of DTI, national government has adopted a range of policies to promote the development of SMME's. Several programmes put in place to support SMME's include facilitating access to finance, training & development, research & information, markets & linkages, incentives and new technology.

With the above-mentioned programmes, local authorities help ensure local business have access to the resources and are supported by an enabling local policy environment. In addition, the only way local authorities can achieve these objectives is by providing information, establishing LBSCs, creating a regulatory environment suitable for SMME's development, reforming tender processes and providing public facilities for SMME's incubators. By pursuing these initiatives, local authorities can contribute to job creation in their communities.

With information given to local businesses on licensing, tendering, rates and buildings approvals there will not be long delays and confusing procedures that can create difficult barriers. If local authorities can work with stakeholders to establish LBSCs, SMME's can effectively be assisted and the failure rate for SMME's can be minimal. Therefore, the need for management, training, counselling and research is critical. Hence, LBSCs are seen as community resource centres that can provide the

**The role of SMME's in local economic development aimed at job creation,
Income generation and poverty alleviation in Zamdela**

service to help SMME's get on their feet and eventually graduate into formal business enterprises.

CHAPTER 4

SMALL, MEDIUM AND MICRO- ENTERPRISES (SMME'S)

4.1 INTRODUCTION

In this chapter different definitions and descriptions by individuals, institutions and countries are discussed. The importance, types, needs and the role of SMME's in LED are discussed. A SWOT analysis is also made and lastly, summary and conclusion are drawn.

4.2 DEFINING SMME'S

The Federal Reserve Bank defines SMME's as the enterprises, that are independently owned and operated but they are not dominant in their field (Tate *et al.* 1992:4). The world over, individuals, institutions and even countries have different conceptions of the term SMME's. As a result, an elementary, universally accepted definition could yet not be formulated. Apart from the differences between countries and the objectives in applying a definition, the heterogeneous nature of SMME's contributes to the formulation problems. It is essential that there should be reasonable agreement as to what, in fact, should be considered as SMME's (Kroon, 1998:29).

According to Pickle and Abrahamson (1976:4) the Committee on Economic Development (CED) offers a definition, which states that a business will be, classified SMME's if it meets two or more of the following criteria:

- Management is independent (usually the managers are also owners).
- Capital is supplied and an individual or a small group holds ownership.
- The area of operations is mainly local.
- Workers and owners are in one home community.

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

- Markets need not be local.

4.3 DESCRIBING SMME'S

The sustainable of enterprises varies between different types of enterprises (Gee *et al.* 1989:35). Micro- and small enterprises tend to be less sustainable in the long term than medium-sized enterprises. Micro and small enterprises tend to be less sustainable than medium enterprises and seem to be much more influenced by external factors. The weather is for example influencing a tourism enterprise. If it rains for a couple of days, it becomes a business impediment for these enterprises, leading to a loss of revenue (Olivier, 2002:12). Medium-sized enterprises create more job opportunities than small micro-enterprises, although medium-sized enterprises cost considerably more to develop (Saayman, 1999:79).

The U.S. Small Business Administration (SBA) considers approximately 95 percent of the 5.5 million "visible" businesses small. These businesses employ about 40 percent of the civilian labour force. Of all businesses, 66 percent have annual gross sales of less than \$100,000 and 71 percent employ fewer than ten people. In this way, people can see that small businesses make up an important segment of the American business complex (Macfarlane, 1977:2).

Macfarlane (1977:2) developed some good guidelines to serve as a point of departure. Although Macfarlane (1977:2) further mentioned that a problem immediately presents itself when people attempt to answer the question, how big is small? One would consider American Motors a "small" company when compared with General Motors or Ford; however, it would be compared with most of the businesses that people patronize. Most people would consider the independent druggist, service station owner, or local dry cleaner as "small" operators. Similarly, they would consider Mobil, Shell or Exxon among "big" businesses. The line between "big" and "small" is some what arbitrary, since there are several factors which relate to bigness or smallness, such as the number of employees, the type of business, the dollar value of sales or receipts, and the size of competitors.

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

Longenecker *et al* (1997:23) pointed that establishing a size, as the standard to define SMME's is necessarily arbitrary, because people adopt particular standards for particular purposes. Legislators, for example, may exclude small firms from certain regulations if they have fewer than 10 or 15 employees.

Moreover, businesses may be described SMME's when compared to larger businesses, but "large" when compared smaller ones. Most people, for example, would classify independently owned gasoline stations, neighbourhood restaurants, and locally owned retail stores as SMME's. Similarly, most would agree that major automobile manufacturers are big businesses. Firms of in-between-sizes, however, are characterized as large or small based on individual viewpoints.

4.4 THE IMPORTANCE OF SMME'S

It is accepted everywhere today that SMME's have unique qualities which enable them to create and provide job opportunities, stimulate initiative and innovations, promote healthy competition and fulfil an extremely important socio-economic role far easier than big business. SMME's are in a better position to stimulate economic welfare and ensure economic balance Kroon (1998:29).

The importance of SMME's for employment is very large/ huge, both in industrialised, developed nations like the USA or European countries, and in developing countries. In the European Union, 113 million people are employed in SMME's. 75 million people out of these 113 million people - or 66% - are employed in enterprises with a size up to 250 workers. About 60 million – or 53% - are employed in enterprises employing up to 50 people. Approximately 33 million people – or 34% - are employed in enterprises with a maximum of 10 employees. In the Netherlands, SMME's are responsible for more than half the job growth and a major source of innovation (EIM, 1999:4).

Data from Southern African countries indicate that substantial numbers of people are working in the SMME's sector. In Zimbabwe for instance, almost 29 percent of the population of 15 years and older were reported to be in the SMME's sector

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

(McPherson 1996:26). House- to house baseline surveys in seven Southern and East African countries show that the number of SMME's is far larger than the official statistics indicate. The surveys also show that between 17 percent and 27 percent of the population between 15 and 64 years old in these seven countries is working in the SMME's sector (Mead & Liedholm, 1998:6).

Marx *et al* (1998:730) analysed the importance of SMME's as follows:

- **Management experience**

People who operate SMME's have the opportunity to gain experience that could enable them to manage larger enterprises at a later stage

- **Innovation**

SMME's present the opportunity for innovation and vital growth in the economy. For example, electric toaster, vacuum cleaners and freezers.

- **Interdependent**

The large enterprise often depends on SMME's and vice versa. SMME's supply the components that have been given out on contract by large enterprises.

- **Employment**

SMME's are an important source of employment and their work-creation is higher than that of large enterprises.

- **Keep larger enterprises competitive**

SMME's cannot always beat larger enterprises in terms of cost, but adapts rapidly to consumer's needs.

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

- **Develop risk takers**

Owners of SMME's can join or leave the business sector any time. Risks attached to SMME's develop the typical entrepreneurial characteristic of accepting those risks.

4.5 TYPES OF SMME'S

It must be recognized that the SMME's economy – internationally or in South Africa – is not a homogeneous entity. Equally, as Horn (1995:35) stresses, people who work outside the formal economy do not constitute a homogeneous class's entity. It is useful, therefore, to distinguish between several different types of SMME's. In the National White Paper on Small Business, which draws upon international patterns, the South African SMME's economy is segmented into four enterprises (South Africa, 1995a:9).

4.5.1 Survival enterprises

People who are not able to find employment elsewhere run survival enterprises. The income generated is usually lower than the minimum standard of living. The minimum of capital is invested, levels of skills are low and the possibilities of growing to a fully- fledged, economically viable enterprise are extremely limited. Survival enterprises are characterised by poverty and a struggle for survival (Kroon, 1998:29).

4.5.2 Micro enterprises

Micro enterprises are characterised by having an owner who is also involved in the daily operations. In this way, there is a very close identification between the owner/manager and the enterprise (Tolentino, 1997:4). The micro enterprise often lacks adequate skills and technology and does not qualify for formal credit. There is often no collateral that can be provided as surety to a loan, and bookkeeping is generally not done or not properly done (MacIsaac, 1996:6).

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

4.5.3 Small enterprises

These make up the greatest part of established enterprises. They are usually run by the owners themselves, have formal business premises and meet all the registration requirements. Employment varies between 5 and 50 people (Kroon, 1998:29). The contribution to employment in manufacturing is smaller than that of micro-enterprises (Development cooperation, 1992:11; Farbman and Lessik, 1989:108-109).

Examples of small enterprises are:

- Arts and crafts;
- Tourist guides;
- Artists;
- Guest houses;
- Mini-taxis; and
- Household industry

4.5.4 Medium sized enterprises

Medium sized enterprises are classified as having 25 to 50 employees (Development Cooperation, 1992:11). In Europe, such enterprises would perhaps still be ranked under "small", but in sub-Saharan Africa, this would be "medium". Less than 2 percent of all enterprises in Africa employ ten to 50 people. Even fewer employ more (Mead & Liedholm, 1998:63). Medium sized enterprises are also more likely to operate in the formal sector, have more access to capital, human capital and technology. In that sense, they are an extension of the concept of the small enterprise (Farbman & Lessik 1989:108-109).

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

Examples of medium-size enterprises are:

- Hotels;
- Tour operators;
- Game farms and reserves; and
- Transport

4.6 THE ROLE OF SMME'S IN LED

The role of SMME's in LED has been researched in various stages of LED and in various countries. Acs *et al* (1994:35) have studied the role of SMME's in different stages of LED. In developing countries, push factors are dominant reasons for starting the SMME's (Stanworth, 1973:17). New SMME's seem to be most successful when it is a voluntary effort, where participants act to exploit opportunities (pull factors) and not because they are desperate for lack opportunities (Reynolds, 2000:35).

McClelland (1961:25) underlined the psychological aspects of entrepreneurship, especially the need for achievement in a culture and emphasised the creative response of the entrepreneur as a driving force in LED. The entrepreneur and his function are "the doing of new things or the doing of things that are already done in a new way" (innovation). The entrepreneur "gets things done" in spite of resistance and difficulties. Weber (1998:29) linked LED to religious beliefs-particularly the Protestant work ethic.

4.7 THE NEEDS OF SMME'S

In spite of the numerous opportunities existing for small, medium and micro-enterprises in South Africa, a number of limitations prohibited spontaneous growth. These are:

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

- The political violence and instability in South Africa (Olivier, 2002:04);
- The economic performance and investors' trust in South Africa (Olivier, 2002:30);
- Legislation and limited development scope due to past political policies and inadequate training for entrepreneurs (Saayman & Slabbert, 2001:70; Swart, 1997:32).

Kaunda and Miti (1995:29) pointed out that small, medium and micro-enterprises require more technicality, marketing expertise, skills for successful management of small, medium, and micro-enterprises worldwide. Moreover, many entrepreneurs lack the ability to recognise that the nature of international competition is changing, and that exports need to be differentiated and of a high quality (Ismail, 1995:16).

The lack of skills and education among labourers is a serious limiting factor for existing black enterprises that do not have the necessary skills to manage the risks accompanying South Africa's changing circumstances (Collier et al, 1994:6), in this way carrying the responsibility of prolonged unemployment. The performance of many large enterprises indicates that the scarcity of SMME's is a more serious constraint on local economic development than the shortage of finance. SMME's are preferred compared to large enterprises because they use less capital and easy to promote (Collier et al, 1994:6).

The importance of small enterprises as a contributor to economic success is reflected in the extent to which small enterprises have featured in the successful economies of developed countries such as Japan and Sweden, and newly industrialised countries (NICs) such as Taiwan and South Korea (Olivier, 2002:47).

The key objectives of the Government's national small-business strategy seconded by the white paper on small business (White paper on Small Business, 1995) are as follows:

- To create an enabling environment for small enterprises

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

- To facilitate greater equalising of income, wealth and earning opportunities
- To address the legacy of apartheid-based disempowerment of black business
- To support the advancement of women in all business sectors
- To create long-term jobs
- To stimulate sector-focused economic growth
- To strengthen cohesion between small enterprises
- To level the playing fields between bigger companies and small businesses, as well as between rural and urban businesses
- To prepare small businesses to comply with the challenges of an internationally competitive economy

4.8 SWOT (STRENGTHS, WEAKNESSES, OPPORTUNITIES AND THREATS) ANALYSIS

One contemporary useful tool that analysis SMME's so that LED strategy addresses the problem of poverty and unemployment is the SWOT analysis. A SWOT analysis is the process of systematically identifying an organisation's strengths, weaknesses, opportunities and threats (Bennett, 2002:32). Although special is given to the opportunities of the identified products or services that in the end will help alleviate poverty and generate income for the poor through job creation.

The situation of the competitiveness of South Africa can be understood and viewed more clearly with an overview of the country's strengths, weaknesses, opportunities and threats that play a role in the situation of a global competitive industry (du Plessis, 2002:66).

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

According to Olivier (2002:47) strengths are those resources or abilities that give an organisation the advantage over competitors. Weaknesses must also be acknowledged. Opportunities are the potentially favourable conditions in the organisations environment. Threats are major unfavourable circumstances or impediments to an organisation's present or future position.

4.8.1 Strengths

SMME's can be considered as a reflection of the free market/laissez-faire system (Lambris et al., 2000:10). In a free market system, incomes of people are based upon the contribution of each production factor to the total production, i.e. the hard worker will be rewarded, whereas the lazy one will remain poor (Haydam, 1997:29). Taking into account the fact that the SMME's sector in South Africa contributes roughly half of national Gross Domestic Product (GDP) and job opportunities, then the sector is of key importance in the future economic growth and social enlistment of South Africa (Dannhauser, 2002:47).

The following are the more important strengths of SMME's in South Africa:

- **The socio-economic strength**

Poor people mainly buy from small enterprises sell to the (Harper, 1984:29). SMME's products are cheaper though not always cheaper, more durable though not always durable than the products of larger businesses, suit local preferences of people who have not been exposed to national or international tastes. The poor live near to small enterprises, which are mostly owned by the poor, and may be related to owners or employees.

The needs of communities can be satisfied largely with SMME's (Olivier, 2002:48). The socio-economic contribution to communities finds expression in two areas especially:

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

Firstly, the wide range and high standard of personal service and products offered by the SMME's to the community, and secondly, the willingness of the owner to plough back into the community what has been taken out of it. It often serves as a valuable source of practical expertise to provide individuals to serve in the local authorities, welfare and social organisations (SBAB, 1995:21).

- **Profits and Investment**

The return on capital employed in small business is significantly higher than that earned in large ones (Harper, 1984:25). The owners of small businesses are less likely to spend money on imported goods, and more likely to re-invest a higher proportion of their profits in their enterprises themselves, than the owners of large businesses, whether be local or foreign (Harper, 1984:29).

In relation to the capital invested, the profits of an individual small enterprise are likely to be higher than those of a larger one. Harper (1984:37) indicated that for the economy as a whole, small businesses are likely to be more resilient to depression, and to offer a steadier level of employment than large ones. Their activities and localities are diverse, they depend on a wide variety of sources and types of raw material, and their owners, if only for the want of any alternative, are likely to stay in business and maintain at least some activity and employment in conditions where foreign investors, would have closed their factories or even withdrawn their investment altogether.

- **Employment for women**

Much has been written in recent years about the role of women in poor countries; they all too often remain in rural areas as the hewers of wood, drawers of water and bearers of children, and their material responsibilities cut them off from whatever benefits are to be gained from wage employment in the modern sector (Harper, 1984:14).

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

But, with SMME's a provision of a valuable alternative source of income and personal development, whether it is in a home-based cottage industry or an enterprise to which a mother conveniently travel for a few hours a day when her children are cared for by an elder sibling or other relative is made (Harper, 1984:14).

- **Flexibility and adaptability**

The smaller size and simplicity of SMME's usually enable them to quickly adapt to environmental changes and make the appropriate decisions.

With regard to production, SMME's are often in a position to adapt quickly to changes in demand (SBAB, 1995:19).

The flexibility and adaptability of small enterprise can mainly be ascribed by the three factors (SBAB, 1995:20) namely:

- SMME 's have shorter channels of communication;
- Faster decision- making is possible; and
- Relatively fewer rules and regulation are coupled with decision-making

No business, irrespective of its size, can function as a closed system within the greater economic environment. Therefore, considerable interdependence exists between all businesses, large as well as small (SBAB, 1995:19).

- **Entrepreneurship and innovation**

Entrepreneurship is a quality, which is by no means only associated with small-scale enterprise. Individual small enterprises, however, provide both a nursery and proving ground for enterprise. The person who successfully starts a business may work with it until it becomes a larger national or even international enterprise. Small business provides a valuable outlet, and training ground, for the

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

entrepreneurial ambitions of people who are employed in Government (Harper, 1984:79).

4.8.2 Weaknesses

Dannhauser (2002:57) stated that regardless of good news and success stories about the SMME sector in South Africa, it has been uncoordinated, ineffective and does not warrant the millions of rand being pumped into it. There are also weaknesses in operating SMME's. Some enterprises fail because they lack timeouts, reliable and applicable information on SMME's. The SMME's sector in South Africa does not succeed because of the following weaknesses (Visser, 1997; McGrath, *et al* 1996; Rogerson, 2000; SBAB, 1995; Kuscus, 1996; Dannhauser, 2002):

- **A lack of managerial experience**

Over the past years, surveys conducted have shown that the single greatest cause for the failure or unprofitability of small enterprises can be ascribed to managerial incompetence (SBAB, 1995:47). Managerial ignorance, inability to manage and limited managerial experience contribute to the failure of small enterprises.

Olivier (2002:51) pointed out managerial weaknesses found in small, medium and micro-enterprises as follows:

- ❖ **Lack of purposeful managerial planning**

Formal objective setting, managerial planning, budgeting systems and guidelines to achieve the objectives are often insufficient or even totally lacking. Often people think that it is easy to start small enterprises without having any background of the industry (Olivier, 2002:5).

- ❖ **Managerial information**

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

Management information and regular feedback on business activities and achievement for evaluation and decision –making purposes are often inadequate. Information on matters such as turnover, purchases, products, stock levels, gross profit, costs and productivity are seldom found. Decision-making is often based on intuition and personal opinion rather than on information (Olivier, 2002:5).

- **Poor control**

Too often, the fact is that small businessmen are controlled by their own businesses instead of them being in control of their businesses. These issues lead to an inability to apply basic managerial functions of management. Gross profit control, stock control, credit control and the daily control of operating costs and cash control are generally neglected (Olivier, 2002:5).

- ❖ **Unsatisfactory financial management**

Although poor financial management is often responsible for the financing problems of small, medium and micro-enterprises, it is a recognised fact that the small business constantly experiences a shortage of capital. The main cause of this is that too many small businesses are started with insufficient capital. Capital is also too readily withdrawn from the business while capital formation by means of reinvestment of profits is not always satisfactory (Olivier, 2002:6).

The majority of entrepreneurs do not have a proper policy and procedure whereby the finances can be planned and managed. Businesses are run on a day-to-day basis without cash flow budgets and capital forecasts. Financial problems are tackled on an *ad hoc* basis and often too late to find solutions. Entrepreneurs start businesses without any financial skills, in the hope to just make money (Olivier, 2002:6).

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

- **Education and training for entrepreneurs**

In an era of globalisation and heightened competition, there is a need for informal entrepreneurs to be "smart", that is, to have the necessary entrepreneurial skills to compete (McGrath, et al. 1996:52). Although South Africa has an abundance of entrepreneurs, the educational standards of existing entrepreneurs are often low, thus undermine the ability to adapt and compete. Because of the legacy of apartheid education, the majority of the population is in general, neither socialised nor educated to become entrepreneurs but rather trained to enter the labour market as employees (Visser, 1997:27).

- **Administration**

Mostly those who enter SMME's acknowledge that there will be paperwork. Many however do not; recognise the amount of work involved, particularly if the enterprise happens to be a booming success. Although not all people detest paperwork, some individuals that work in the field may not care for "paper-pushing". Other people attend to the detail in their paperwork, only to neglect the real purpose of their business (SBAB, 1995:53).

- **Marketing**

SMME's often experience difficulties with the marketing of products or to conform to modern marketing requirements (Olivier, 2002:54). In his financial and economic affairs speech Kuscus (1996) mentioned that the small business manager is often so involved with the day-to-day problems of the business, that the marketing function that is essential for continuity, is neglected. Small businesses often also neglect to budget funds for advertising promotions and other marketing expenses.

Many SMME's have good products to offer, but do not have the knowledge to properly introduce them to the market, causing the enterprises to fail. Saayman

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

et al (1991:36) states that in general, there is a major lack of marketers who understand how to package products

According to Olivier (2002:54) the weaknesses found in practical business life are obstacles that should be overcome if South Africa is to foster a thriving SMME sector. The single greatest problem, however, remains a lack of sufficient business knowledge. Knowledge - especially development knowledge - is power.

- **Shortage of cash**

New entrepreneurs usually fail to recognise the importance of cash flow. Entrepreneurs underestimate the amount of cash that is needed to operate, and often overestimate the speed with which customers will pay them. This is critical, because most businesses grow from their cash flow (Anon, 2001:23).

When cash does not become available on schedule, the business is severely constrained, even if it is making a profit. Business plans must focus on cash flows, not profit-and-loss projections (Anon, 2001:23).

- **Incorrect sales forecasts**

It is extremely easy to overestimate potential buyers for product or service especially in the first year. Many entrepreneurs are "terminally optimistic". The only sales an entrepreneur should count on are those that have already been paid for. When the entrepreneur does not have any of those yet, the projections should be based on firm commitments. If an entrepreneur has to depend on own guesstimates, they should be halved (Anon, 2001:62).

- **Weak business plans**

A detailed business plan is invaluable for raising money through the long-range implications of running a business. The plan should include a clear statement of the objectives, a timetable, a thorough analysis of the competition and a

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

description of the administrative systems and procedures intend to use (Anon, 2001:62).

- **Rushing to market**

Too often, new business owners put a product on sale before it has been tested properly – sometimes before development has been completed. This is a mistake for many reasons, but mainly because the product could earn a bad name from which it may never recover (Anon, 2001:63).

- **Inadequate market testing**

Too often businesses are founded based on polling one's friends. Friends may or may not be representative of a larger clientele. Find out before starting a new business: first make sure whether there is a market for the specific product or service (Anon, 2001:12).

- **Bad pricing**

Mostly, pricing mistakes are caused by underestimating the costs involved in the production or development of the product, as well as the cost of overheads and support system needed when the product is marketed. It is also important to research in advance what price the market bear. The entrepreneur may find the cost of providing a higher quality of product and/or service worth the effort, in view of the higher prices that can be demanded (Olivier, 2002:63).

- **Personnel restrictions**

SMME's in rural areas and those distant from favourable labour markets often experience a lack of suitable, trained and skilled personnel. Small businesses cannot offer the same benefits, security and opportunities for promoting that big businesses are able to. As a result, a large proportion of the workforce is not interested in a career in small business. In spite of the simplistic, informal

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

organisational structure of SMME's and the more congenial labour relations accompanying it, the small enterprise often finds it difficult to recruit sufficient personnel (Olivier, 2002:55).

SMME's are often characterised by being family businesses or owner-manager businesses. Occasionally, the phenomenon also creates specific problems for SMME's. Because of the owner-managers' own interest in the business, the owner-manager himself often gives personal attention to nearly all aspects, thereby limiting the essential function of delegation (Olivier, 2002:55).

- **Provision of infrastructure and service support**

Local research shows that when publicly provided infrastructure is deficient, informal entrepreneurs may be forced to undertake significant expenditures to substitute or complement for these shortcomings (Rogerson, 2000:64).

In many townships and informal settlements, the absence of basic infrastructure or lack of reliable services, such as electricity or telephones, renders sustainable business activities almost impossible (Rogerson, 2000:69). A further serious constraint is access to suitable work premises. For survivalist informal enterprise, key infrastructure needs are for well-located, permanent markets or the planning of periodic markets to provide access to selling spaces for the relatively immobile home-based enterprise.

In addressing these needs for infrastructure improvement, the major responsibility often falls on the municipality or local government (in South Africa, including Gauteng) and have reduced the prospects for successful local initiatives to augment infrastructure for the groups of growing micro-enterprise as well as survivalist informal enterprise (Rogerson, 200:70).

- **Access to finance and credit**

The inability of financing on favourable terms over a long period is a major problem constraining entrepreneurship. Anon (2002:56) stated that even though more than 90 percent of businesses in South Africa are small and generate about

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

75 percent of all new jobs and the fact that there are more than 90 000 SMME's in the country, absorbing half of the workforce of 25 million people, excluding about 3.5 million people involved in survivalist enterprise activities (Government White paper of Trade and Industry, 1995:40), the culture of financing and supporting small business was not taken seriously in the past.

Institutions that funded small business activities were the Small Business Development Corporation (SBDC) (the major retail fund provider), the Development Bank of Southern Africa (wholesale provider), the Industrial Development Corporation (wholesale provider) homeland corporations, commercial banks, private sector institutions, regional development agencies and National Governmental Organisations (NGO's).

The Small Business Development Corporation was the main institution responsible for financing small businesses in orientation and enjoyed significant support from the Government. The Small Business Development Corporation strove to harness the power of entrepreneurship by developing small and medium enterprises. It preferred the business to be independent, have total assets of less than R15 million, be economically viable, to be under the control of somebody with appropriate experience, knowledge, managerial ability, and entrepreneurship and be profit motivated. It offered assistance in areas of general financing, a credit guarantee scheme and a mini-loan programme for a maximum of R5000 at 1 percent and repayment period of six months (SBDC financing programmes).

The challenges of a small business are high and the risk is enormous. As the increase in small business establishment is precipitated mainly by the crisis of unemployment, the incidences of business failures has been on the increase. Nine out of ten new micro and small businesses close within 12 months (Zimu, 2000:63). In South Africa, the liquidation figure for the first quarter of 1993 rose from 41 to 638). Forced insolvency went up to 1004. Because of considerable business risk, entrepreneurs face significant financial risk, as they invest most, if not all of the

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

financial resources in the business. People take a career risk when leaving a secure job for a venture with a highly uncertain future (Donnelly, et al, 1992:62).

According to Olivier (2002:63) current levels of investment in SMME's are inadequate for achieving the growth levels anticipated in the Growth, Employment and Redistribution programme (GEAR). SMME's receive approximately 2.6% of investment capital flow, through both formal and informal agents. According to the council of South African Banks (COSAB), there are an estimated 375 000 loans on the books of two major commercial banks, that can be considered to be micro-enterprise credit (R4 billion, averaging R11 700 per loan). Yet, in the period between January 1997 and January 1998, only 633 indemnities were granted under the Khula Credit Guarantee Scheme, indicating a lack of activity in areas Government has prioritised (Rogerson, 2000: 57). In order to benefit from the dynamism and labour absorption capacity of SMME's, South Africa must substantially redirect public and private investment flow.

The smaller end of the enterprise spectrum, ranging from survivalist, micro and very small enterprises, have very little access to capital, from either alternative financial institutions or the formal financial sector. This is a critical issue in the South African context, as most previously disadvantaged entrepreneurs operate in these sectors, thus perpetuating a situation of racial and gender inequality regarding access to finance. Yet these sectors have the greatest potential for labour absorption in the short run (Kuscus, 1996:154).

Achieving growth carries with it all the problems of starting a business, plus a whole lot more. The same happens in the financial area. An organisation without growth plans most likely will not encounter many areas, namely, the informal venture capital market (private investors), the formal venture capital market, financial, and the initial public offering market. Firms that do not grow do not achieve the necessary magnitude, and therefore do not have the opportunity to utilize a number of methods to "cash-out" or "harvest" their investment in the business. This aspect is without doubt one of the most serious problems experienced by the SMME's sector (Chong, 2000:43).

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

Many potential entrepreneurs lack collateral for obtaining loans, largely because of the small quantity of housing stock in black hands and the undeveloped market for housing in black townships. In rural areas, the tribal land tenure system prevents farmers from borrowing against their land holdings, which cannot be sold (Department of Trade and Industry, 1998:59)

The lack of access to funding is even more acute for the previously neglected groups. Specific factors limiting previously neglected groups access to finance include:

- The requirement of substantial security and collateral

The lack of assets in the form of land or home ownership that would act as security for loans

- Administrative red tape

Request for submissions such as business and marketing plans and little" technical assistance" or guidance in the preparation of such

- Lack of localised institutions that provide funding (Olivier, 2002:60).

The Government could consider the following policies and actions aimed at improving the access to finance by neglected groups as well as making investment funds more widely available to SMME's (Olivier, 2002:60):

- Ensuring that state funding is accessible to the wider business community, emerging entrepreneurs, micro enterprises, sole traders and the informal sector.
- Considering creating a subsidised financing facility to accommodate the entry of the previously neglected ones.

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

- Encouraging existing private enterprises to assist in guaranteeing the loans of small entrepreneurs through, for example, the advance purchase of services
- Ensuring that technical assistance is provided to potential entrepreneurs, as far as possible utilising existing institutions
- Encourage the reform of land holding and property rights to allow previously neglected groups to obtain collateral to facilitate loan acquisition

Improved access to finance and credit is of major concern. Access to loans for working capital stands out as a priority issue. The formal finance system in South Africa has been a reluctant partner in the support of developing informal enterprise (Rogerson, 2000:60). As a result, the majority of informal entrepreneurs rely on personal savings, loans from family or friends, or informal credit sources. The World Bank, for South Africa, identifies "the existence of a substantial, unmet demand for financing and to variations in the type of financing needed over the life of the enterprise" and endorses the need for active financial support for emerging enterprise (World Bank, 1993:63).

Despite the establishment of Khula or Ntsika, it is clear that the desperate shortage of financial support for emerging entrepreneurs results in available funding still being inadequate to match the needs in the micro-enterprise economy for female entrepreneurs in particular, special intervention to support groups or organisations of female entrepreneurs appears essential (Lund, et al., 1999:43).

4.8.3 Threats

Numerous threats confront SMME's. The small business sector is exposed to all the problems, fluctuations and uncertainties of the economy. Indeed the small business sector forms an integral part of the economic activities of the national economy. Consequently, the general problems and bottlenecks of the national and international business community also exert an influence on the small business sector trade cycle changes, recessionary conditions; inflation and growth rate changes in the economy are therefore also reflected at SMME's (Olivier, 2002:74).

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

Under certain circumstances small enterprises may be protected from general economic fluctuations, but then again in other cases be very vulnerable. The local conditions within which a small enterprise conducts its business can have a specific influence on the enterprise in the short term. In the long term, however, the small business sector is subject to current macro-economic conditions in the country (Olivier, 2002:74).

Although numerous opportunities exist for small, medium and micro-enterprises, some factors restrict spontaneous growth of SMME's in South Africa. These include:

- Political and legal restrictions and deregulation

The small, medium and micro-enterprises are particularly sensitive regarding the influence of Government policy and to certain restricting legal measures. Whereas the central government formulates policy and legislation, local and regional authorities determine ordinances and regulations. A policy that has its implementation and legal measures aimed at promoting and developing entrepreneurship, and has empathy for the small business, may make a valuable contribution to the growth of this sector in the economy (Kuscus, 1996:75). The multiplicity of laws, regulations procedures and red tape that confronts the potential businessman will, by its very nature, limit the establishment of small, medium and micro-enterprises.

It is also common knowledge that unrealistic and often unreasonable legal restrictions seriously hamper activities in the small, medium and micro-enterprise sector.

- General economic climate

The general economic situation has an influence on the economic activities of all businesses in a country. During an economic recession, the small business sector often experiences problems relating to its size, making it particularly vulnerable to changes in the economic conditions. For example, credit facilities to SMME's (but not only them) are the first to be tightened in times of credit

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

restrictions. In such times, the financial institutions and commercial banks inevitably first limit the less valuable and weaker capitalised SMME's before denying credit to the big concerns, which, because of its size, does not always receive the same treatment. Such treatment in fact indicates discrimination at the cost of the small business. On the other hand, the financial institution has a responsibility to its shareholders and must invest its funds safely at all times. This is especially true in weak economic conditions (SBAB, 1995:60).

- **Discrimination**

Discrimination often takes place against the SMME's based on the small scale of their operations. This discrimination is not necessarily reflected in the principle of economic of scale. There is a strong school of thought arguing that big business is subsidised by the small business sector in more than one instance. Of the many examples that can be mentioned in this category, the most common are purchases, rent and finance (SBAB, 1995:42).

SMME's often complain that the opportunity is not given to small business to purchase goods at the same prices that big businesses pay. It is not quantity purchases that are the issue - that is a recognised economic principle – but the fact that small businesspersons are not granted the opportunity to purchase the same quantity of goods at the same preferential price (SBAB, 1995:43).

The same principle often applies in the case of rent payable per square metre. It is often found that the small businessperson pays a considerably higher rent for space in the same building than the big business does. The difference between the rents paid by the big versus the small businessperson is often so large that a careful analysis shows that the rent paid by the small businessperson is subsidising the rent paid by the big business (SBAB, 1995:43).

Regarding the limit applied to credit ceilings and determining prime lending rates by financial institutions, it is once again the small business that has the bad end of the stick, not necessarily because of the greater risk attached thereto but often

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

as a result of weaker bargaining power. Because of the limited size of SMME's, they are often treated unfairly (SBAB, 1995:43).

4.8.4 Opportunities

An opportunity may be defined as a favourable condition or tendency in the market environment, which can be utilised to the benefit of the organisation by means of a deliberate management effort. It should, however, be clearly understood that the possibilities inherent in an opportunity always have to be assessed against the background of the organisation's resources and capabilities. Without the necessary capacities and resources, an opportunity cannot be properly utilised. The success of a business in making good use of an opportunity therefore depends upon its ability to satisfy the requirements for success in that particular market (Cant, 1991:73).

The following opportunities can be identified in brief (Koh, 1996:24-39):

- **Government support**

The Government and especially public enterprises will facilitate the entry of entrepreneurs into opportunities that arose from the Redistribution and Development Programme (RDP) investments. These especially include the sale, installation and servicing of domestic appliances and wiring, construction, and related manufacturing and service entrepreneurs to move into the manufacturing sector, since the restriction of small and medium enterprises to retail and distribution will severely inhibit the growth and viability of this sector. The Government will therefore encourage entrepreneurs to seek technical training and joint ventures with formal sector (Koh, 1996:39).

- **Accommodation sector**

Excellent opportunities exist for SMME's in the accommodation sector of the industry – especially in the development and operation of camping grounds,

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

caravan parks, game parks, holiday camps, hotels, motels, bed and breakfast establishments and guesthouses (Koh, 1996:39). Guesthouses and bed & breakfast establishments in particular have become very popular (Saayman, 1999:66).

- **Transport sector**

Opportunities in transport for the potential SMME's are mostly in terms of taxis, car hire, boat trips and bus services. In becoming a tour operator, the enterprise can package tours and then make use of other entrepreneurs for rendering support services such as transporting people (Saayman, 1999:66).

- **Tourism developments**

There are opportunities in the development of man-made attractions, for example monuments, theme parks, waterfront developments, zoos, parks, game reserves, arts and crafts galleries and cultural tourism, which includes cultural villages. Support services such as catering and tour guides, marketing and training could offer good opportunities for entrepreneurs.

The fields of entertainment, restaurants, shebeens, coffee shops, tea gardens, acting, traditional dancing and music offer just a few of the many opportunities (Saayman, 1999:67). The development of the South African tourism industry also holds major benefits for economic progress, new employment opportunities and foreign exchange earnings (Saayman, 1999:67).

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

4.9 SUMMARY AND CONCLUSION

There are different conceptions regarding the term SMME's from individuals, institutions and countries, and a result of this, there is no universally accepted definition of SMME's. Despite, the Committee on Economic Development (CED) states that a business is classified SMME's if the management is independent, capital is supplied & an individual holds ownership or a small group, the area of operations is mainly local and workers & owners are in one home community.

SMME's is divided into four types, namely survival, micro, small and medium sized enterprises. These types of enterprises vary according to their sustainability. For example, micro – and small enterprises tend to be less sustainable in the long term than medium – sized enterprises. Micro – and small enterprises seem to be much more influenced by external factors than medium enterprises. The weather is for example influencing a tourism enterprise. If it rains for a couple of days, it becomes a business impediment for these enterprises, leading to a loss of revenue. Medium – sized enterprises create more job opportunities than small micro – enterprise, although medium – sized enterprises cost considerable more to develop. SMME's role in LED succeed mostly when it is a voluntary effort, where participants act to exploit opportunities and not because they are desperate for lack of opportunities. Despite the numerous opportunities existing for SMME's, the political violence & instability in South Africa, the economic performance & investor's trust in South Africa and inadequate training for entrepreneurs may limit growth for SMME's.

One useful instrument that may help SMME's to identify potential business opportunities is the SWOT analysis. A SWOT analysis is the process of systematically identifying an organisation's strengths, weaknesses, opportunities and threats. Strengths are those resources or abilities that give organisation the advantage over competitors. Weaknesses must also be acknowledged. Threats are major unfavourable circumstances or impediments to an organisation's present or future position.

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

The SWOT analysis here is used to clarify the current position of SMME's in South Africa and later in Zamdela in chapter 5. Socio-economic strength, profits, investment, flexibility, adaptability, entrepreneurship, & innovation are the strengths of SMME's in South Africa. A lack of managerial experience, education & training, shortage of cash and weak business plans are just a few of weaknesses of SMME's in South Africa.

It can be concluded that the role of SMME's in LED has been investigated in different stages of LED and in various countries. In a developing country, like South Africa push factors are dominant reasons for establishing the SMME's. The entrepreneur's creative response is the driving force in LED as his functions include doing new things or doing new things that are already done in a new way. SMME's are essentials for poverty alleviation in the country. Many LED initiatives focus on providing support to SMME's creating employment opportunities. A global decline in the number of jobs created by large manufacturing industries has occurred, with the result that LED have focussed on developing SMME's as a way of creating new job opportunities.

The support and nurturing of SMME's are best achieved through the establishment of networks of SMME's development agencies particularly at local community. The relevance of such networks is heightened by the participation of communities to entrepreneurial skills development.

CHAPTER 5

A PROFILE OF ZAMDELA

5.1 INTRODUCTION

The objective of this chapter is therefore first a general profile in terms of a few variables and later a more specific profile of the population of Zamdela in terms of a number of the unemployed and the poor. A profile is like a snapshot. It shows the characteristics at a point in time. An essential pre-condition to keep track of changes in characteristics over time is a clear profile at the departure point. It serves as a reference point to monitor the impact of poverty policies. In fact, poverty policies should be updated every number of years (Slabbert, 1997:91).

The chapter first measures the unemployment rate as well as the headcount index in Zamdela. Then it gives a profile of the poor in comparison with the total population, making use of survey data. This chapter also encompass the different indicators of poverty in Zamdela and compares Zamdela with Bophelong (and in certain instances with the greater Emfuleni area) in terms of these indicators.

Household data for Zamdela were obtained by means of questionnaires during July/August 2004 and analysed. The information for Bophelong is based on a study conducted by Slabbert (2004).

5.2 DEMOGRAPHICS

Any change in the economy of a region will have an effect on its population in terms of employment opportunities, income or compensation, expenditure patterns, the level of poverty and social services (Slabbert, 2004:61).

This section employs various indicators to develop a profile of Zamdela, as well as to compare these with the Bophelong profile (and the greater Emfuleni area). The population in Zamdela is estimated at 57 069 for the year 2003 which is higher compared to the population of Bophelong of 37 779 (STATS SA, 2003a). The

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

number of households in Zamdela is estimated at 16 488 compared to 12 352 in Bophelong (Slabbert, 2003:1).

The average household size in Zamdela is 3.5 for the year 2004 compared to 3.8 persons per household for Bophelong in 2001. The average household size for Emfuleni as a whole is 3.5 (Slabbert, 2003:1).

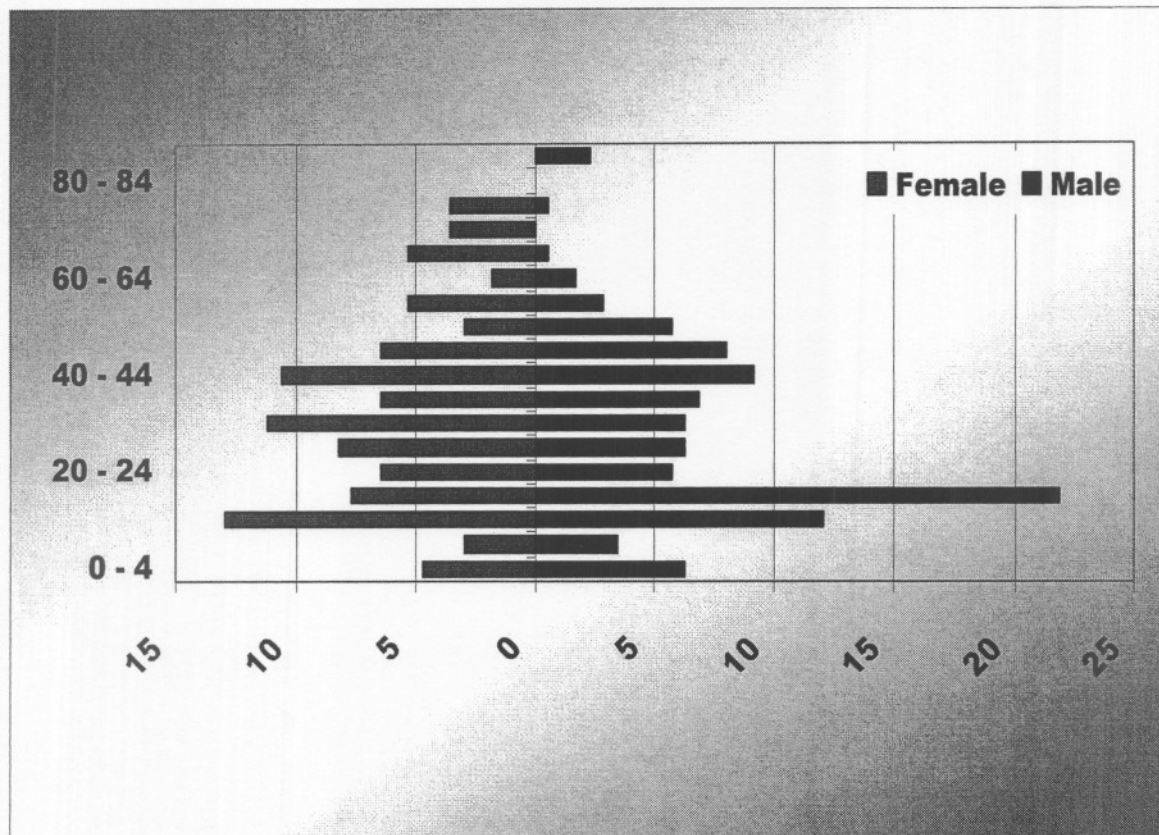
The dependency ratio, an indicator of the number of persons who depend on the income of one earner, is determined at 2.2 in Zamdela for 2004 and 3.6 in Bophelong for 2003. For Emfuleni the dependency ratio for 2001 was determined at 3.3 (Slabbert, 2004:63).

The demographic analysis is in terms of age categories of the population, the gender distribution, qualifications of the post-school population and the average length of stay in the Vaal Triangle of the Zamdela community.

Figure 5.1.shows the age categories of the total population of Zamdela. There seems to be a relatively high percent of population between 20 and 40 years of age, which is the age where people in general are most productive (Slabbert, 2003:5). The Zamdela community has more females than males between 20 and 40 years of age. 42.52 percent are males and 57.48 percent of the population are females. For Bophelong, there seems to be a relatively high percent of the population between 20 and 40 years of age, which is the age where people in general are most productive. The Bophelong community has more females than males. 46.5 percent of the population is male and 53.5 percent female (Slabbert, 2003:5).

**The role of SMME's in local economic development aimed at job creation,
income generation and poverty alleviation in Zamdela**

**FIGURE 5.1: TOTAL POPULATION OF ZAMDELA IN AGE
CATEGORIES – 2004**

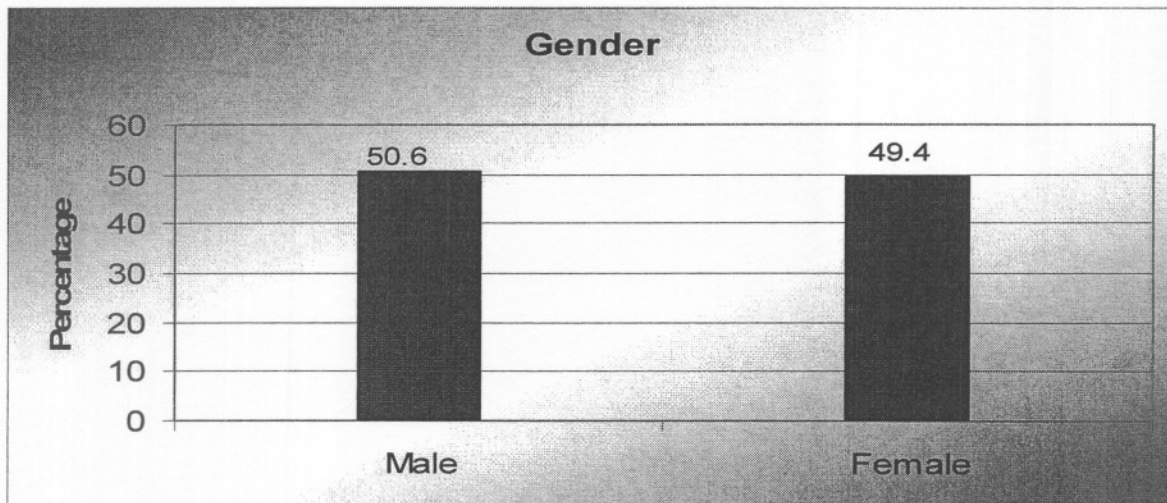


Source: Makumula, 2004

Figure 5.2 shows the gender distribution of the population of Zamdela. It shows that approximately 50.6 percent of the population is male, while 49.4 percent is female. The figures for Bophelong show that 46.5 percent of the population is male, while 53.5 is female (Slabbert, 2003:5). For South Africa, the national figure is 47.7 percent male and 52.3 percent female (STATS SA, 2003:7). For the Gauteng province, the percentages of males and females are given as 51 percent male and 49 percent female and it is one of two provinces with a slightly higher number of males to females (STATS SA, 1999: 8-9). The figures for Zamdela are less closely concomitant with those for Bophelong and South Africa as a whole with a higher percentage of males than females.

**The role of SMME's in local economic development aimed at job creation,
income generation and poverty alleviation in Zamdela**

**FIGURE 5.2: GENDER DISTRIBUTION OF ZAMDELA
POPULATION – 2004**

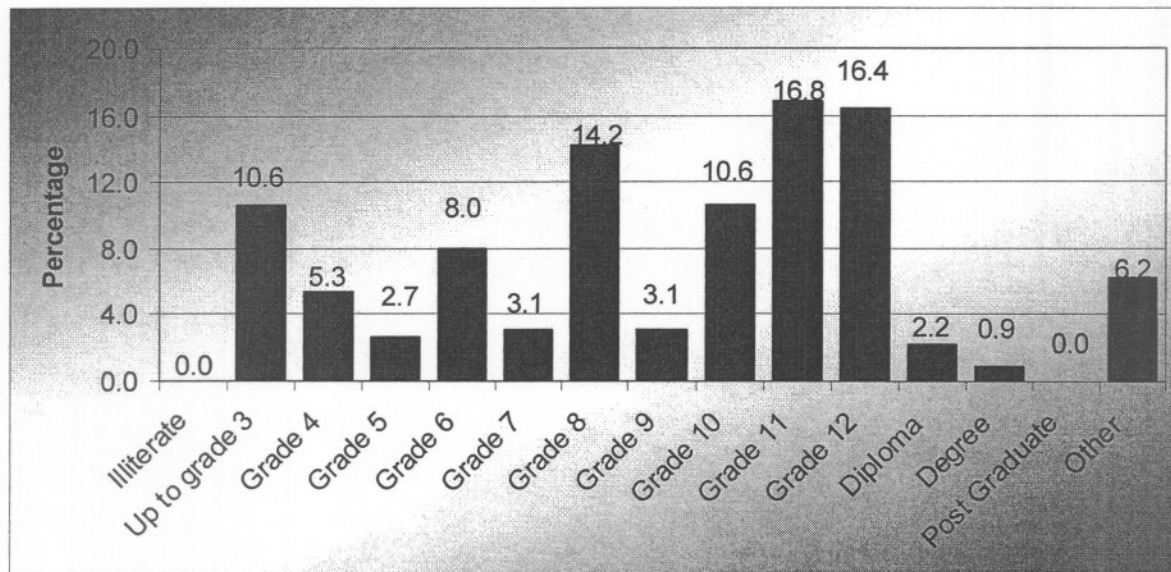


Source: Makumula, 2004

Figure 5.3 portrays the qualifications of the post-school population in Zamdela. It shows that 25.7 percent has 12 and higher qualification). This figure is only 22.8 percent for Bophelong (Slabbert, 2003:5), 2.9 Percent less than Zamdela. For South Africa, the national figure is 29.2 percent (STATS SA, 2004: IV). The educational level in Zamdela seems to be quite lower in comparison with the national figure and quite higher in comparison with Bophelong. As for the illiterate category, or category with no education, Zamdela shows zero percent while Bophelong showed five percent, nationally, this category showed 11.8 percent.

**The role of SMME's in local economic development aimed at job creation,
income generation and poverty alleviation in Zamdela**

**FIGURE 5.3: QUALIFICATIONS OF POST – SCHOOL POPULATION IN
ZAMDELA - 2004**

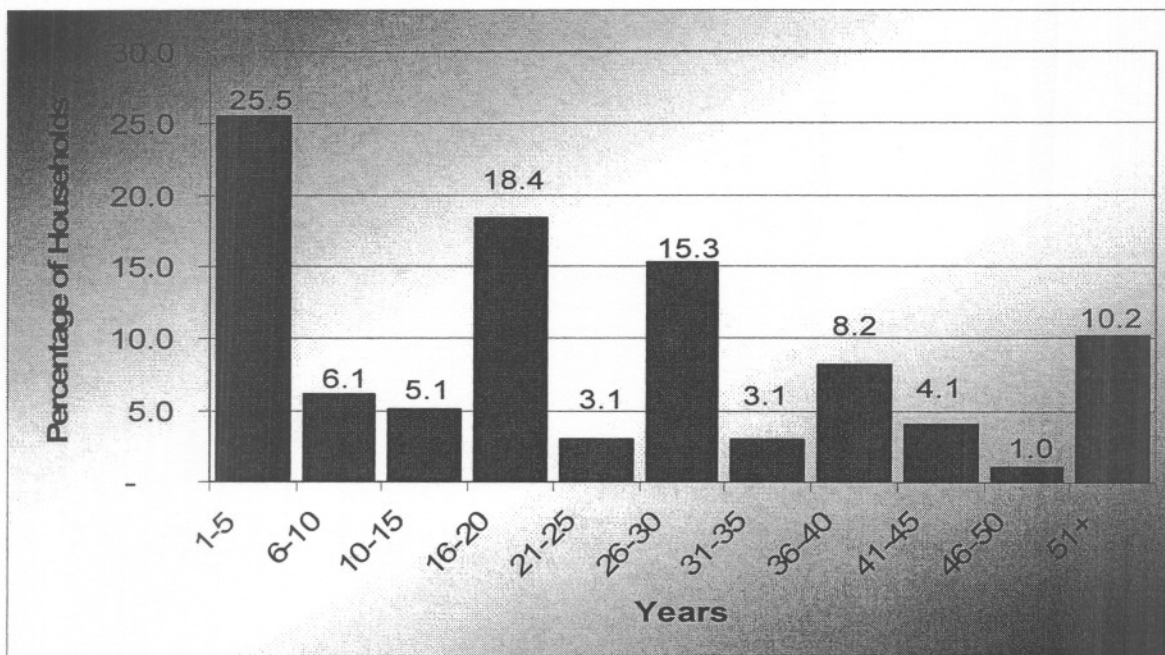


Source: Makumula, 2004

Figure 5.4 portrays the average length of stay of respondents in the Vaal Triangle. Of the population, 68.5 percent has been staying in the Vaal Triangle for over 10 years. In the case of Bophelong, the average length of stay is mostly around 28 years, with a high influx in the last 10 years (Slabbert, 2004:5). This indicates that Zamdela seems to be a much more established and stable community than Bophelong.

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

FIGURE 5.4: AVERAGE LENGTH OF STAY IN THE VAAL TRIANGLE – 2004



Source: Makumula, 2004

5.3 LABOUR FORCE

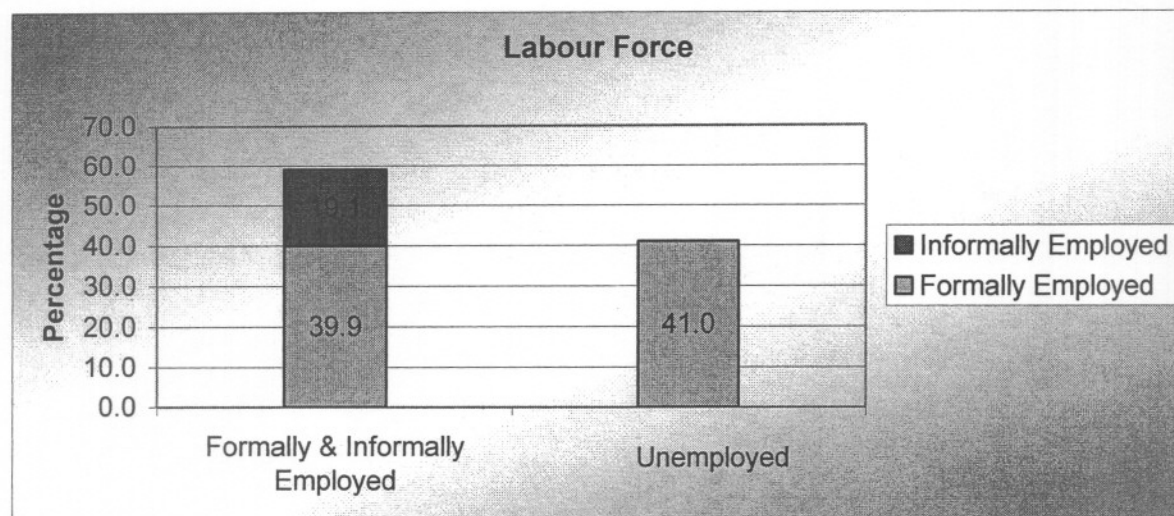
The unemployed rate (Ur) is calculated according to the following standard equation:

$$\frac{\text{number of unemployed}}{\text{Economically active population (EAP)}} \times \frac{100}{1} = Ur$$

From the survey data (Makumula, 2004), unemployment in Zamdela is determined at 41 percent (for the method see Annexure B). This is depicted in figure 5.5. This rate is lower than for Bophelong which was determined at 55 percent (Slabbert, 2003:6-7). In regard with employment, Zamdela seems to be better off than the two communities are. The average size of households in Zamdela is 3.5 persons of which, on average 0.77 persons are unemployed. This figure (of the average household size) is lower than Bophelong (3.8), but the same as Emfuleni (3.5) (Slabbert, 2003:1).

**The role of SMME's in local economic development aimed at job creation,
income generation and poverty alleviation in Zamdela**

**FIGURE 5.5: COMPOSITION OF THE LABOUR FORCE IN ZAMDELA
- 2004**



Source: Makumula, 2004

Figure 5.5 also shows that of the total labour force, the percentage of people employed in the formal sector is 39.9 while 19.1 are employed in the informal sector. The formal employment figure for Bophelong is lower at 34.9 percent, and the informal employment figure lower at 10 percent (Slabbert, 2003:7). The figures for Emfuleni are 27.8 percent (formal employment) and 10.5 percent (informal employment) (Mokoena, 2004:104). Zamdela, therefore, has a higher proportion of the labour force employed in the formal as well as the informal sector.

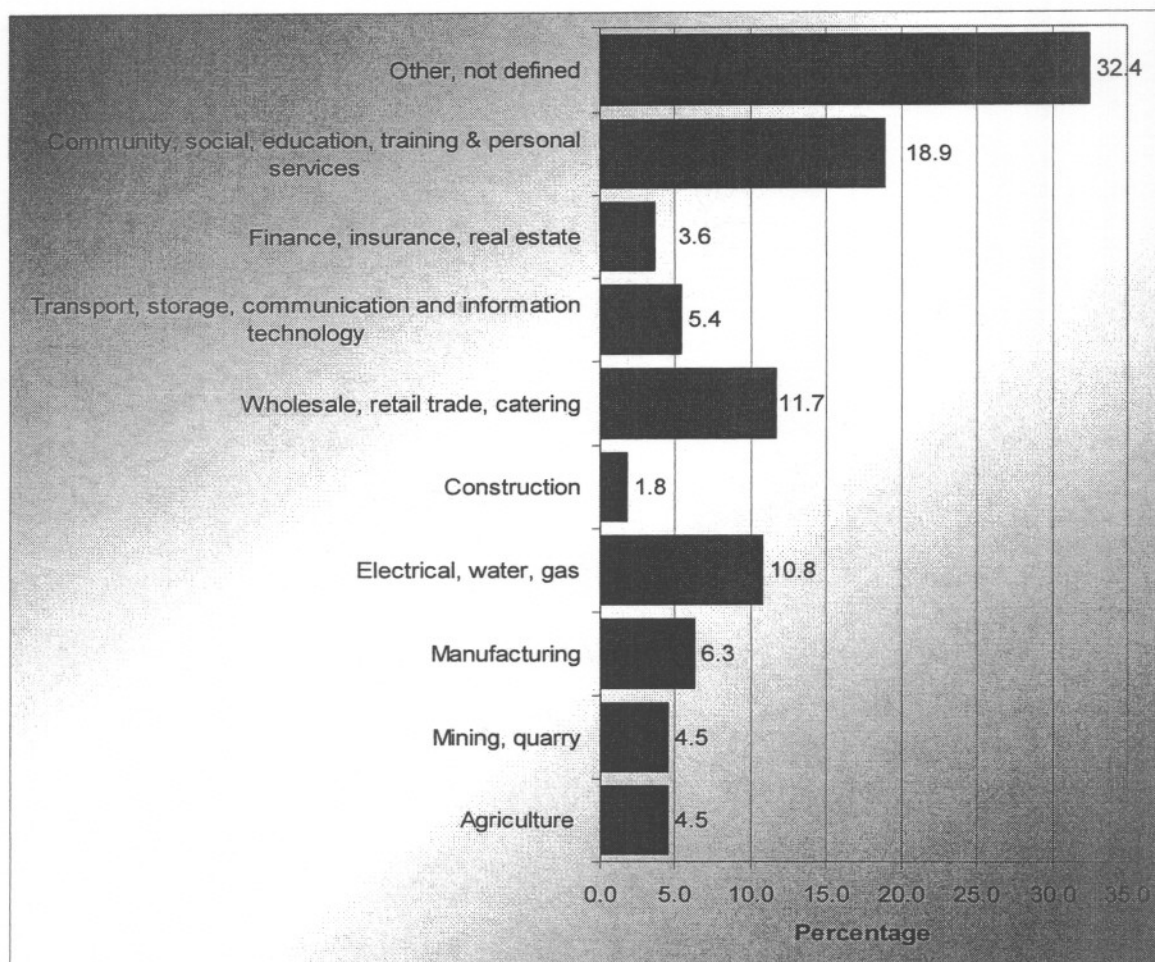
5.3.1 Profile of the employed

Figure 5.6 identifies the sectors in which the employed of the Zamdela community are working. Most of those employed are in low income, vulnerable and short – term jobs. This increases poverty levels. About 18.9 percent of the employed indicated that they are in community, social, education, training and personal services. Other major sectors of employment are other sectors (32.4 percent), which are in most cases domestic services, and wholesale, retail trade and catering (11.7 percent). These figures are in contrast to the figures for Bophelong and Emfuleni. The 'service' category for Bophelong is 21.9 percent and the other category is 30 percent

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

(Slabbert, 2003:7). For Emfuleni the service category is 18.9 percent and the other category is 6.9 percent (Slabbert, 2004:72).

FIGURE 5.6: SECTORS OF EMPLOYMENT FOR THE EMPLOYED POPULATION IN ZAMDELA - 2004



Source: Makumula, 2004

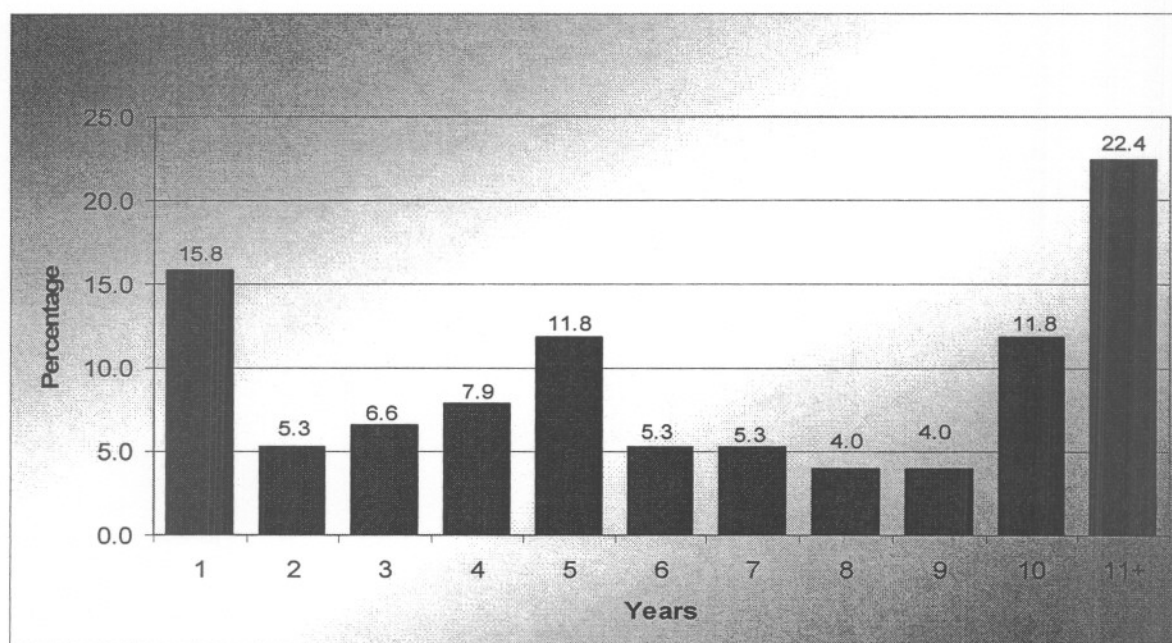
As for looking at the influence caused by the labour legislation on the working class in Zamdela, the followings are revealed: 3.77 percent indicated that their income increased as a result of minimum wages, 96.23 percent responded that it did not. Of the employed population, 3.77 percent is of the opinion that their employers could afford to increase their salary, because of minimum wages, and nobody indicated that their working hours have been reduced due to minimum wages (Makumula, 2004).

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

5.3.2 Profile of the unemployed

Many unemployed persons have been unemployed for a number of years, as shown in figure 5.7 below. More than half of the unemployed (64.6 percent) have been unemployed for 5 years and longer. This figure is higher than Emfuleni (55 percent) and Bophelong (45.5 percent) (Mokoena, 2004:108), implying that the unemployed in Zamdela have, on average, been unemployed for longer than those in Bophelong. The percentage of people unemployed for less than 5 years is 53.7 percent for Bophelong and only 35.6 percent in Zamdela, emphasising the point that Zamdela has a higher rate of people unemployed for longer periods.

FIGURE 5.7: DURATION OF UNEMPLOYMENT IN ZAMDELA – 2004

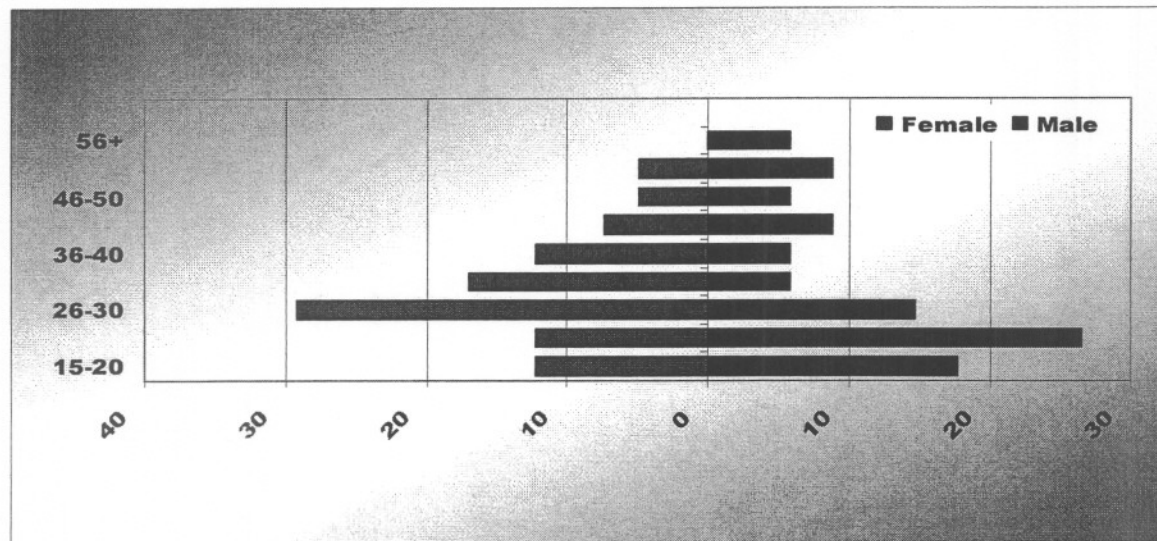


Source: Makumula, 2004

Figure 5.8 shows the age distribution of the unemployed. The figure below shows that the main concentration ranges between the ages 21 and 35, for both males and females. This is similar to the Bophelong distribution. The majority of the unemployed are in their youth, 57.6 percent of the males and 58.2 percent of the females are between 21 and 35 years of age. In Bophelong 57 percent of the males and 64.7 percent of the females are between 21 and 35 years of age (Slabbert, 2003:17). The unemployed are therefore still relatively young in both areas.

**The role of SMME's in local economic development aimed at job creation,
income generation and poverty alleviation in Zamdela**

**FIGURE 5.8: THE UNEMPLOYED IN DIFFERENT AGE CATERGORIES IN
ZAMDELA – 2004**

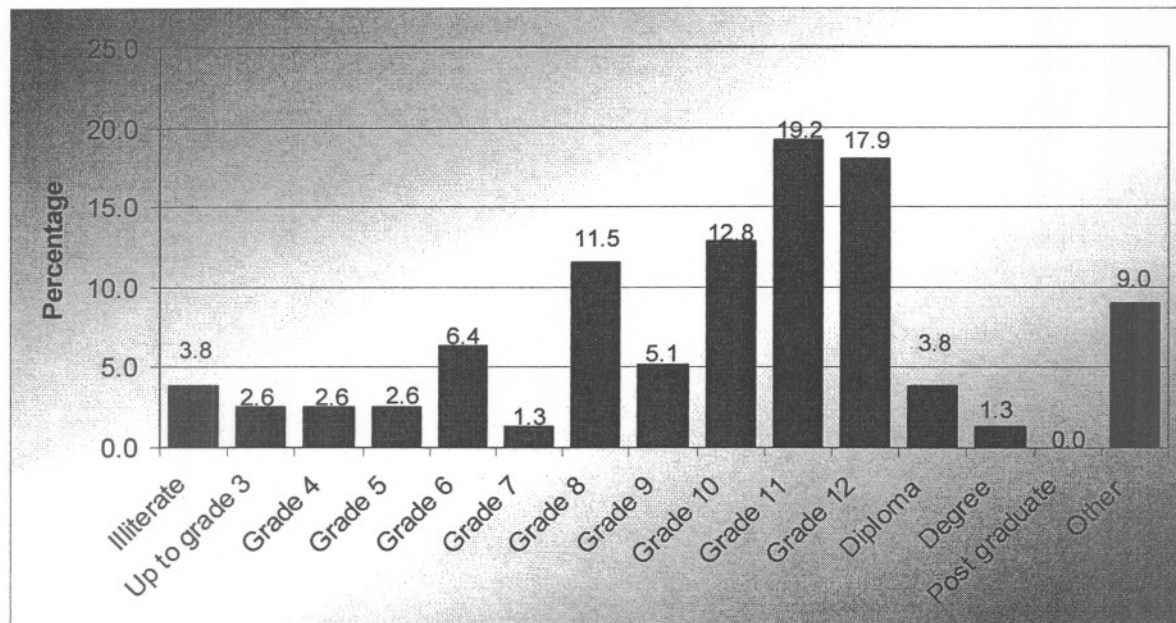


Source: Makumula, 2004

Figure 5.9 portrays the qualifications of the unemployed. Of the unemployed 31.1 percent, have qualifications of grade 12 and higher. For Bophelong, 25.8 percent of the unemployed have qualifications of grade 12 and higher (Slabbert, 2003:18). The percentage of the unemployed with a diploma or degree is 5.1 percent compared to 2.6 percent for Bophelong. The unemployed in Zamdela are better qualified than those in Bophelong, meaning that those unemployed in Zamdela have a relatively better chance of getting a job than the unemployed in Bophelong.

**The role of SMME's in local economic development aimed at job creation,
income generation and poverty alleviation in Zamdela**

**FIGURE 5.9: QUALIFICATIONS OF THE UNEMPLOYED IN ZAMDELA
- 2004**

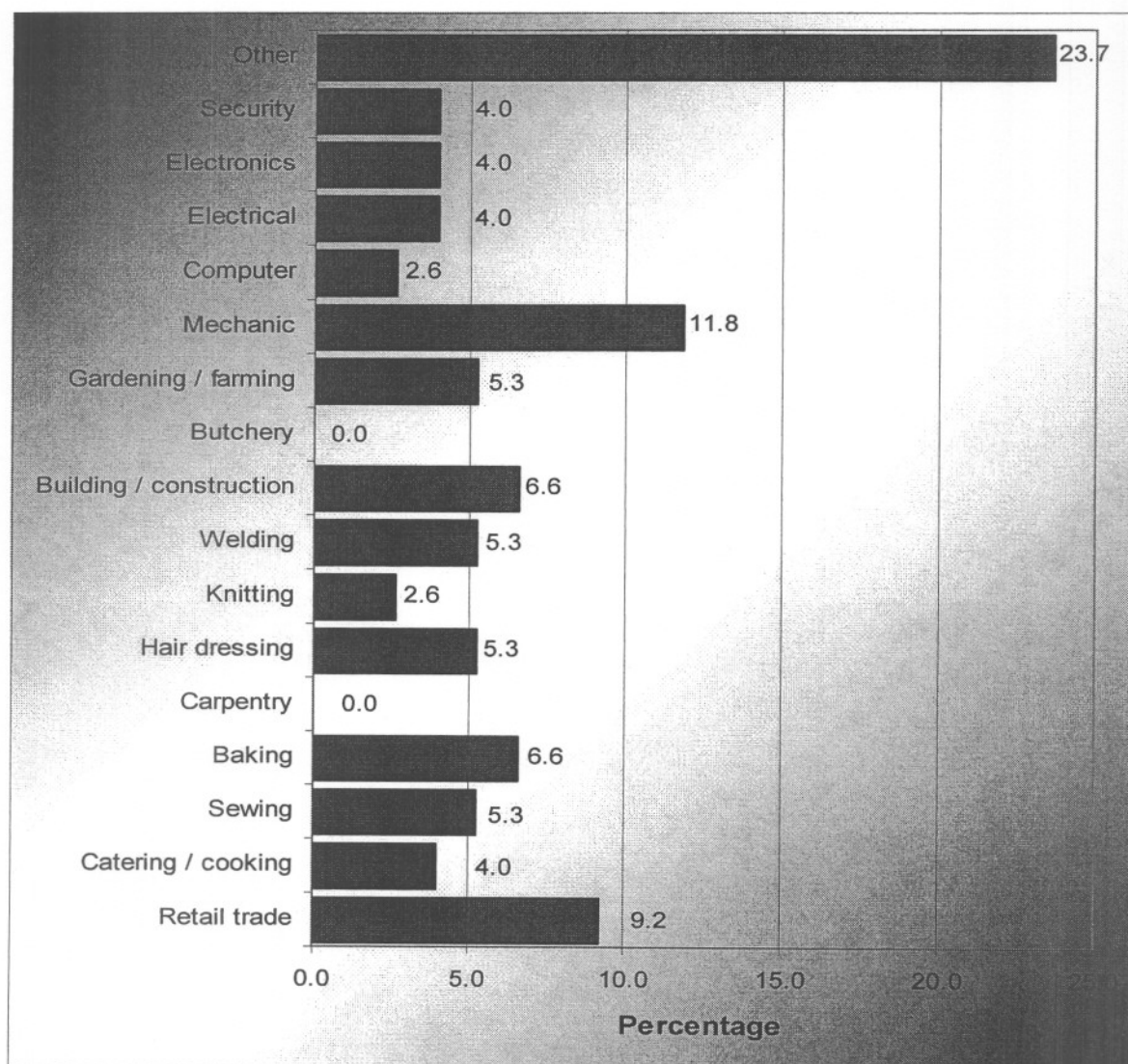


Source: Makumula, 2004

Figure 5.10 shows the skills of the unemployed. The highest percentage of the unemployed has skills in mechanics (11.8 percent) which is different to Bophelong, where the highest percentage of the unemployed has skills in catering/cooking (22 percent) (Slabbert, 2003:10). The reason may be that most of the skilled unemployed are unable to create jobs for themselves since they lack capital.

**The role of SMME's in local economic development aimed at job creation,
income generation and poverty alleviation in Zamdeba**

FIGURE 5.10: SKILLS OF THE UNEMPLOYED IN ZAMDEBA - 2004

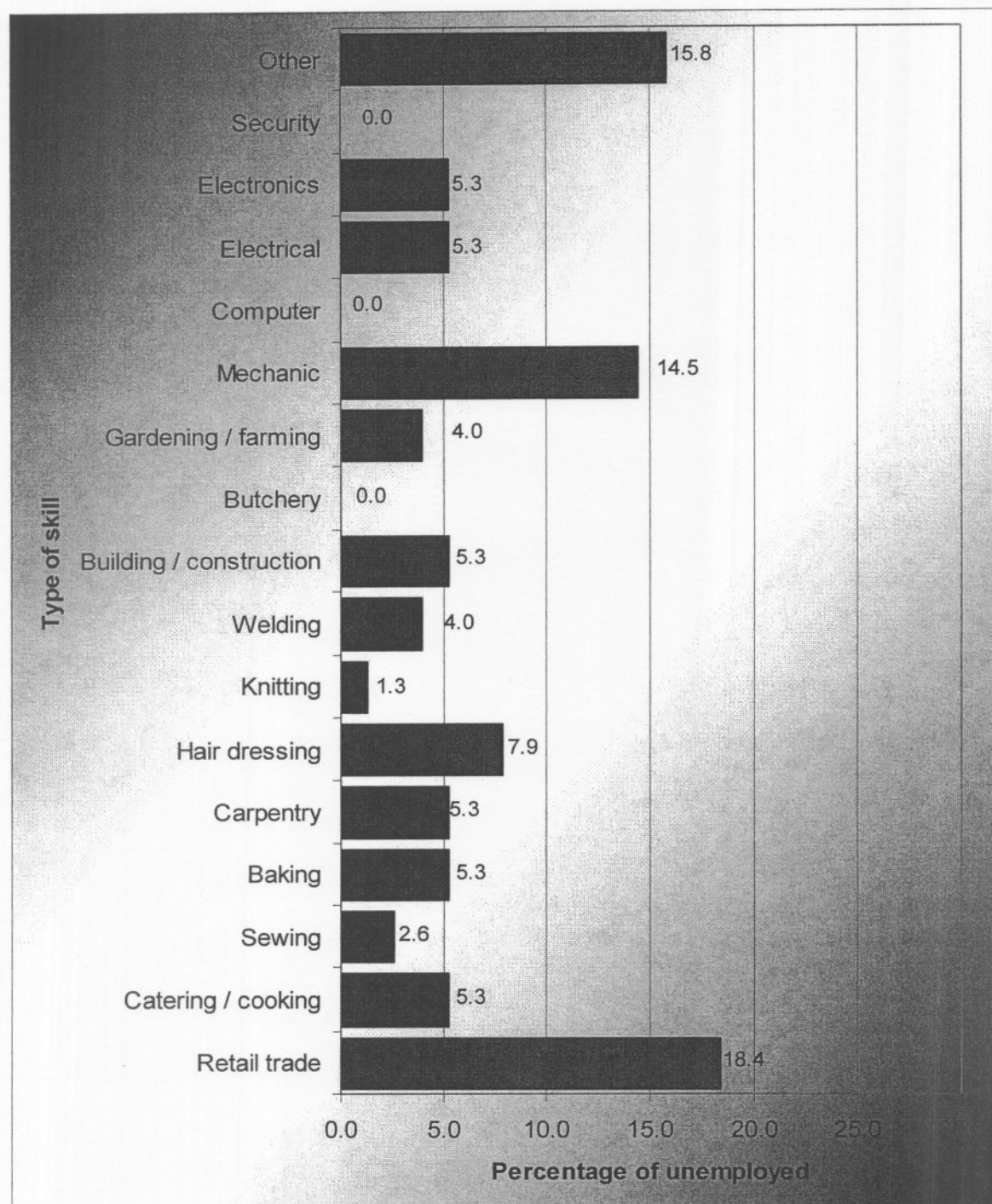


Source: Makumula, 2004

Figure 5.11 shows the kind of skills that the unemployed wish to be trained in. From the figure, it is clear that many respondents want further skills training in the fields they already have certain skills in. There is a strong correlation between the information in figure 5.10 and figure 5.11.

**The role of SMME's in local economic development aimed at job creation,
income generation and poverty alleviation in Zamdela**

**FIGURE 5.11: SKILLS TRAINING PREFERRED BY THE UNEMPLOYED IN
ZAMDELA – 2004**



Source: Makumula, 2004

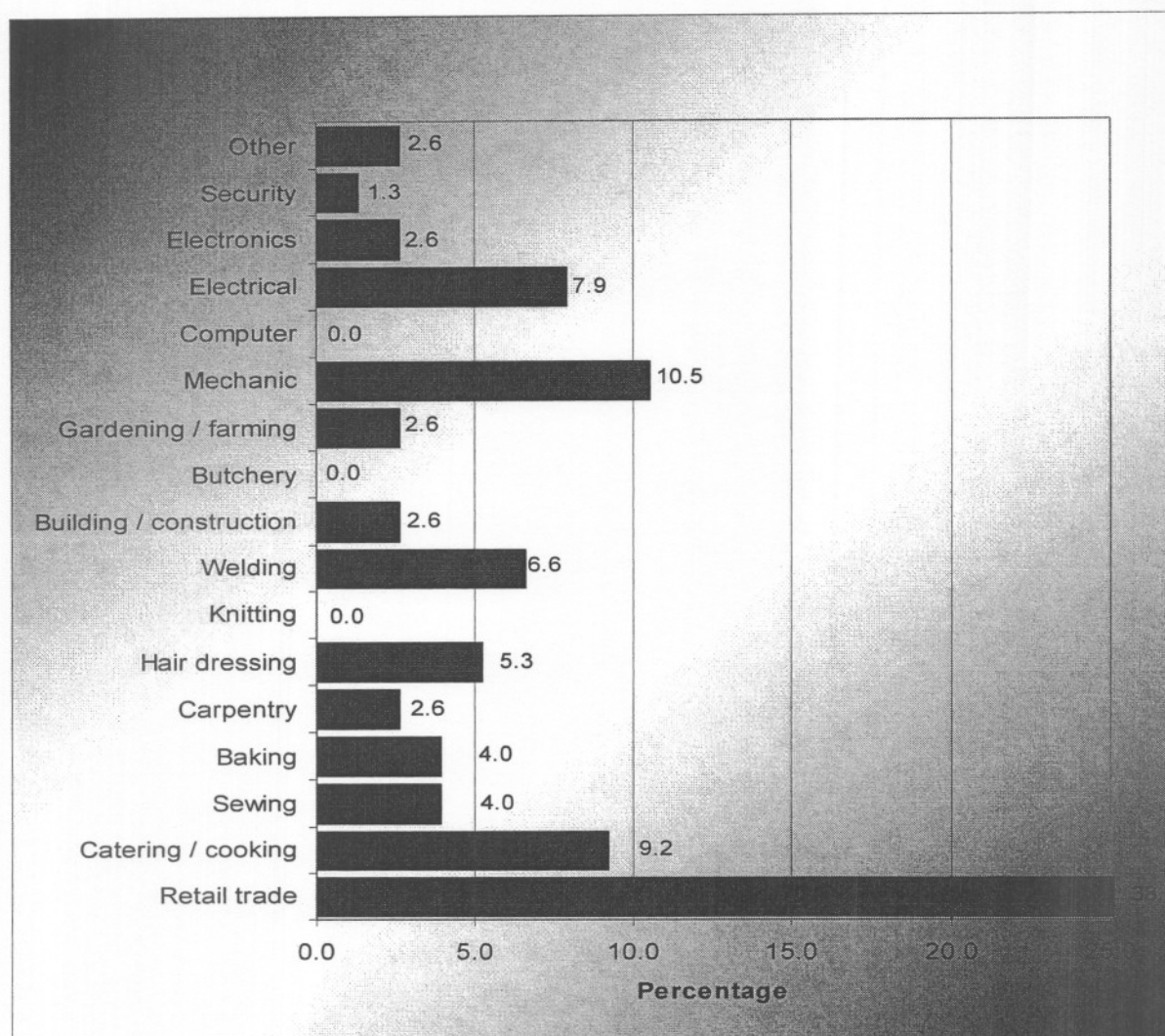
The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

Figure 5.12 shows the self-sustaining activities (own small businesses) the unemployed would prefer to be engaged in. If compared with figure 5.10, it is clear that the skills and preferences of the predominantly 'female' areas match less closely (18.5 percent have skills in these areas and 17.2 percent prefer these activities). In Bophelong, 45.4 percent have skills in these areas and 41.5 percent prefer these activities (Slabbert, 2003:12).

Concerning the predominantly 'male' activities, 24.9 percent have skills in these areas, and 29 percent prefer these activities. For Bophelong, 21.9 percent have skills in these areas, and 20.9 percent prefer these activities. Within these 'male' activities, gardening and carpentry seems to be less attractive, while welding and mechanics are more attractive. There is, however, a great difference when it comes to trading. Those who have trading skills form 9.2% of the unemployed, while those who like to be involved in trading forms 38.2% of the unemployed. Almost all unemployed indicated that they are willing to undergo skills training, or further tertiary training.

**The role of SMME's in local economic development aimed at job creation,
income generation and poverty alleviation in Zamdeba**

**FIGURE 5.12: SELF-SUSTAINING ACTIVITIES PREFERRED BY THE
UNEMPLOYED IN ZAMDELA - 2004**



Source: Makumula, 2004

5.4 POVERTY AND A POVERTY PROFILE

As mentioned in section 2.8, a poor household is defined as a household of which the combined income of all its members is less than the HSL as determined for the specific household. Dependency ratios are usually calculated by dividing the total number of non-income earners by the total number of income earners. However, this calculation of the dependency ratio is very insensitive because it is based on averages.

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

Poverty is measured in terms of the headcount index and the poverty gap index. The headcount index is defined as *the fraction of the population below the poverty line*. This report shows that the headcount index is adapted to indicate the fraction of households that fall below their individual poverty lines. The poverty gap usually measures the average shortfall of the incomes of the poor from the poverty line while the poverty gap index measures the extent of the shortfall on incomes below the poverty line.

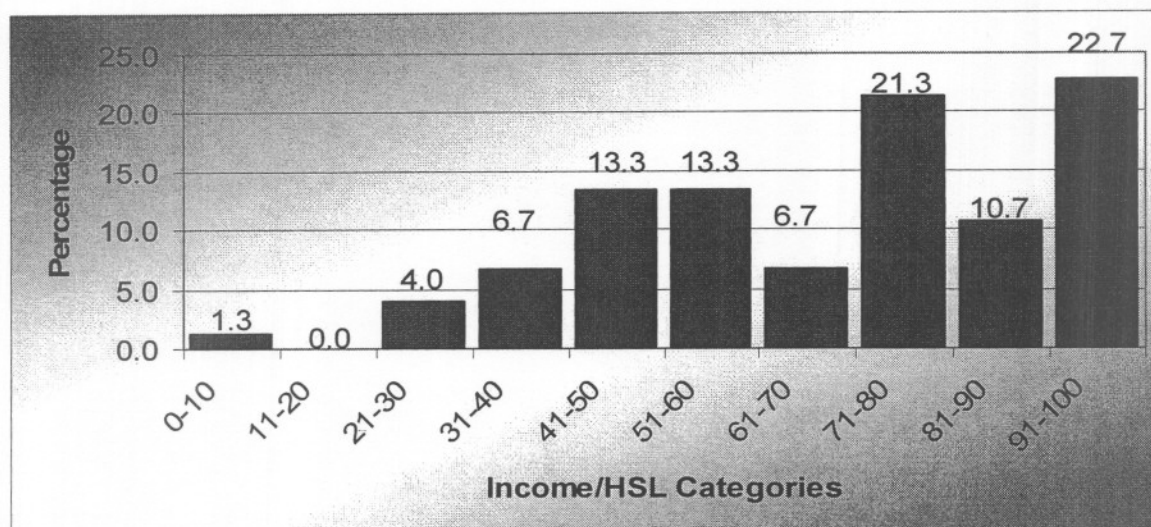
The headcount index as calculated, Makumula (survey, 2004) for Zamdela is 0.765, which means that from 16 488 households in Zamdela, 12 613 households live in poverty. That means 44 145 people are poor in Zamdela. The poverty gap index is determined at 0.32.

Figure 5.13 gives the distribution of the poor households' income as a percentage of their specific HSL. If a household income is above the poverty line, the household falls in the income/HSL category above 100 percent. An increase in the number of households below the poverty line indicates an increase in the proportion of the poor population.

Slabbert (2003:13) stated that " if most households earn 90 – 100 percent of their own HSL, this would indicate that the poverty is not very severe". In line with this assertion, figure 5.13 shows that 25.3 percent of all households in Zamdela have an income of less than 50 percent of their HSL compared to 45.8 percent for Bophelong. The poverty gap ratio is calculated at 0.32, which indicates that on average poor households' lack 32 percent of their income to attain a level equal to their poverty line. This is far lower to the figure for Bophelong (48 percent) as well as Emfuleni (47 percent). The depth of poverty in Zamdela is therefore relatively lower when compared to other areas.

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

FIGURE 5.13: POOR HOUSEHOLDS AND THEIR HSL RATIOS IN ZAMDELA - 2004



Source: Makumula, 2004

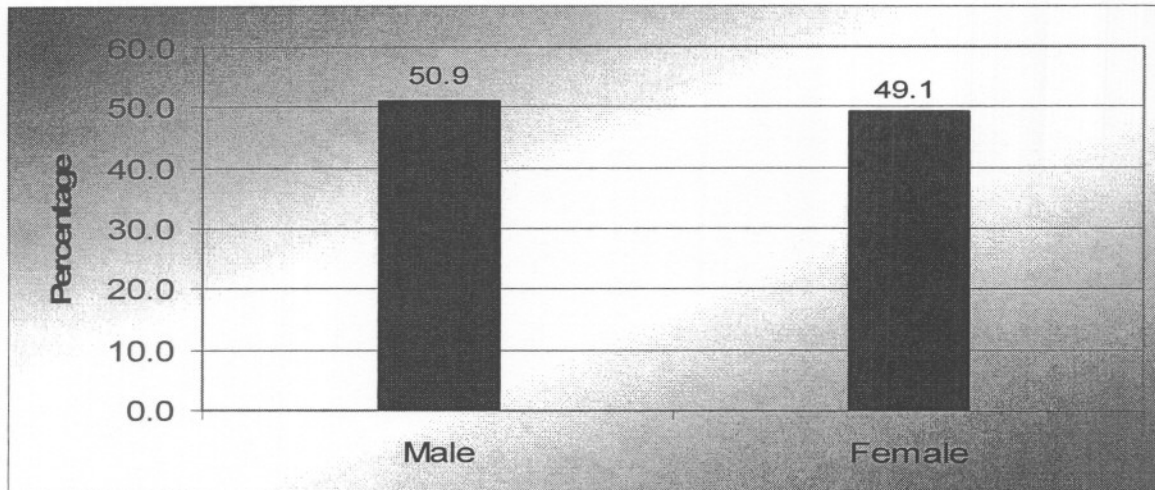
5.4.1 Profile of the poor in Zamdela

This section gives an analysis of the population that has been found in the survey to be poor. A number of indicators, like an income are used to profile the poor. The purpose is to show the differences between the poor and the total population as this is useful to determine a strategy to alleviate poverty.

Figure 5.14 shows that 49.1 percent of the poor population is female and 50.9 percent male, compared to 50.6 percent and 49.4 percent respectively for the total population of Zamdela. The Bophelong data showed that 55.8 percent of the poor population is female and 44.2 percent male, compared to 53.5 percent and 46.5 percent respectively for the whole population of Bophelong (Slabbert, 2003:14), showing that the male population in Zamdela is more affected by poverty than the female population which is slightly less affected by poverty than the male population.

**The role of SMME's in local economic development aimed at job creation,
income generation and poverty alleviation in Zamdela**

**FIGURE 5.14: GENDER DISTRIBUTION OF THE POOR POPULATION IN
ZAMDELA – 2004**



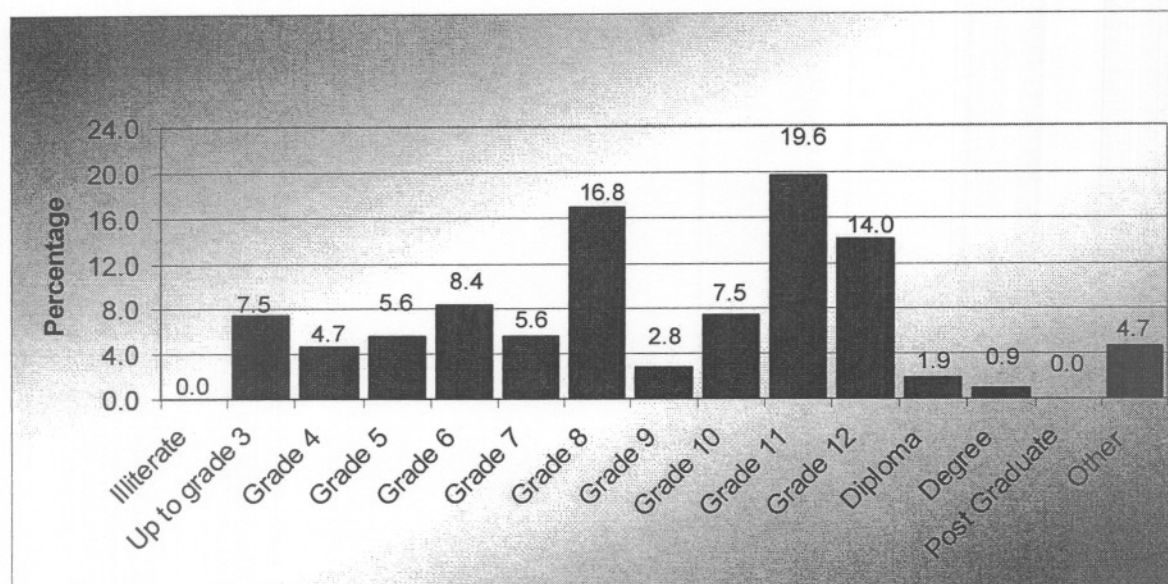
Source: Makumula, 2004

Figure 5.15 shows the qualifications of the post-school poor population. Of the poor population, 21.5 percent has a post-school qualification of grade 12 or higher, compared 25.7 percent for the population as a whole. The figures for Bophelong show a different trend where 16.9 percent of the poor population has post-school qualifications of grade 12 or higher, compared to 22.8 percent for the population as a whole.

The population with a diploma or degree living in poor households is 2.8 percent in Zamdela, compared to 3.1 percent for the population as a whole. The figure for Bophelong is 1.3 percent for the poor and 3.1 percent for the combined population. In conclusion, the difference between the combined poor and non-poor population and the poor shows an inverse correlation between especially higher qualification and poverty, implying lack of education (especially higher education) being a contributing factor to poverty (Slabbert, 2003:14).

**The role of SMME's in local economic development aimed at job creation,
income generation and poverty alleviation in Zamdela**

**FIGURE 5.15: QUALIFICATIONS OF THE POST – SCHOOL POOR
POPULATION IN ZAMDELA - 2004**



Source: Makumula, 2004

5.4.2 Profile of the poor employed

Figure 5.16 portrays the status of the labour force stemming from poor households. Of the poor labour force, 45 percent is employed. The unemployment rate of the poor is 55 percent compared to 41 percent in general in Zamdela. For Bophelong, the comparative figure for the unemployed poor is 68.3 percent compared to 55 percent for the whole population (Slabbert, 2003:15). In Emfuleni, 72.8 percent of the poor are unemployed compared to 61.7 percent for the combined population. There is a huge difference among these townships. With the low percentage of the unemployed poor compared to Bophelong and Emfuleni, the reason may be that Zamdela is situated close to the big business like Sasol firm, which many small contractors are tendered to reducing the level of unemployment.

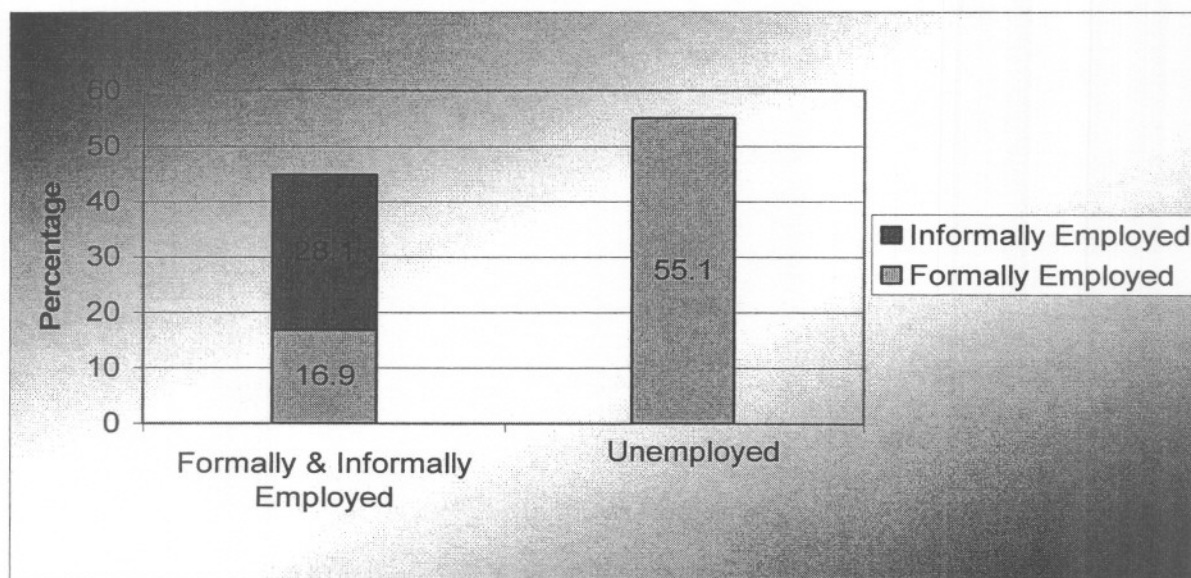
Concerning the poor employed, 16.9 percent are formally employed and 28.1 percent is informally employed, compared to 39.9 percent and 19.1 percent respectively for Zamdela as a whole. The figures for the poor in Bophelong are 24.9 percent in formal and 6.7 percent in informal employment, compared to 34.9 percent and 10 percent respectively for Bophelong as a whole (Slabbert, 2003:15).

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

In Emfuleni, the figures for the poor are 18.3 percent formal and 8.9 percent informal employment (Mokoena, 2004:117). This shows lower formal employment figures in Zamdela than in Bophelong and Emfuleni, but higher informal .

The Zamdela figures show a far participation in informal employment for the poor than for the total employed population (28.1 percent vs. 19.1 percent). The percentage of the employed poor that are employed in the formal sector is very low, at 16.9 percent. This correlates well with the fact that informal employment usually has lower wages than formal employment as stated by (Slabbert, 2004:167).

FIGURE 5.16: COMPOSITION OF THE POOR LABOUR FORCE IN ZAMDELA – 2004



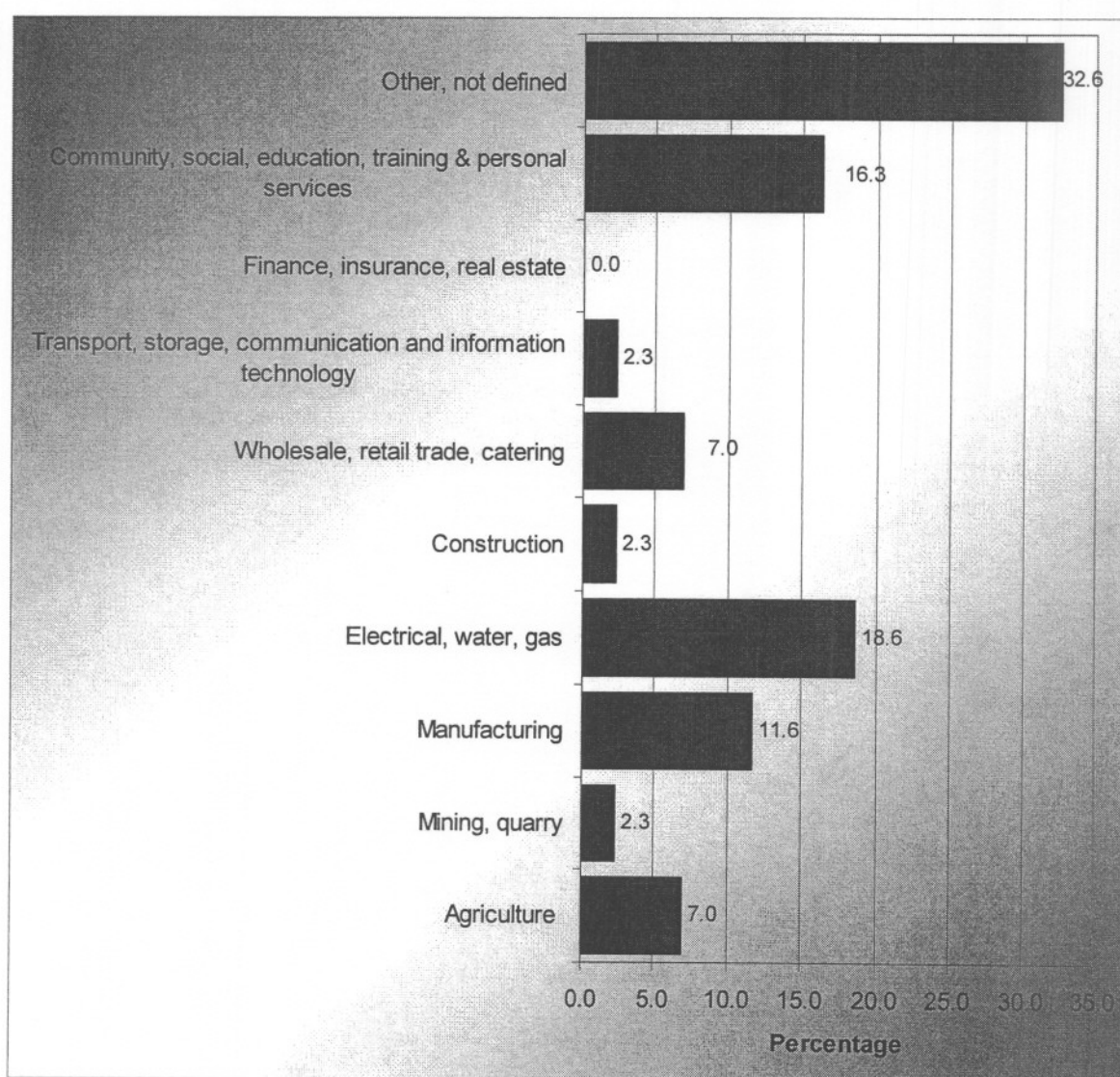
Source: Makumula, 2004

Figure 5.17 portrays the sectors where the poor employed work. A comparison with Figure 5.6 (Sectors of employment for the employed of Zamdela as a whole) shows that a smaller percentage of the poor work in the community, social, education, training & personal services sector (16.3 percent compared to 18.9 percent for the total population).

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

A smaller percentage of the poor work in the trade sector (7.0 percent compared to 11.7 percent). The same categories account for 45.7 percent employed poor in Bophelong and 50 percent in the Emfuleni (Mokoena, 2004:118). These are sectors with comparatively low wages, which easily lead to perpetuation of poverty, vulnerability to shocks and income risk (Mokoena, 2004:118). This correlates well with the fact that the extent and depth of poverty in Zamdela is less severe than in Bophelong and Emfuleni.

**FIGURE 5.17: SECTORS OF EMPLOYMENT FOR THE POOR EMPLOYED
IN ZAMDELA -2004**



Source: Makumula, 2004

**The role of SMME's in local economic development aimed at job creation,
income generation and poverty alleviation in Zamdela**

Table 5.1 shows the monetary and percentage contribution of the different sectors of Emfuleni economy to the total remuneration in Emfuleni for the year 2000.

TABLE 5.1: TOTAL REMUNERATION PER SECTOR FOR EMFULENI – 2000

Sector of the economy	Total annual remuneration R'000	Percentage	Average wage per worker per month (R)
Agriculture	48,544	0.6	833
Mining	15,587	0.2	4,190
Manufacturing	3,097,875	40.5	5,126
Electricity/Gas/Water	258,875	3.4	6,049
Construction	277,456	3.6	2,713
Trade	681,741	8.9	4,103
Transport	445,061	5.8	6,137
Financing	536,875	7.0	3,955
Services and other	2,186,839	28.6	3,383
Other, not defined	102,593	1.3	3,929
TOTAL	7,652,295	100.0	4,115

Source: Adapted from Slabbert, 2004:75

The largest percentage (40.5 percent) of remuneration is paid by the manufacturing sector, while the second largest (28.6 percent) is paid by the services and other sectors, and the third largest (8.9 percent) is paid by the trade sector. The highest average monthly wages are paid by the transport and electricity, gas and water sector, and the third highest by the manufacturing sector (Slabbert, 2004:74).

Of the poor population in Zamdela, 16.3 percent is employed in the services and other sector with low wages, which easily leads to relative poverty.

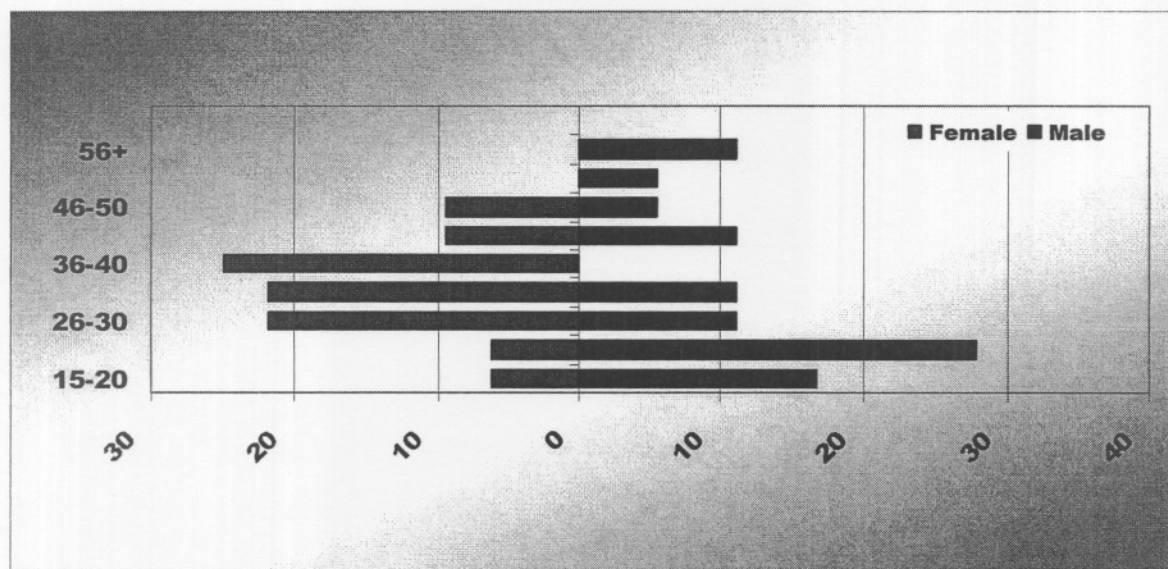
The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

Although only 7.0 percent of the poor population are employed in the Trade sector which is one of the sectors with higher wages that percentage is not enough to uplift the state of poverty in the area.

5.4.3 Profile of the poor unemployed

Figure 5.18 gives an age profile of the poor unemployed in Zamdela. The figure shows that amongst the poor, the youth are affected most by unemployment. Of the total poor, 56 percent of the unemployed are between 20 and 35 years of age. In the case of females, it is higher (59.5 percent) than in the case of males (50.2 percent). Comparatively, the figure for Bophelong for the population in this category is 58 percent (Slabbert, 2003:16-17). The combined figure for females is 61.5 percent and 52.2 percent for males. The figures for Bophelong are higher than those for Zamdela. In both townships females are more affected.

**FIGURE 5.18: AGE CATERGORIES OF THE POOR UNEMPLOYED
POPULATION IN ZAMDELA - 2004**



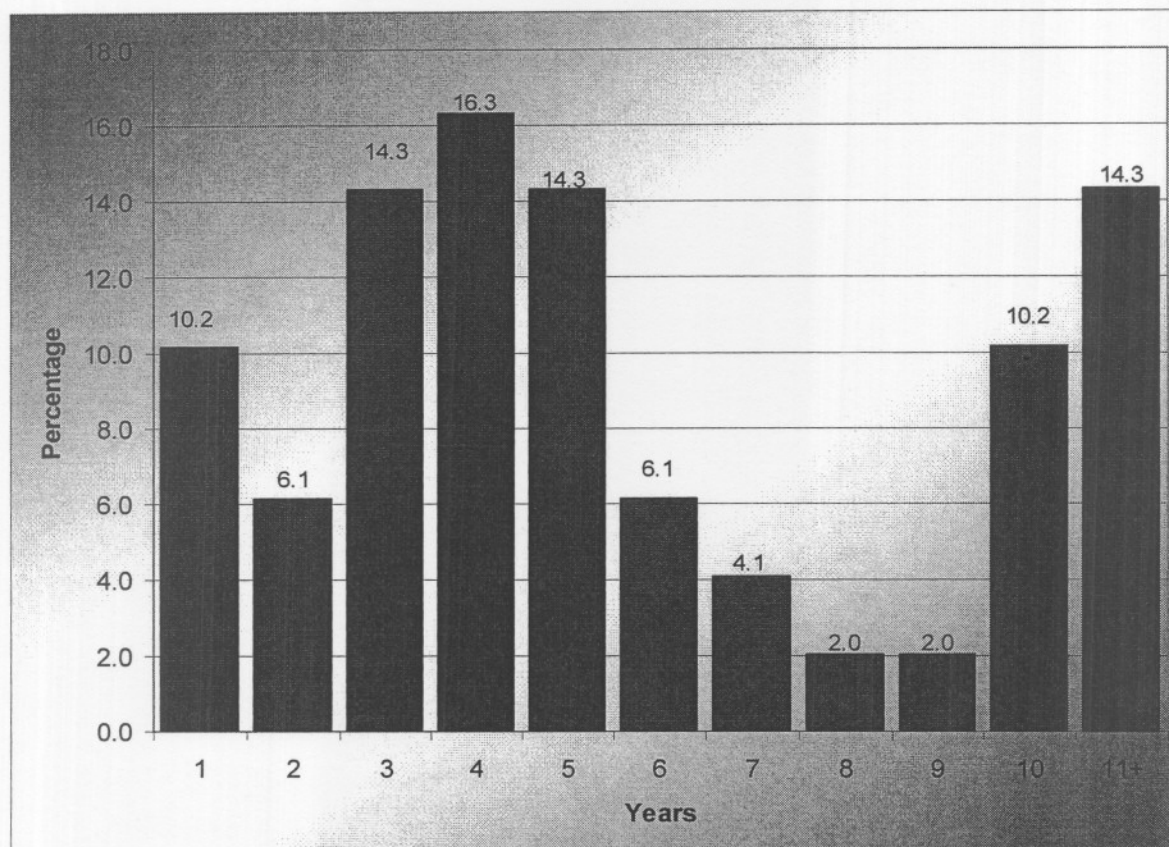
Source: Makumula, 2004

Figure 5.19 shows the duration of unemployment of the poor population. This is about the same as for the Zamdela population as a whole. The figure shows that 61.2 percent of the poor population has been unemployed for up to five years.

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

The figure for Bophelong is 59.3 percent and 57.7 percent for Emfuleni (Mokoena, 2004:119). It seems that the poor in Bophelong and Emfuleni as a whole are unemployed for a slightly shorter period than those in Zamdela.

**FIGURE 5.19: DURATION OF UNEMPLOYMENT FOR THE POOR
UNEMPLOYED POPULATION IN ZAMDELA – 2004**

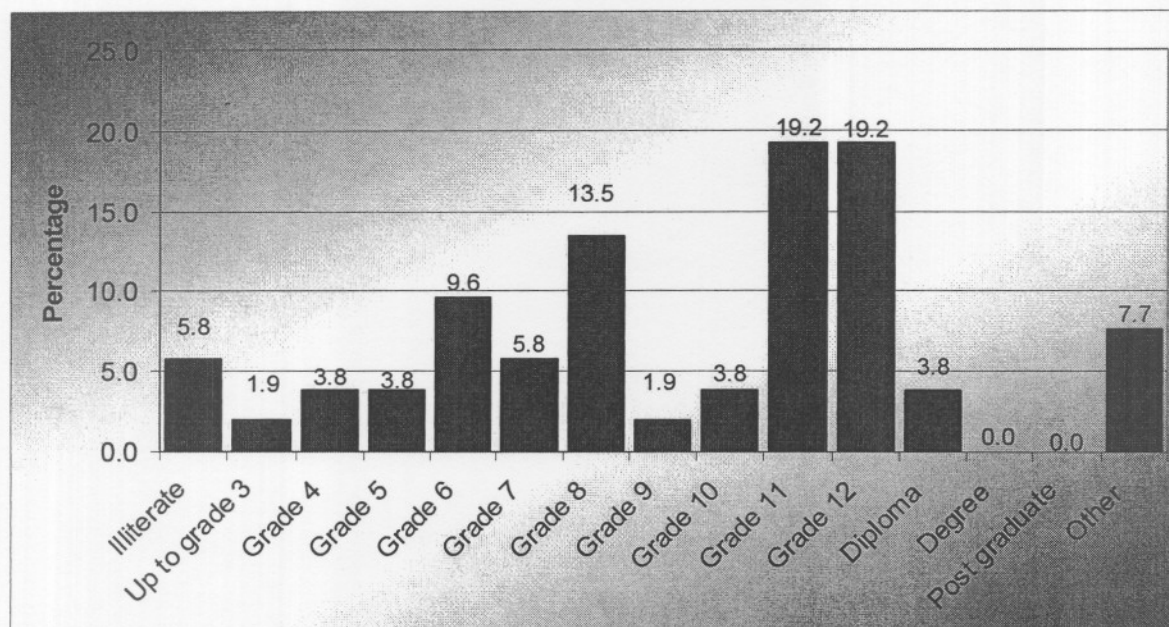


Source: Makumula, 2004

Figure 5.20 shows the qualifications of the poor unemployed. The percentage of the poor unemployed with a grade 12 or higher qualification is 30.7 percent. This figure is 22.7 percent for Bophelong and 25.2 percent for Emfuleni. Of the poor unemployed 3.8 percent have diplomas in Zamdela, compared to only 1.3 percent in Bophelong. The poor unemployed population in Zamdela are better qualified than those in Bophelong, as is the case with the total population in Zamdela.

**The role of SMME's in local economic development aimed at job creation,
income generation and poverty alleviation in Zamdela**

**FIGURE 5.20: QUALIFICATIONS OF THE POOR UNEMPLOYED IN
ZAMDELA – 2004**

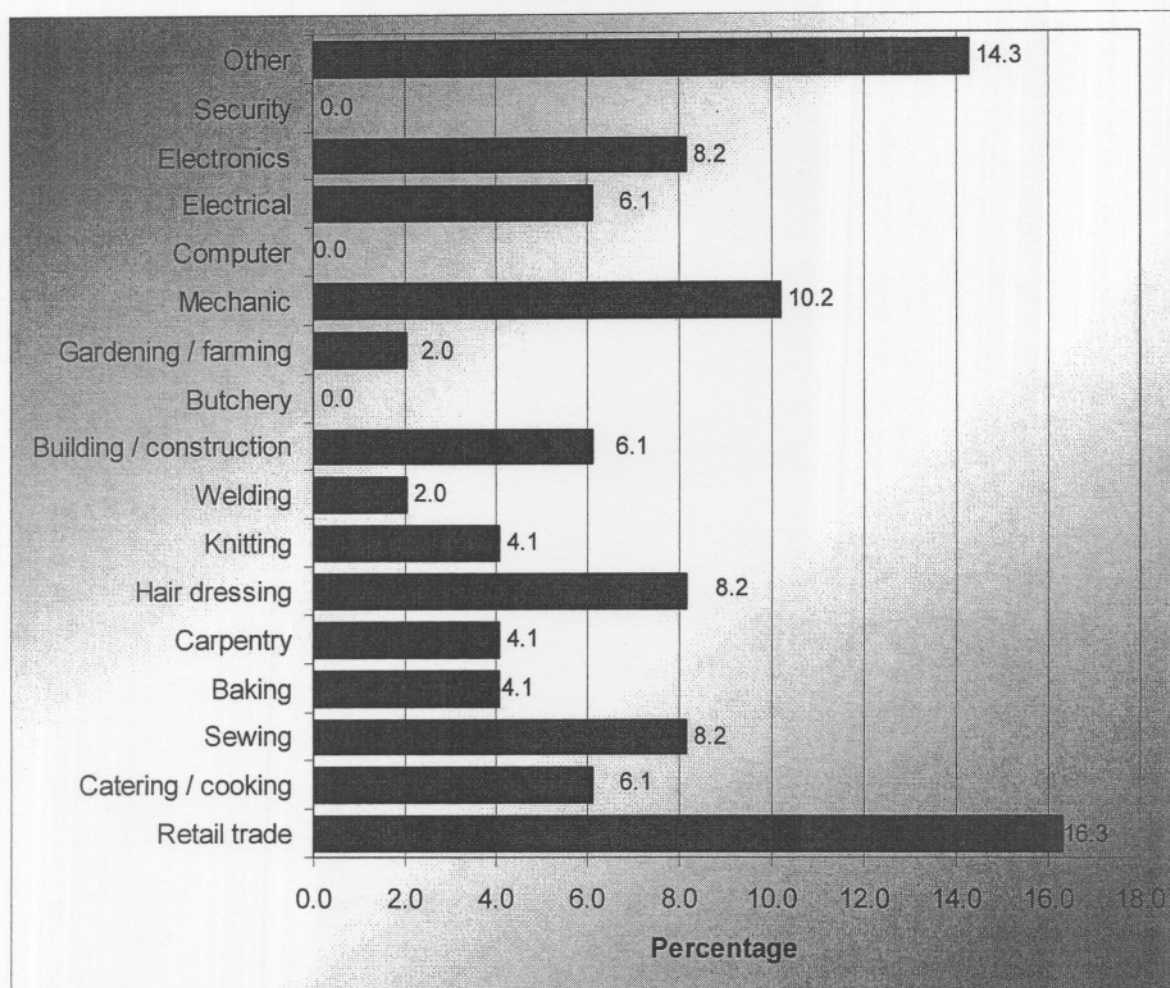


Source: Makumula, 2004

Figure 5.21 gives an indication of the kind of self-sustaining activities the poor unemployed would like to be trained in. 16.3 percent of the poor unemployed would like to be trained in the trading field compared to 18.4 percent for the poor and non-poor unemployed). A strategy for poverty alleviation should focus on creating jobs in the trade, catering/cooking sewing fields for females, and building/construction and mechanic fields for males. This is almost the same as for Bophelong. The difference is in what is most preferred which is catering/cooking (for females) and building and welding for men.

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

**FIGURE 5.21: SKILLS TRAINING PREFERRED BY THE POOR
UNEMPLOYED IN ZAMDELA – 2004**



Source: Makumula, 2004

5.5 INCOME AND EXPENDITURE

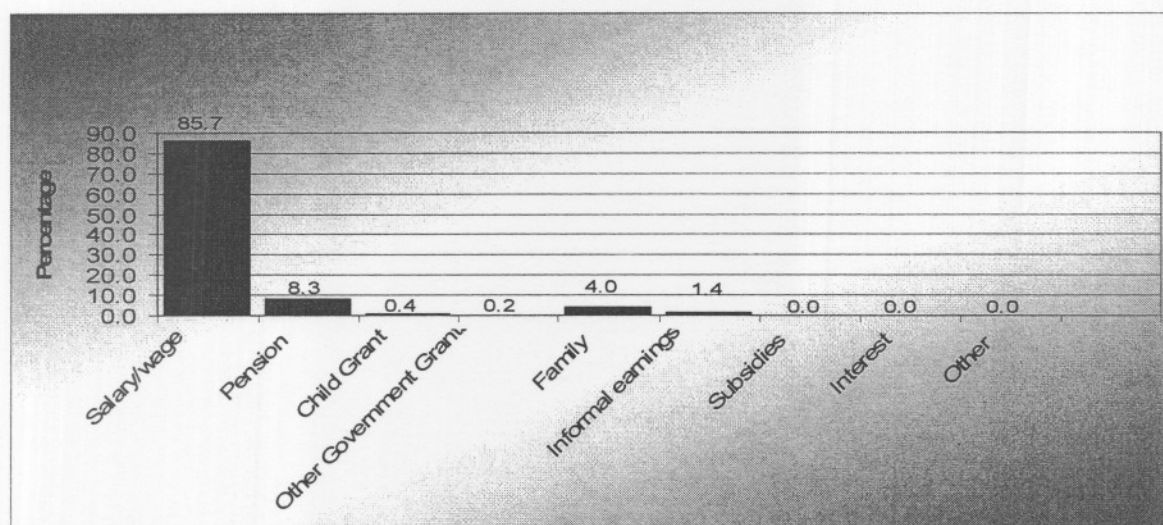
This section examines the state of income and expenditure in Zamdela. Although much care was taken to support the respondents to give as much information as possible on the different sources of finance, the 'phenomenon of expenditure surplus' was observed in the survey for many households. This happens when expenditure exceeds income. The reason for this may lie in the fact that some households tend not to declare some income, especially if the source of such income is suspect (for example, income gained through illegal means), but will more readily declare expenditures (Mokoena, 2004:121).

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

The average household income for 2004 in Zamdela is determined at R3 188.9 per household per month. In Bophelong it was determined at R1 497 per month in 2003 (Slabbert, 2003:9). For Emfuleni it was estimated at R3 400 per household per month in 2003 (Slabbert, 2004:75). This indicates that Zamdela has higher incomes per household than Bophelong, but lower than Emfuleni.

Figure 5.22 shows the different sources of income and their contribution to the total household income in Zamdela. The figure shows that 85.7 percent of household income is salaries and wages in Zamdela (61.4 percent for Bophelong and 72.2 percent for Emfuleni (Mokoena, 2004:12). This is therefore by far the primary source of household income, followed by pensions at 8.3 percent (12.1 percent for Bophelong and 12 percent for Emfuleni) and informal earnings 1.4 percent (13.2 percent for Bophelong and 7.4 percent for Emfuleni). No income comes from interests in Zamdela whereas this source contributes 0.2 percent to the household income of Bophelong.

FIGURE 5.22: PERCENTAGE CONTRIBUTION OF DIFFERENT SOURCES TO HOUSEHOLD INCOME IN ZAMDELA - 2004



Source: Makumula, 2004

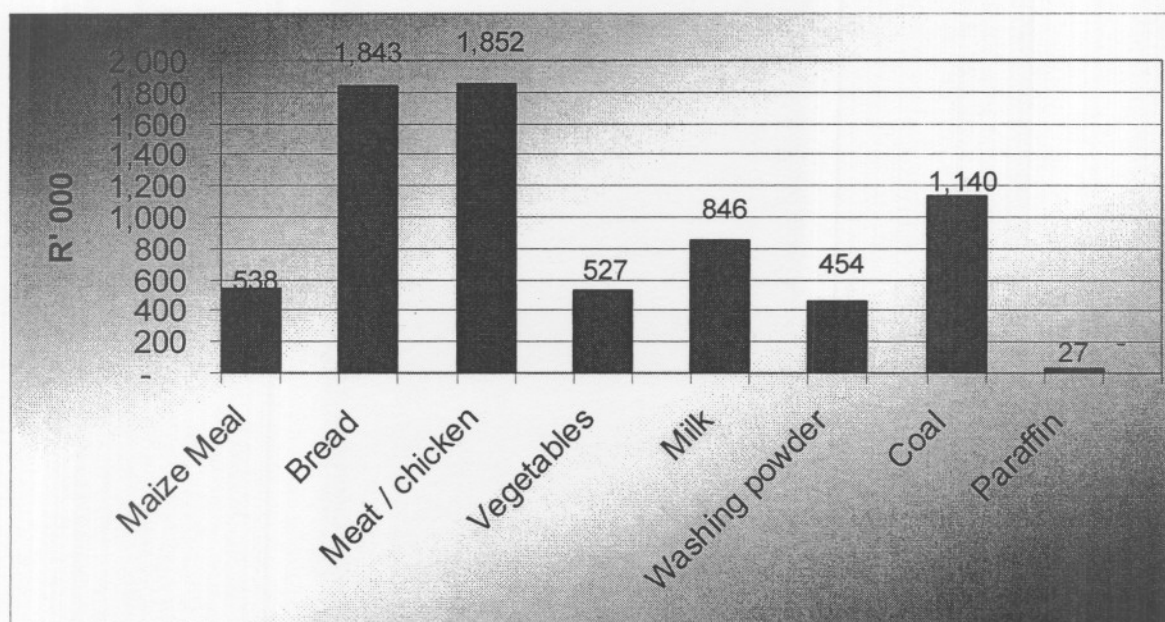
Figure 5.23 shows the average amounts spent on a few very commonly consumed items by the households of Zamdela.

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

Residents in Zamdela consume 270 073 kilograms of mealie meal per month, amounting to an expenditure of R538 000 per month (R6.46 million per year). About R1 843 000 is spent monthly on bread (R22 million per year). About R1 852 000 is spent monthly on meat (R22 million per year).

About R527 000 is spent monthly on vegetables (R6 million per year), R846 000 on milk per month (R10.2 million per year), R454 000 on washing powder per month (R5.45 million per year). The expenditure for the mealie meal, meat and vegetables items in Bophelong are less compared to that for Zamdela. The total expenditure on these five items amounts to R72.11 million per year, which provides an opportunity for an inward industrialization process, whereby some of these products may be produced by local residents for Zamdela community. This will have the effect that money is retained in the area and that a multiplier effect in terms of income and employment will come into effect in Zamdela.

FIGURE 5.23: MONTHLY EXPENDITURE SPENT BY HOUSEHOLDS ON DIFFERENT ITEMS IN ZAMDELA -2004



Source: Makumula, 2004

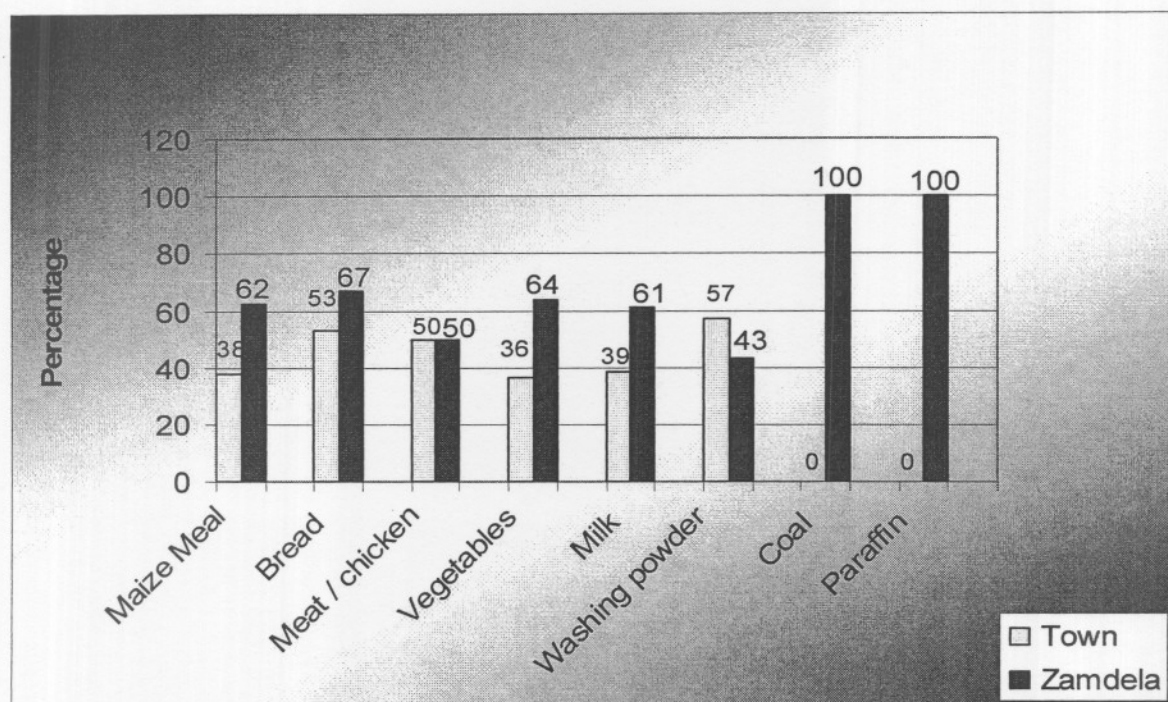
The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

The highest items of expenditure are meat/chicken (R1, 852 million per month) and bread (R1,843 million per month) because they are always available in the "spaza" shops and even during late nights when most of the inhabitants are lazy to cook and that most of the Zamdela residents often prefer to consume the so called "Spahlo" which is made of bread, atchar and some few chips. That is one of the reasons why the expenditure on bread is high. In Zamdela township, most of the residents also often prefer chicken feet, heads and intestines because these items are always available, that is why the expenditure on meat/chicken is high. The expenditure on coal is also high (R 1, 140 million per month) compared to that of Bophelong (R 54 million), the reason being that coals are manufactured in around Zamdela and as such are cheaper, and are often used by poor households for cooking, boiling water and used as heaters in winter. The total expenditure on the seven items (excluding paraffin with low expenditure) amounts to R7.2 million per month and 86.4 million per year.

Figure 5.24 indicates the place where the products mentioned in Figure 5.23 are bought. The majority of these products are bought in Zamdela itself, except meat (which is equally bought in town and in Zamdela) and washing powder. This corresponds with Bophelong (Slabbert, 2003:21). Although these products are bought within Zamdela, only coal and paraffin are manufactured or produced in or around the area.

**The role of SMME's in local economic development aimed at job creation,
income generation and poverty alleviation in Zamdela**

**FIGURE 5.24: PLACE WHERE HOUSEHOLD PRODUCTS ARE BOUGHT
IN ZAMDELA – 2004**



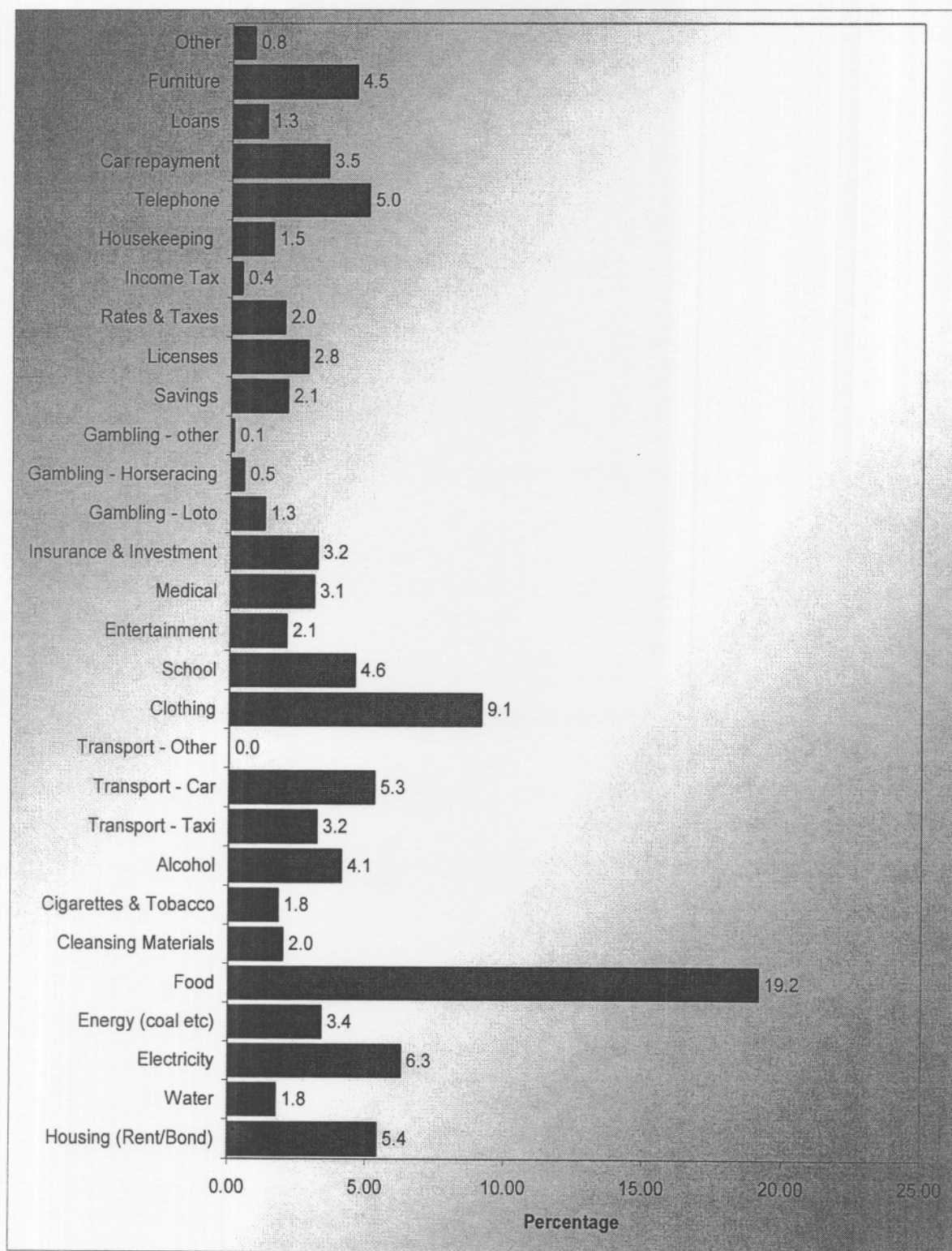
Source: Makumula, 2004

Figure 5.25 depicts the average expenditure of households in Zamdela. About 19.2 percent of all household income is spent on food, 9.1 percent on clothing, 5.3 percent on transport (taxis & own car), 4.6 percent on school and 6.3 percent on electricity. Housing (rent/bond) is 5.1 as a result of housing subsidies by Sasol firm and other small firms around the area.

In Bophelong, a much higher (36 percent) is spent on food, and this is usually a sign of greater poverty (Slabbert, 2003:21). The poverty gap index of Bophelong (0.48) is also higher than for Zamdela (0.32). Therefore, this correlates well.

**The role of SMME's in local economic development aimed at job creation,
income generation and poverty alleviation in Zamdela**

FIGURE 5.25: HOUSEHOLD EXPENDITURE IN ZAMDELA – 2004

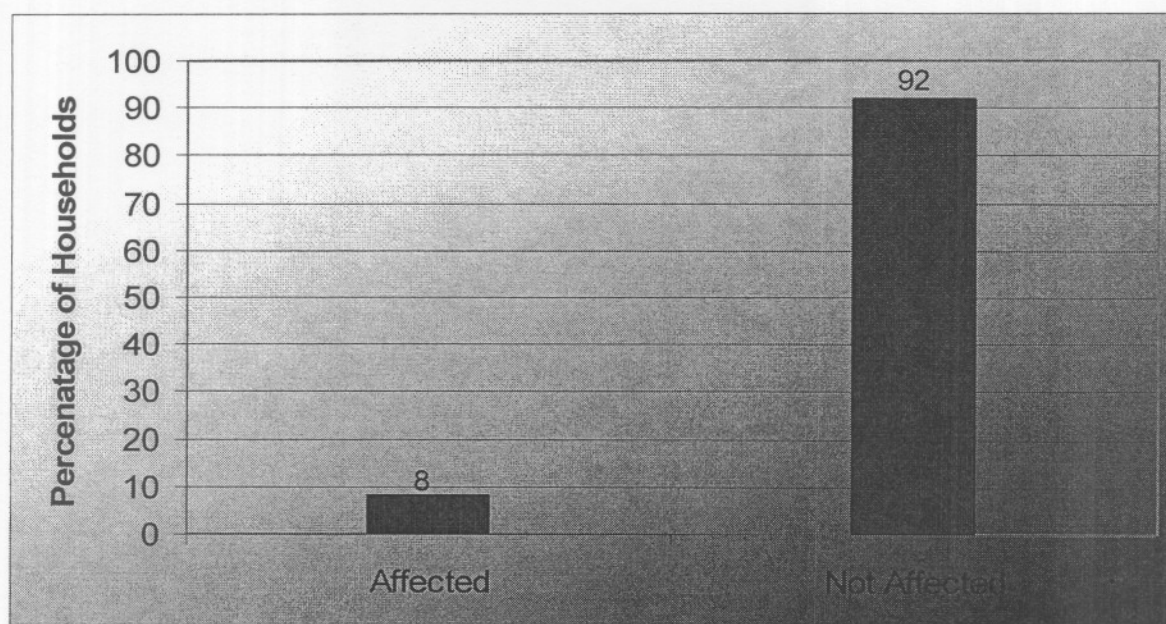


Source: Makumula, 2004

**The role of SMME's in local economic development aimed at job creation,
income generation and poverty alleviation in Zamdela**

Figure 5.26 indicates that 8 percent of the households were affected by crime in the last 12 months. This means that roughly one out of every 9 houses were exposed to some or other crime in the last 12 months.

**FIGURE 5.26: HOUSEHOLD AFFECTED BY CRIME IN THE LAST 12 MONTHS
IN ZAMDELA -2004**

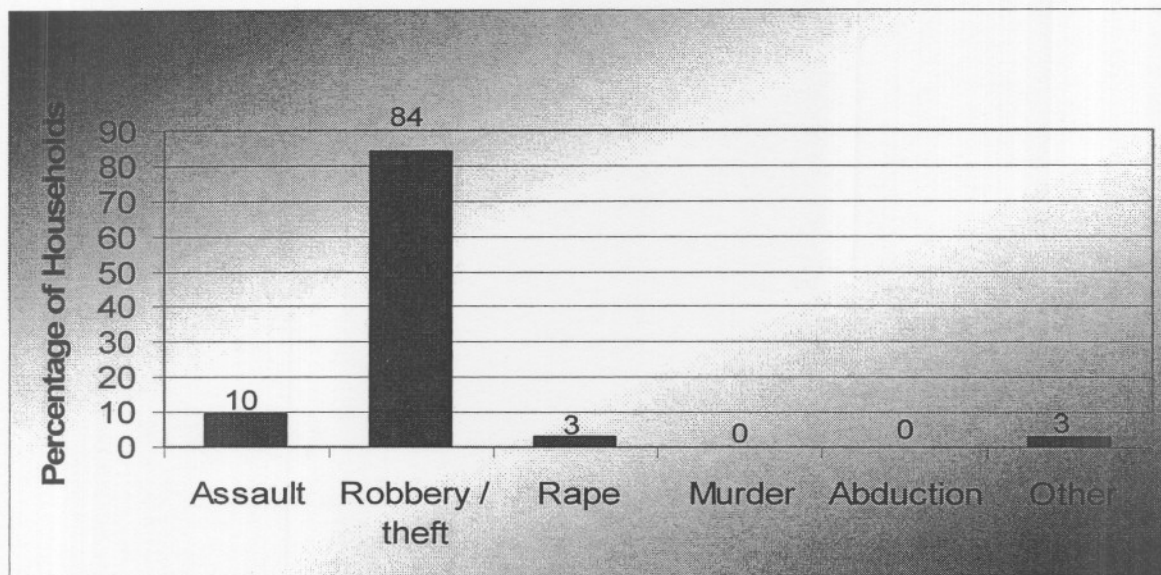


Source: Makumula, 2004

Of those affected, 84 percent of the cases were in connection with theft/robbery (implying that 1319 households were affected by that in the last 12 months) and 10 percent in connection with assault (figure 5.27).

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

FIGURE 5.27: HOUSEHOLDS AFFECTED BY CRIME: TYPE OF CRIME IN ZAMDELA- 2004



Source: Makumula, 2004

5.6 CRIME

Poverty, unemployment and inequality often cause crime. Inequality of opportunities and widespread poverty give rise to criminal activities that deter economic development and sustain high poverty levels. Sociologists and criminologists have emphasised that poverty and idleness explain high crime rates. The longer the person is unemployed, the higher the relative attractiveness of crime. (Mehlum, Moene & Torvik, 2000:1).

The Anomie theory, developed by Durkheim (1893), considers that a breakdown of crucial institutions (such as the family, church, and school) that teach individuals the values and norms held within the society, will create a rise in crime. These breakdowns are taking place in poverty-stricken areas, because individuals experience "normlessness".

Normlessness is usually defined as a lack of standards and values within a community. However, "normlessness" according to the Anomie theory, is the result of common goals held by individuals within a society without the equal means and

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

opportunities of achieving these goals. As a result of these goals the means gap and delinquent subcultures are often formed by status-frustrated individuals.

Within these subcultures, values are constructed that often completely rejects the norms and values held by the society as a whole. These subcultures achieve goals by ways of illegitimate means, because legitimate means are not available to them, in contrast to the middle and upper class (Hagan, 1994:32).

Crime in South Africa has been publicised as one of the serious challenges facing post-apartheid democracy. The country's crime rates are among the highest in the world and no South African is insulated from its effects. The Western Cape, Gauteng and the Northern Cape occupy the three top spots in South Africa in terms of crime. Gauteng appears thirteen out of fifteen times in the top three spots. Only in common assault and stock theft does Gauteng not feature in the top three spots in South Africa. There is therefore a high incidence of crime in the province, including serious crimes, such as murder, rape and robbery with aggravating circumstances (Mokoena, 2004:132).

Of the households in Zamdela, 8 percent were affected by crime in the last 12 months and 23 percent in Bophelong (Makumula, 2004). It means that less than one out of ten houses were exposed to crime, compared to roughly one out of every 4 houses in Bophelong that were exposed to some form of crime in the last 12 months. The reason of less crime in Zamdela could be the fact that the Zamdela community works more close with the police to let the perpetrators to book as might be the case compared to the community of Bophelong.

**The role of SMME's in local economic development aimed at job creation,
income generation and poverty alleviation in Zamdela**

5.7 JOB CREATION

In chapter 5 the unemployment rate was determined at 41 percent. The unemployment rate amongst the poor was 55 percent. As discussed in the chapter, job creation will have a major impact on the level of poverty. Most of the persons that have some kind of skills, would, if they would get the opportunity, prefer to get further training in the same field and would like to start self-sustaining activities in the same field. Job creation could have a major impact on the level of poverty, especially if it could be aimed at the unemployed poor.

Ample opportunities exist in Zamdela for the production of products that are consumed by the community, if those interested could receive skills training, practical advice and financial support to initiate and start such activities.

Assuming that the unemployed poor residents could be assisted to form co-operatives or enterprises to produce all the mealie meal, bread, meat/chicken, vegetables and washing powder consumed in Zamdela coupled to the fact that 30 percent of the turnover would be an income to members/workers, the injection into Zamdela would be R1.16 million per month (R13.9 million per year).

Five of these products (Maize meal, bread, meat, vegetables and washing powder) lend themselves ideally to an Inward Industrialisation Process where they could be produced by co-operatives or SMME's with labour intensive methods. The combined expenditure in Zamdela on the 5 products amounts to R3.85 million per month.

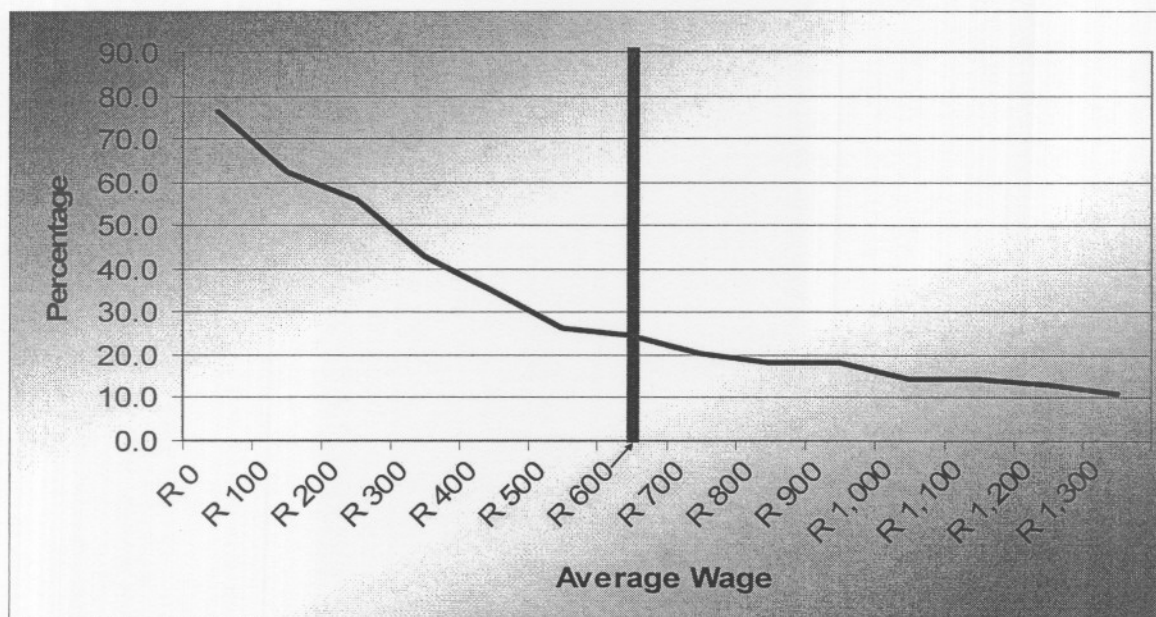
The impact of job creation at different income levels on the level of poverty in Zamdela is illustrated in figure 26. At a level of R600 per unemployed person, the percentage of the households below their poverty line is reduced to 25 percent. When all the poor –unemployed would receive incomes of R1, 000 per month, the poverty rate will decrease to about 16 percent. It is therefore evident that with relatively low monthly wages poverty could be alleviated.

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

If an additional 950 jobs for poor unemployed persons could be created as welders, textiles workers etc. at an average income of R600 per month, the impact on the Zamdela community will be that the headcount index will be reduced from 0.77 to 0.25 and the poverty gap index from 0.32 to 0.21.

This implies that the percentage of households below their poverty lines would be reduced from the present 77 percent to 25 percent and the average shortfall in income of the poor households would be reduced from 32 percent to 21 percent (without taking the multiplier effect into account).

FIGURE 5.28: IMPACT OF JOB CREATION ON LEVELS OF POVERTY IN ZAMDELA -2004



Source: Makumula, 2004.

**The role of SMME's in local economic development aimed at job creation,
income generation and poverty alleviation in Zamdela**

5.8 SUMMARY AND CONCLUSION

This chapter utilised various household level indicators to assess the level of poverty and unemployment in Zamdela. This was done primarily in comparison with Bophelong.

The economic status profile of poor households in Zamdela shows that a higher percentage of females are poor and unemployed compared compared to males. In Bophelong, females are also more affected by poverty and unemployment. The poor are mostly employed in those service sectors that are not able to pay high wages. The wages earned by the employed poor are also much lower than those earned by the non-poor in similar economic sector. The dependency ratio, an indicator of the number of persons who depend on the income of one earner, was determined to be 2.2 for Zamdela, compared to 3.6 for Bophelong.

The poor post-school population in Zamdela is less qualified than the poor and non-poor population combined. The population of Zamdela is more qualified than that of Bophelong with those with no education calculated at zero percent for Zamdela and 5 percent for Bophelong. Zamdela has a lower rate of unemployment (41.0 percent) compared to Bophelong (55 percent). The Bophelong labour force is more concentrated in the formal sector whereas the Zamdela labour force is not concentrated equally in the informal and formal sectors.

The average household size in Zamdela is 3.5 persons with 0.77 members of the household unemployed and the figure for Bophelong is 3.8 persons per household with one person unemployed. It was indicated that 18.9 percent of the total population are employed in community, social, education, training and personal services sector wherelse 16.3 percent of the poor are employed in the same sector.

A high percentage (35.6 percent) of the unemployed in Zamdela were unemployed for less than 5 years. In Bophelong where 53.7 percent were unemployed for less than 5 years. This explains the lower unemployment rate in Zamdela. In both

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

townships, unemployment is concentrated among the youth between 20 and 35 years of age (for both poor and non-poor populations).

In Zamdela, a high percentage of the population have skills in mechanic, but the majority prefer training in Retail trade. This means that the residents in Zamdela are prepared to learn more in different sectors in order to eradicate poverty. Both females and are more interested in starting their own businesses with the skills that they already have.

The headcount index as calculated from the survey data (2004) for Zamdela is 0.765, meaning that 12 613 households live in poverty. That means 44 145 people are poor in Zamdela. Only 25.3 percent of the population in Zamdela have income less than 50 percent of their HSL, and a poverty gap ratio of 0.32 indicating that on average poor households lack 32 percent of their income to attain a level equal to their poverty line. The figure for Bophelong is 45.8 percent of households below their HSL, and a poverty gap ratio of 0.48 indicating that on average poor households lack 48 percent of their income to attain a level equal to their poverty line. This shows that poverty in Zamdela is less severe compared to Bophelong.

The average household income in Zamdela is higher (R2 094.05) compared to that for Bophelong (R1 497). Expenditure on certain commonly used items (like mealie meal, bread, meat/chicken, vegetables, milk and washing powder) in both townships follow the same pattern, but the Bophelong expenditure is low compared to that of Zamdela except for mealie meal and paraffin which is higher in Bophelong. This could be explained by the fact that the population of Bophelong is lower than the population in Zamdela. Both townships spend a high percentage of their income on food, with spending much higher than Bophelong which indicates a higher level of marginal propensity to consume (food) in Zamdela.

Roughly one out of every 12 houses was exposed to some form of crime in the last 12 months in Zamdela township. For Bophelong roughly one out of every 4 houses was exposed to some form of crime in the last 12 months indicating that Bophelong has experienced more crime in the last 12 months than Zamdela. Poverty and

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

idleness are some factors leading to high crime rates. The longer the person is unemployed, the higher the relative attractiveness of crime could be.

Zamdela experiences lower unemployment rates and lower levels of poverty based on the indicators employed. It shows that, compared to Bophelong, most indicators (except for employment) show that Zamdela is better off. The low unemployment rate and low level of poverty could be due to the fact that Zamdela is situated close to the big business like Sasol firm which many small contractors are tendered to reducing the level of unemployment as already indicated under section 5.4.2 of the profile of the poor employed (the average household income in Zamdela is almost twice as high (R2 094. 05) compared to that for Bophelong of R1 497.

CHAPTER 6

ANALYSIS OF SMME'S IN ZAMDELA

6.1 INTRODUCTION

In this chapter Metsimaholo local municipality's mandate (MLM) towards LED is discussed. A table on MLM's LED; economic development and job creation is depicted. Issues such as investment based on MLM's existing competitive strengths, reducing poverty through special interventions, building on the skills & aspirations of the Zamdela and using local expenditure SMME's are discussed. The possible role of SMME's in Zamdela and Metsimaholo local government policies are discussed. A SWOT analysis in Zamdela is made, and lastly, summary and conclusions are drawn.

6.2 METSIMAHOLO LOCAL GOVERNMENT POLICIES

Local government regards the development of SMME's as a priority. The support for new and growing organisations is a high priority for policy at local government level. Putting that commitment into practice has proved complex, in terms of both the general policy environment and programmes aimed specifically at supporting SMME's. A policy environment in which local accountability exists, bureaucratic requirements are kept to a minimum, effective legal, financial institutions exist, and crime and corruption are tackled, is important for SMME's. However, without people who have what it takes to be entrepreneurs, the best set of policies and programmes and financial institutions is likely to have minimal impact (MLM, 2004:36).

Due to the positive effect SMME's has on the long-term economic growth of the community, the local government of Zamdela has committed itself to promote SMME's development in all its facets and to support the SMME's industry in such a way that the economy and the society as a whole can gain from it. This commitment by the local government may contribute to the development of entrepreneurship in the SMME's industry.

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

Key supportive values to the advantage of SMME's include the following:

- Equitable access to information, sources, market opportunities and socio-economic advantages for all potential participants and the community
- A competitive environment that contributes to the effective use of available resources and a broad / wide participation in the economy
- Community involvement through effective inputs in management and institutional structures on local level
- Supportive production, which requires responsible management of potential SMME's resources, to ensure the best long-term advantage for the community.

MLM (2004:24) stated that local government strategy plays a supportive role through:

- The development of a business climate, which supports SMME's development
- Support of upcoming SMME's entrepreneurs and facilitation of equal access to market opportunities
- Funding of SMME's promotion
- The preservation of Zamdela culture and environment
- The provision and maintenance of infrastructure and public areas

6.3 MLM'S MANDATE FOR LED

It has already indicated in the chapter 3 that the national government demands from local governments such as MLM, to play a developmental role in their respective localities. MLM can and must play a central and leading role in economic

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

development by virtue of their powers and functions. MLM should form partnerships with other stakeholders in the region in order to address LED (Palmer & ODA, 2003a:33). Virtually every city, town and rural area is faced with pressing development needs. It is becoming increasingly clear, that meeting these needs will require local government to play an active role in promoting LED.

Consequently, it is essentially that MLM also develops a firm understanding of the importance of local economic development issues (Palmer & ODA, 2003a:33).

TABLE 6.1: MLM'S LED, ECONOMIC DEVELOPMENT AND JOB CREATION

FOCUS AREA	KEY TASKS	IMPLEMENTATION STEPS
Economic development and job creation	<ul style="list-style-type: none">• Ensuring that economic development has wider benefits and creates jobs• Encourage local economic growth• Support community based and co-operative enterprises• Expand opportunities for skills development for employees	<ul style="list-style-type: none">• Review current tendering, Procurement, banking and Procedures• Implement projects by using a public works based approach• Conduct detailed economic studies

Source: MLM, 2004:37

6.4 LED STRATEGIES

There are several potential LED strategies for MLM at the moment, but there are also some questions about the current practical implementation thereof. LED strategies will be discussed in subsequent sections.

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

6.4.1 Attracting investment based on MLM's existing competitive strengths

MLM's manufacturing base forms the core of its competitive advantage. MLM has the potential to become a much more vital manufacturing node in the provincial and national economy. MLM's specific manufacturing advantages are strongest in the field of oil, as exemplified by the region's biggest employer Sasol. Downstream industry development is limited and there is a large potential for the region to exploit this further in an effort to diversify its economy and to generate jobs. It also has competitive strengths in coals manufacturing. New product lines will strengthen the area's attractiveness to a host of downstream users of coals products.

One of the strongest competitive advantages in MLM is its well-developed infrastructure like electricity, roads railway lines and cost-effective links to especially the greater Johannesburg area, as well as the Vaal River which is distributed and managed by Rand Water (Palmer & ODA, 2003: 30).

A good infrastructure, reasonable development costs, lower crime rates than those experienced in other areas of Gauteng, attempts to deal with pollution, a relatively highly skilled workforce, a good quality of life and the development of local incentives are seen as the "selling points" for investors (Slabbert & Dorfling, 2001:46-51).

Slabbert & Dorfling (2001:42-45) state that industrial and business leaders in the region indicated that the main factors hampering new investment are the following:

- The decline and downscaling of major industries.
- Location cost disadvantage.
- Lack of business support.
- Poor quality of life in terms of pollution, poverty, crime and unemployment.

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

- Skills shortage like the lack of entrepreneurial training.
- Lack of a strong regional marketing body.
- Absence of a strong regional decision-making body.
- Poor maintenance of infrastructure and service provision.

6.4.2 Reducing poverty through special interventions

Makumula (survey results, 2004) indicates that 76 percent of the households (of which it is integrated to MLM) were poor in 2004. Zamdela is experiencing poverty, due to layoffs at Sasol firm and other small firms rendered to Sasol. Any initiative aimed at poverty alleviation, needs to be targeted at the townships where the levels of poverty are high. Some ways of achieving this amongst others, include, the following (Palmer & ODA, 2003a:32):

- Putting resources into business development initiatives, which are most suited to townships.
- Developing other business models (such as co-operatives) which may be best suited for SMME's.
- Finding suitable partners (such as NGOs) to manage projects such as urban agriculture.
- Taking into account the aspirations and existing skills of the poor in deriving specific initiatives.

6.4.3 Building on the skills and aspirations of the Zamdela people

Zamdela has considerable skills and experience of working in a large manufacturing business and also in engineering and related applications. Other skills held by

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

Zamdela residents, are more appropriately targeted through SMME's development initiatives and some of the poverty alleviation measures. Many of these poverty alleviation projects are explicitly designed to enhance skills and provide a business context for deploying such skills.

Where projects are instituted to match skills, communication becomes a key to buy-in stakeholders (Palmer & ODA, 2003a:31). The best example of such an initiative is urban agriculture. The challenge of MLM lies in communicating the benefits of such projects and managing their effective delivery to communities.

6.4.4 Using local expenditure to support SMME's

There is no formal procurement policy targeting expenditure toward local business. Targeting expenditure toward local business ensures that at least some of the expenditure generated by Zamdela itself, has direct and flow-on economic benefits. One specific area where Zamdela's purchasing power is readily deployed is in mealie meal developments. With new policy by the state president, Thabo Mbeki, "vukuzenzele" (self-help) situations, which involve local employment, expenditure will be required by Zamdela residents to fulfill its commitments. This expenditure could be more carefully targeted towards local business (Palmer & ODA, 2003a:34). More generally, MLM can also take the lead in supporting local businesses.

It is fairly obviously that businesses in turn, would support any broader "buy local" campaign. Even marketing for such a campaign, is likely to be supported financially by local businesses (Palmer & ODA, 2003a:37).

6.5 THE POSSIBLE ROLE OF SMME'S IN LED IN ZAMDELA

The role of SMME's in LED has been investigated in different stages of LED in Zamdela. New SMME's seem to be most successful when it is a voluntary effort, where participants act to develop opportunities (pull factors) and not because they are desperate for lack of opportunities.

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

It has been emphasized that the creative response of the SMME's in Zamdela can be a driving force towards LED. The SMME's are the doing of the things that are already done in a new way (innovation). The strategy used to create employment opportunities is the initiative taken by LED that focuses on providing support to SMME's in Zamdela. The Zamdela municipalities should also focus on developing SMME's as a way of creating new job opportunities because the number of jobs created by Sasol firm as was used to be the main source of job before is declining.

The potential for job creation through SMME's development should receive considerable attention in Zamdela. As National government, through the DTI has adopted a range of policies to promote the development of SMME's (IRI & NBI, 1998:8). Zamdela community must also have an access to finance, training and development, research and information that in the end can help fight unemployment and poverty.

Whilst the national programs provide a valuable support base for SMME's assistance, Zamdela's local authorities can help ensure that local business have access to the resources and are supported by an enabling local policy environment. LED can achieve these objectives by proving information, establishment (LBSCs), creating a regulatory environment suitable for SMME's development, reforming tender processes and providing public facilities for SMME's. By pursuing these initiatives, LED can make a contribution to job creation.

6.6 WEAKNESSES OF SMME'S IN ZAMDELA

There are also weaknesses in operating SMME's (Dannhauser, 2002:67). Some enterprises fail because managers do not always take a good look at own weaknesses. Entrepreneurs just see an opportunity and do not think about all the negative aspects of running an own business. The following weaknesses will be discussed namely:

- ❖ Managerial experience

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

- ❖ Education and training for entrepreneurs
- ❖ Knowledge and skills, and
- ❖ Finance
- ❖ Location

- **Managerial experience**

Many studies and surveys have shown the single greatest cause for the failure of SMME's, to be managerial experience (SBAB, 1995:35). Factors such as managerial ignorance and inability to manage play an important role.

83.67 percent of all respondents indicated that they have not operated a SMME's. Although a higher percent of all the respondents have not operated a SMME's, only 16.33 percent said to have operated SMME's (Makumula, 2004). This shows that a higher percentage of the population in Zamdela do not have managerial experience since they are not yet exposed.

- **Education and training for entrepreneurs**

According to Makumula (survey results, 2004), 93.75 of respondents said they would get a job if better trained. 6.25 percent felt that it was not important. These respondents are people without experience and knowledge of the SMME's.

- **Knowledge, skills and experience**

Of 16.33 percent of respondents that have knowledge, skills and experience want to run an own business. Only 83.67 percent felt that they would rather like to work together with others in a cooperative (Makumula, 2004).

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

- **Finance for SMME's**

A major problem limiting SMME's development in Zamdela is to raise the necessary capital to start a new business. The following aspects will be discussed:

- ❖ Finance as an important factor
- ❖ Accessibility of finance

- **Finance as an important factor**

According to the survey results (Makumula, 2004) 97 percent of respondents said the kind of support they need to start their own business would be finance. Only 3 percent would like to be provided with at least buildings and facilities. This is the reason for one of the major problems limiting SMME's development in Zamdela, namely getting hold of the necessary capital to start a business.

- **Accessibility of finance**

A greater percentage (97 percent) of respondents showing finance as the kind of support they need to start their own business indicates that they really do not know where to find SMME's finance. Only 3 percent seems to know since the kind of support they need to start their own business is buildings and facilities.

Although financing institutions exist, entrepreneurs do not know how to get hold of them. The local authorities could ensure that state funding is accessible to the wider business community, emerging entrepreneurs and micro-enterprises as a policy.

- **Location**

The weakness in Zamdela community is the fact that most of its SMME's are in the form of "Spaza" shops and food vendors in a section of occupied dwelling or in any other structure on a stand where people live permanently. They are located on

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

stands zoned for residential purposes in formal residential areas, unproclaimed informal residential areas and hostels engaged in the trading of consumer goods.

The business practice of "Spaza" entails ordinary retailing that is the buying of consumer goods from manufacturers, wholesalers et cetera rather than retailing of new products that are not known yet in the market. Moreover, they do not know how much stock to buy and the income generated is below the poverty line.

6.7 OPPORTUNITIES OF SMME'S IN ZAMDELA

SMME's have become a competitive business, and in the light of transformation, numerous "windows of opportunity" have opened for entrepreneurs in the SMME's industry.

Table 6.2 depicts some of the captured opportunities / projects in the economic growth, development and employment in Zamdela.

TABLE 6.2: ECONOMIC GROWTH, DEVELOPMENT AND EMPLOYMENT IN ZAMDELA -2004

Value adding / beneficiation	Beneficiation of agricultural products; Down streaming of chemical products
Manufacturing and / or producing	Brick manufacturing; Expansion of existing furniture and coffin
Tourism	Development of a craft route; Develop a business plan for tourism Information and trade centre in Sasolburg
Agriculture	Small scale farming; vegetable farming and packaging plants; establishing of new farmers

**The role of SMME's in local economic development aimed at job creation,
income generation and poverty alleviation in Zamdela**

Mining	Coal mining
Transport and distribution	Well established railway lines; Trucks stops on the N1
Advanced enabling infrastructure	Vaal Dam, including the tourist potential; N1 highways
SMME's	Establishing of food gardens; Exhibition area for roadside crafts;
Other	Compilation of LED strategy

Source: MLM, 2004:47

Table 6.3 depicts some of the captured opportunities / projects in the social and human development in Zamdela.

TABLE 6.3: SOCIAL AND HUMAN DEVELOPMENT IN ZAMDELA -2004

Water	Bulk water supply through Vaal dam
Sports and recreational activities	Regional performing arts development Programmes and programme for school learners
Educational facilities	Specialized training facility for new farmers
Human development	Training for small scale farmers and existing employees

Source: MLM, 2004:49

Table 6.4 depicts some of the captured opportunities / projects in justice, crime prevention and security/efficient governance and administration in Zamdela.

**The role of SMME's in local economic development aimed at job creation,
income generation and poverty alleviation in Zamdela**

**TABLE 6.4: JUSTICE, CRIME PREVENTION AND SECURITY/EFFICIENT
GOVERNANCE AND ADMINISTRATION IN ZAMDELA -2004**

Protection services/security	Improving visible policing and installations contemporary Community television (CCTV)
Community structures	Development of community policing structures
Others	Employee assistance programme

Source: MLM, 2004:51

6.8 THREATS OF SMME'S IN ZAMDELA

Although numerous opportunities exist for SMME's, some factors restrict their spontaneous growth in Zamdela's SMME's industry. These include the following aspects and will be discussed briefly:

- ❖ Lack of finance
- ❖ Crime
- ❖ Buildings and facilities
- ❖ Demographic changes
- Inadequate training and education
- ❖ Lack of access to information

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

- **Lack of finance**

A real problem with operating SMME's is the potential lack of finance or low income, because most businesses take more time to show a profit. In the beginning, the income is therefore mostly very low.

Survey results (Makumula, 2004) indicates that 97 percent of respondents said that a possible low income or lack of finance hampers entrepreneurship and emphasised that the kind of support they need is finance.

- **Crime**

According to survey results (Makumula, 2004) 60 percent of the respondents said they were victims of robbery / theft of crime in the last 12 months. Only 40 percent indicated that they were the victims of assault of crime in the same period. Poverty and idleness are some factors leading to high crime rates. The longer the person is unemployed, the higher the relative attractiveness of crime could be.

- **Buildings and facilities**

Many SMME's experience difficulties in obtaining suitable, modern and appropriate business premises and buildings. The origin of the problem arises from the growth risk and priority of the property development and investor.

Survey results (Makumula, 2004) indicates that 3 percent of respondents said that buildings and facilities are very expensive to rent and the kind of support they need to start their own business is buildings and facilities.

- **Demographic changes**

Demographic changes contain specific problems regarding SMME's. Urbanisation of rural areas is a worldwide phenomenon that is reaching alarming proportions in South Africa, and due to the abolition of influx control measures, the situation will deteriorate even further. Changes are also taking place in the composition of the rural population. The farming population is decreasing in absolute numbers, young

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

people relocate to the cities and professional practices and service industries are moving to larger areas (SBAS, 1995:23).

In Zamdela, only 20.41 percent of the respondents have a vegetable garden and 79.59 percent said that they do not. 14.29 percent of the respondents own small farmers and 85.71 do not (Makumula, 2004).

- **Inadequate training and education**

Perhaps the greatest deficiency in Zamdela's SMME's is the absence of adequate education and training programmes. The previously neglected groups in society are highly disadvantaged and the job of levelling the playing field is a massive one. One of the vehicles for doing so is education and training – a necessity that the majority of the population has not had access to (White Paper on Trade and Industry, 1996:37).

According to survey results (Makumula, 2004) 93 percent of the respondents said they would get a job if they are better trained. Only 6.25 percent of the respondents do not think they would get a job even if they were better trained.

- **Lack of access to information**

Most entrepreneurs do not know how and where to find the correct information on how to start a business. Information should be more accessible for new starters to find.

According to survey results (Makumula, 2004) 34.69 percent of respondents are interested in receiving information on how to start a food garden in the yard.

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

6.9 SUMMARY AND CONCLUSION

National government demands that MLM play a developmental role in its locality by virtue of its powers and functions. MLM's partnerships together with other stakeholders in the region can address LED. As Zamdela is faced with developmental needs, MLM can play an active role towards meeting these needs through LED promotion. Consequently, it is essential that MLM develops a firm understanding of the importance of local economic development issues.

Economic development and job creation as focus area of MLM's LED have the following as their key tasks: ensuring that economic development has wider benefits and create jobs; encourage local economic growth, support community based and co-operative enterprises and expand opportunities for skills development for employees. Implementation steps include amongst others reviewing of current tendering, procurement, banking, and conducting detailed economic studies.

Since MLM's specific manufacturing advantages are strongest in the field of oil, as exemplified by the region's biggest employer, Sasol, it has the potential to become a more vital manufacturing node in the provincial and national economy. There is large potential for the region, as well as Zamdela, to exploit this further in an effort to diversify its economy and generate jobs. It also has competitive strengths in coal manufacturing. Well-developed infrastructure like electricity, roads, railway lines and cost-effective links the greater Johannesburg area, as well as the Vaal River, which is distributed and managed by Rand Water, adds to Zamdela's competitive strengths.

Initiatives aimed at poverty alleviation that needs to be targeted, amongst others, include putting resources into business development initiatives, which are most suitable for Zamdela, developing other business models (such as co-operatives) which may be best suited for SMME's in Zamdela. Finding suitable partners (such as NGOs) to manage projects such as agriculture and taking into account the aspirations and existing skills of the poor in deriving specific initiatives.

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

Zamdela has skills and experience of working in a large manufacturing business and other skills are more appropriate targeted through SMME's development initiatives and some of the poverty alleviation measures.

Many of these poverty alleviation projects are explicitly designed to enhance skills and provide a business context for deploying such skills. Where projects are instituted to match skills, communication becomes key to buy-in stakeholders. The best example of such an initiative is urban agriculture. The challenge Zamdela has is communicating the benefits of such projects and managing their effective delivery to communities.

SMME's can be supported by the use of local expenditure. There is no formal procurement policy targeting expenditure toward local business. Targeting expenditure toward local business ensures that at least some of the expenditure generated by Zamdela itself, has direct and flow on economic benefits. One specific are where Zamdela's purchasing power is readily deployed, is in maize-meal development. With new policy be the state president, Thabo Mbeki, "vukuzenzele" (self-help) situations, which involve local employment, expenditure will be required by Zamdela residents to fulfil its commitment.

Metsimaholo local government regards the development of SMME's as a priority. The support for new and growing organisations is a high priority at local government level. Putting that commitment into practice has proven complex, in terms of both the general policy environment and programmes aimed specifically at supporting SMME's.

A swot analysis shows that Zamdela is weak amongst other areas in managerial experience, education and training, and finance. Opportunities for SMME's in Zamdela include tourism, agriculture, manufacturing and transport. Where else a threat of SMME's in Zamdela include lack of finance, crime, buildings and facilities. Due to the positive effect SMME's have on the long-term economic growth of the community, the local government of Zamdela has committed itself to promote SMME's development in all its facets and to support the SMME's industry in such a

**The role of SMME's in local economic development aimed at job creation,
income generation and poverty alleviation in Zamdela**

way that the economy and the society as a whole can gain from it. This commitment by the local government may contribute to the development of entrepreneurship in the SMME's industry.

CHAPTER 7

SUMMARY, CONCLUSION AND RECOMMENDATIONS

7.1 INTRODUCTION

Subsequent to conducting a literature study and survey, the main objective of this study was to investigate the possible role of SMME's in LED in a South African context, with specific reference to Zamdela in Metsimaholo (Free State). The research is aimed at finding possible solutions for SMME's in LED in terms of income generation, employment creation and poverty alleviation. Given the socio-economic problems and challenges of Zamdela, the study investigated and evaluated SMME's within LED context. Household survey was conducted in Zamdela to determine *inter alia* unemployment levels, the poverty, and the expenditure of households on different items. The possibility of establishing SMME's that could provide products and services that are consumed in Zamdela was investigated.

7.2 SUMMARY: LITERATURE STUDY

The following summary can be made regarding the literature study:

- **Unemployment**

The primary objective of economic policy is to improve the material welfare and the quality of life of the population of a country. A certain way of achieving this objective is through high quality economic growth, which ensures a continuously expanding labour market. The main direct determinant of poverty is argued to be unemployment.

A high level of unemployment has economic and social implications. From an economic point of view, the unemployment rate in a country remains one of the key measures of an economy's performance. However, the social significance of

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

unemployment is that it is a key variable in alleviating poverty. With a high level of unemployment, it will be difficult to alleviate poverty and inequality in the long-term. Unemployment has increased in many areas in recent years in South Africa. In the industrial areas like Sasolburg, of which Zamdela is the township, for example, machines have increasingly replaced people.

Policy strategies to ensure that future economic growth is employment – creating are Investing in high quality education & training and the promotion of small, medium and micro enterprise (SMME's).

- **Poverty**

Poverty cannot and should not always be measured and described in monetary terms; it can also be experienced as a deterioration of living conditions, or the inability to meet basic needs. Poverty can also be viewed as a lack of resources or access to resources or a lack of living with human dignity. Poverty is the inability to attain a minimal standard of living' measured in terms of basic consumption needs or income required to satisfy them.

Conventional literature on poverty divides the definitions of poverty into two approaches, namely the relative and the absolute approach.

The idea that people are poor in relation to the community or society they find themselves in is based on the relative approach to poverty, i.e. their income is consistently below the level that would make them achieve a specific average standard of living. This approach is normally followed in the North where poverty is less problematic and generally a minority problem.

The relative approach is seen as a more subjective measure than the absolute approach. The relative definition of poverty is based upon a comparison of the standard of living of the members of society who are not worse-off. Some measure of the average standard of the whole of the society in which poverty is studied is usually involved.

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

The absolute approach to poverty looks at poverty from the viewpoint of deprivation or the lack of sufficient income to satisfy basic needs. Needs of a physiological nature are seen as absolute poverty. Poverty is referred to as subsistence poverty or poverty below the subsistence level. The poor are those who have regular, though bare, income.

The very poor are those who, owing to whatever cause, fall far below the subsistence level. The operative word in this approach is income. Income that consistently falls short of supporting the bare necessities of life is viewed as causing poverty.

A poor household is defined as a household of which the combined income of all its members is less than the HSL as determined for the specific household. Dependency ratios are usually calculated by dividing the total number of non-income earners by the total number of income earners.

Poverty is measured in terms of the headcount index and the poverty gap index. The headcount index is defined as *the fraction of the population below the poverty line*. This report shows that the headcount index is adapted to indicate the fraction of households that fall below their individual poverty lines. The poverty gap usually measures the average shortfall of the incomes of the poor from the poverty line while the poverty gap index measures the extent of the shortfall on incomes below the poverty line.

- **LED**

From all the definitions of LED, it can be concluded, that LED is essentially an ongoing process, based on local initiatives and driven by local stakeholders to stimulate economic activity and to create jobs in a specific locality. Normally the local government is playing a leading and co-ordinating role with LED where they also enter into partnership arrangements with other stakeholders like the private sector. Local government's developmental mandate from the South African Constitution and

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

Whitepaper on Local Government encourages municipalities to seek to address poverty, unemployment and redistribution in their local areas.

South African experience shows that role players in the local economy and specifically municipalities have developed a wide range of strategies to promote the development of the local economy. Common strategies amongst others in this regard include SMME's promotion & support and community economic development.

- **SMME's**

Many LED initiatives focus on providing support to SMME's. This strategy is often used to create employment opportunities. A global decline in the number of jobs created by large manufacturing industries has occurred, with the result that municipalities have focussed on developing SMME's as a way of creating new job opportunities.

The potential for job creation through SMME's development is receiving considerable attention in South Africa. National government, through the DTI, has adopted a range of policies to promote the development of SMME's. Several programmes have been put in place to support SMME's by facilitating access to finance, training and development, research and information, markets and linkages, incentives and new technology.

Whilst these national programmes provide a valuable support base for SMME's assistance, local authorities can help ensure that local businesses have access to these resources and are supported by an enabling local policy environment. Local authorities can achieve these objectives by providing information, establishing (Local Business Service Centres (LBSCs), creating a regulatory environment suitable for SMME's development, reforming tender processes and providing public facilities for small business incubators and other support projects.

By pursuing these initiatives, local authorities can contribute to job creation in their communities. Local businesses constantly need information and action from local

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

authorities on a wide range of issues including licensing, tendering, rates, permits, zoning and building approvals. Long delays and confusing procedures associated with these processes can create difficult barriers.

One of the most effective ways in which local authorities can support both and big businesses is to establish a central information centre. This centre can be the key contact point between all types of businesses and government, and can streamline and expedite approval- and other procedures. Another highly effective way, in which local authorities can assist SMME's, is by working with stakeholders to establish (LBSCs). The failure rate among new and small firms is substantial.

The need, therefore, for management and business training, counselling, research and other forms of support, is critical. LBSCs are community resource centres, which provide this service to help SMME's get on their feet and eventually graduate into formal business enterprises.

- **Needs of SMME's**

A major share of South Africa's Gross Domestic Product (GDP) consists of the contribution of SMME's. The importance of SMME's as a contributor to economic success is reflected in the extent to which SMME's have featured in the successful economies of developed countries such as Japan and Sweden. The Government's White Paper on the National Strategy for the Development and Promotion of SMME's in South Africa emphasises the need to create an enabling environment within which SMME's can be developed.

7.3 SUMMARY: SURVEY

There seems to be a relatively high percent of population between 20 and 40 years of age. The Zamdela community has more females than males between 20 and 40 years of age. 42.52 percent are males and 57.48 percent of the population are females of age, which is the age where people in general are most productive.

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

The gender distribution of the population of Zamdela shows that approximately 50.6 percent of the population is male, while 49.4 percent is female. In Zamdela 25.7 percent has 12 and higher qualifications of the post-school population.

The percentage of the total labour force of people employed in the formal sector is 39.9 and 19.1 are employed in the informal sector. Most of those employed are in low income, vulnerable and short – term jobs. This increases poverty levels. About 18.9 percent of the employed indicated that are in community, social, education, training and personal services.

Other major sectors of employment are other sectors (32.4 percent) which are in most cases domestic services, and wholesale, retail trade & catering (11.7 percent). The following revealed the influence caused by the labour legislation on the working class in Zamdela: 3.77 percent indicated that their income increased because of minimum wages, 96.23 percent responded that it did not.

Of the employed population, 3.77 percent is of the opinion that their employers could afford to increase their salary, because of minimum wages, and nobody indicated that their working hours have been reduced due to minimum wages.

The unemployment rate was determined at 41 percent. The unemployment rate amongst the poor was 55 percent. Job creation will have a major impact on the level of poverty. Many unemployed persons have been unemployed for a number of years. More than half of the unemployed (64.6 percent) have been unemployed for 5 years and longer. Zamdela has a higher rate of people unemployed for longer periods (35.6). The majority of the unemployed are in their youth, 57.6 percent of the males and 58.2 percent of the females are between 21 and 35 years of age. The unemployed are therefore still relatively young in both females and males. Of the unemployed 31.1 percent, have qualifications of grade 12 and higher. The percentage of the unemployed with a diploma or degree is 5.1 percent. The highest percentage of the unemployed has skills in mechanics (11.8 percent). The reason may be that most of the skilled unemployed are unable to create jobs for themselves since they lack capital.

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

The kind of skills that the unemployed wish to be trained in shows that many of them want further skills training in the fields they already have certain skills in. There is a strong correlation between skills and skills training preferred by the unemployed in Zamdela.

If the self-sustaining activities is compared to the skills preferred by the unemployed it is clear that the skills and preferences of the predominantly 'females' areas match quite closely (18.5 % have skills in these areas and 17.2% prefer these activities). Concerning the predominantly 'male' activities, 24.9% have skills in these areas, and 29 % prefer these activities. Within these 'male' activities, gardening and carpentry seems to be less attractive, welding, and mechanic more attractive. There is however, a great difference when it comes to trading. Those who have trading skills form 9.2% of the unemployed, while those who like to be involved in trading forms 38.2% of the unemployed. Almost all unemployed indicated that they are willing to undergo skills training, or further tertiary training.

The unemployment rate was determined at 41 percent for 2004. The unemployment rate amongst the poor is 55 percent. Most of the persons that have some kind of skills, would, if they would get the opportunity, prefer to get further training in the same field and would like to start self-sustaining activities in the same field. Job creation could have a major impact on the level of poverty, especially if it could be aimed at the unemployed poor.

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

7.4 CONCLUSION

An Inward Industrialisation Process where certain products consumed in the local community are produced locally should be further investigated and exploited. The preliminary analysis of the products consumed in Zamdela shows that a large number of jobs could be created by producing these products. Establishing co-operatives to produce these products will be less capital-intensive and will therefore require less capital. Taking into account Zamdela's financial constraints, this may be a more appropriate route to take towards sustainability for Zamdela economy.

The analysis of the skills of the unemployed poor revealed that there are vast pools of labour with certain skills in Zamdela, for example mechanic workers. The production of downstream chemical products, making use of the unemployed pool of labour with appropriate skills, should be further investigated.

An Inward Industrialisation Process will undoubtedly have a major impact on employment creation and poverty alleviation in Zamdela. This process should be initiated without neglecting the further development of the more formal projects. All possible ways should be explored to put Zamdela on the sustainable shape. Although an Inward Industrialisation Process and a programme stimulating employment for the unskilled poor as gardeners, domestic workers and the like, would not necessarily have a great effect on the Gross Geographical Product (GGP) of Zamdela, it could have a great impact on poverty.

If jobs for all the unemployed poor could be created at a minimum wage of R600 per month, it would decrease the headcount index of households from 0.77 to 0.25 and the poverty gap index from 0.32 to 0.21. With an average monthly income of R1,000 the poverty rate would decrease to about 25 percent. It is therefore evident that even with relatively low monthly wages poverty could be alleviated.

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

7.5 RECOMMENDATIONS

According to Slabbert (2004:2), the Vaal economy (of which Zamdela is an internal part) experienced a negative real GGP growth of -4.1 percent from 1996 to 1999. From 1999 onwards, the economy recovered, but the average annual real GGP growth from 1996 to 2001 remained low at 0.8 percent (Urban-Econ calculations based on data by Global Insight, 1992). Between 1991 and 1996, there was a huge decrease in employment opportunities, amounting to 54,000. The manufacturing sector alone shed almost 39,000 jobs in this period (Block & Dorfling, 2000:15). With regard to the increased number of unemployed graduates and post-graduates, there should be a need for equity promotion and the development of financial specialists and managerial skills.

Graduates need skills beyond those provided by a degree or post-graduates degrees and diplomas to secure jobs. The problem is that graduates have the qualifications, but cannot find work. There should be a database for internships and learnerships. The informal and formal sectors alone could not absorb new graduates because the qualifications are inappropriate for industry needs. Poverty in an urban setting is related to unemployment and a lack of income. Rural areas have, for example, land and grazing areas to sustain themselves, while in the urban areas they can only rely on jobs.

The future possibilities for formal employment in the Vaal Triangle, and therefore in Zamdela, appear to be bleak. The chance for school leavers to get formal employment seems to be extremely meagre. It is suspected that most of them end up unemployed, "hanging around", especially in the townships/squatter areas. The majority (if not all) has never been exposed to any formal technical or entrepreneurial skills or skills training. With the meagre possibilities for formal sector employment in Zamdela, there is an urgent need for the following:

- the identification of informal employment opportunities in and around the township/squatter areas, where the majority of the unemployed resides;

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

- the initiation of an Inward Industrialization Process (IIP) aimed at the production of products (that are on a large scale consumed in townships/squatter areas, like mealie meal) with labour intensive methods;
- a downstream manufacturing process whereby basic products like for example steel and chemical products are further processed by Small, Medium and Micro Enterprises to final products;
- a search for other (labour intensive) manufacturing possibilities like clothing factories to enhance employment creation;
- ways and means to empower the unemployed in terms of technical and entrepreneurial skills and self-employment, to be absorbed in the Inward Industrialization Process; and
- an investigation into the possibility of forming cooperatives for the production of certain products by skilled people from the townships

It is the responsibility of the Government to ensure that the right infrastructural facilities are in place for the operation of SMME's. The Government should also go further to use experts through research to identify viable and embark able projects for entrepreneurs. The justification for this Government role derives from the responsibility of the Government to ensure the economic well-being of the citizens, especially the vulnerable ones. This should be synonymous to the provision of a good road network and good education. It is important that Government should prioritise actions that need to be taken in developing SMME's in Zamdela.

The following suggestions might assist in order to create an enabling environment for the development of SMME's in Zamdela:

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

- **Training and Education**

In order to succeed in creating an environment where entrepreneurs can flourish, one needs to start at school level. Schools are currently still training pupils wrong. Pupils still believe that, if they work hard and get good grades, it will be easy to attend university, get a degree and start working.

As the current job market has changed significantly, schools, as well as training and education, needs to change. The focus should be on how to earn an own income legally. That is why SMME's should be implemented at school level with a provision that entrepreneurial skills form part of the curriculum. It is not sufficient to only say that specific training is to be done. Focus should be given to the manner in which it should be done, the important issue being that activities should be co-ordinated and a two-way approach followed. Firstly, as was said above, entrepreneurial development should be a school subject and secondly, a centre for SMME's development should be funded, with the following aims:

To do research, co-ordinate possible opportunities and act as one-stop shop in order to disseminate information to potential entrepreneurs.

- ❖ To assist in the development of business plans and the acquisition of funds.
- ❖ To implement a programme of after-care and monitor success or failure

- **Capital**

To kick-start SMME's, need capital or financing. An organisation such as Khula can raise Capital for SMME's. Another important source is equity capital. This comes into effect when entrepreneur does not want to be alone in carrying the risk and an important source is the Johannesburg Stock Exchange (JSE). The JSE, as was the London Stock Exchange, was initially started with the idea to raise capital for SMME's. There are also banks, the IDC (Industrial Development Corporation) and a

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

number of provincial authorities. The problem is, however, that entrepreneurs are unaware of these tools.

- **Safety**

SMME's need to be safe. SMME's will not prosper where crime does. Situations such as the recent situation in Zimbabwe is a case in point, where thugs took over private land and the rule of law could not be made to apply. Actions such as these scare the potential SMME's away.

- **Appropriate taxes for entrepreneurs**

SMME's need tax incentives in order to succeed. SMME's should therefore be exempt from tax up to a certain level being gradually lifted to the maximum rate. Specific fund allocations should be made to enhance SMME's development. Government should work hand in hand with the private sector in creating SMME's environment to flourish.

The government must look at further improvements of the regulatory environment for SMME's in the near future to unlock constraints impeding trade. Since SMME's is still facing excessive regulatory barriers which dampen business and potentially discourage entrepreneurship, more focus should be put on how to make the regulatory environment more attractive for SMME's.

- **Support and Participation of Local Government**

It is important to have support at local government level for SMME's development. Local government can provide assistance with:

- ❖ Funding for SMME's development and promotion;
- ❖ Training and educational programs for SMME's.

**The role of SMME's in local economic development aimed at job creation,
income generation and poverty alleviation in Zamdela**

ANNEXURE A

Household survey in zamdela: 2004

Empirical data

The data was obtained from black households by means of questionnaires (see Annexure E). These were completed for households that were pre-selected after the area was stratified to ensure complete and total population and geographic coverage.

The basic unit for which questionnaires were completed was the household. Preference was given to the household (and not to the family unit), because households include family and non-family members living together. The following definition of a "household" was used: one or more persons who pool their income to buy food, live (eat and sleep) together in one or more houses/huts/living units on the same plot/site and depend financially on one another.

Questionnaires were completed at the site. Details with regard to the site were listed, but no names were recorded with regard to the head of the household or other persons living at the site. This was done to ensure anonymity, thereby encouraging honest and reliable information.

The tenant or owner of the site completed the first question in the questionnaire (the question concerning the number of households, number of people and separate occupied houses/huts/living units on the plot).

The other questions were completed for each separate household on that site. It was therefore possible to complete more than one questionnaire at a single site. This was done intentionally in order to obtain information about backyard tenants and to establish their incomes and expenditures.

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

Fieldworkers

Fieldworkers used in the survey were trained and then used to conduct the field research. The fieldworker had the opportunity of calling on a research assistant if problems were encountered.

The questionnaires were completed from May to June 2004. On receipt of questionnaires, spot checks were made on a random basis by supervisor. By way of these checks, it was attempted to judge the degree of accuracy with which the questionnaires were completed.

Sampling

A map of the Metsimaholo local municipality was obtained. A sample stratification was designed for the geographical distribution and concentration of people in the area. Thereafter, a questionnaire was designed for obtaining the desired information. The various municipal areas were divided into different zones and questionnaires were apportioned evenly among the inhabited sites. A total of 100 questionnaires were completed in 2004. They covered approximately 0.98 percent of the black population of Zamdela.

Experience in previous surveys conducted by the ERU and other institutions (e.g. Bureau of Market Research) has shown that samples of this size, with a low refusal rate, supply statistically reliable data within reasonable limits.

Plots/sites at which I was to complete questionnaires were identified individually from the maps before I went out. However, where people could not be found for an interview, or where it was impossible to trace the house, a next pre-selected household was interviewed. Information was obtained from the breadwinner or the spouse. Questionnaires were completed only in the evenings and over the weekends when members of households were anticipated to be at home.

The role of SMME's in local economic development aimed at job creation, income generation and poverty alleviation in Zamdela

Reliability of results

As a general principle, it must be kept in mind that a properly conducted sample survey might yield useful estimates. Although every precaution was taken to minimize errors and to make sure that questions were well understood in order to obtain quality answers, they still might not give exact unquestionable values. Although every possible measure was taken to limit possible errors, some factors could have affected the reliability of the results of this survey. These include: sampling errors, because only a fraction of the population was interviewed; survey errors, stemming from memory errors and misunderstanding of questions; processing errors of calculation in the processing of data; and the political climate at the time of the surveys.

**The role of SMME's in local economic development aimed at job creation,
income generation and poverty alleviation in Zamdela**

ANNEXURE B

Methodology for the measuring of unemployment

Various methods are used to measure unemployment. The following three are more or less standard methods (Slabbert and Levin, 1997).

a. The census method

This method is used for measuring the economic status of the entire population. However, censuses take place only periodically and even then, only a limited number of questions pertaining to employment can be included.

b. Registration method

This method provides for the unemployed to register at placement offices - in South Africa these are offices of the Department of Labour. Registration is compulsory to qualify for unemployment benefits. In South Africa some categories of civil servants, domestic workers, farm workers, casual and seasonal workers, those earning more than the ceiling income and those whose period of benefit (6 months) has run out, are excluded from the fund. Many persons, therefore, have no reason to register. Registered unemployment figures published by the Department of Labour in South Africa consequently do not show the level of unemployment accurately.

c. Sample surveys

Surveys are undertaken on a sample basis to obtain the data required to calculate unemployment rates for specific groups of people. In earlier years, the Central Statistical Services conducted surveys on a monthly basis for Blacks, Coloureds and Asians. It was called the Current Population Survey (CPS). However, since the figures obtained for Blacks were found to be inaccurate, their results have not been published since April 1990 (Baker, 1992: 83). In 1994, the CPS was terminated and the October Household Survey was introduced. Statistics South Africa (Stats SA) has conducted October Household Surveys (OHS) since 1996. It is an annual survey, based on a probability sample of a large number of households. It

**The role of SMME's in local economic development aimed at job creation,
income generation and poverty alleviation in Zamdela**

covers a range of development and poverty indicators, including unemployment (official and expanded), according to the definitions of the International Labour Organisation (ILO).

Because of the lack of reliable sources of information on a regional basis, surveys were conducted in the Vaal Triangle by Slabbert *et al* (1987; 1988; 1991; 1994 and 1999) to determine the unemployment and poverty rate. The method used to determine the unemployment rate in the Zamdela Township is explained below.

DEFINITION OF UNEMPLOYMENT

Statistics South Africa (Stats SA) uses the following definition of unemployment as its official definition:

The unemployed are those people within the economically active population who:

- a) did not work during the seven days prior to the interview;*
- b) want to work and are available to start within a week of the interview; and*
- c) have taken active steps to look for work or to start some form of self-employment in the four weeks prior to the interview.*

These general criteria are translated into statistically meaningful criteria, namely:

the population of potential working age (i.e. 15 years and older);

**The role of SMME's in local economic development aimed at job creation,
income generation and poverty alleviation in Zamdela**

the economically non-active (i.e. those who prefer not to or who cannot work –
for instance housewives, persons 65 years and older, the disabled, etc);

the economically active population (all those who are fit to work, wish to work,
have no employment and are ready for and actively looking for work, plus
the employed and self-employed).

The unemployment rate (Ur) then, is calculated according to the standard equation:

$$\frac{\text{number of unemployed}}{\text{Economically active population (EAP)}} \times \frac{100}{1} = Ur$$

In developed countries, this definition is relatively simple to apply. The criteria for measuring unemployment are straight and definite, i.e. a person is out of work, and is actively looking for a job by means of a listing at a placement or other government office. However, in developing countries, circumstances are very different, and it is not always clear whether a person is seeking employment. In South Africa, some unemployed persons become discouraged and therefore refrain from taking active steps to seek employment.

In the survey for this section only one criterion was taken as an indication of seeking work, namely if a person "has the desire to work and to take up employment or self-employment". The question asked was simply: "Do you want to work?" When the standard Stats SA definition is used, but its strict criteria are relaxed - as was done in this survey - it is referred to as an expanded definition of unemployment. The expanded definition includes (a) and (b) but not (c) (Stats SA, 2000: xv).

Stats SA's definition for employment which defines 'employed' as those who performed work for pay, profit or family gain in the seven days prior to the household survey interview, or who were absent from work during these seven days, but had some form of paid work to which they can return (Stats SA, 2000) was also simplified. The question was simply asked: "Do you work for a business, for yourself or for your family?" Working for a business was regarded as formal employment. Self-employment and family employment were taken as working in the informal sector Slabbert & Slabbert, (2002: 17).

**The role of SMME's in local economic development aimed at job creation,
income generation and poverty alleviation in Zamdela**

ANNEXURE C

Methodology for the measuring of poverty

Following the guidelines of the World Bank, a poor household is defined as a household of which the combined income of all its members is less than the Household subsistence Level (HSL) as determined for the specific household. If the combined income of a household is described by y_i and the poverty line (HSL) of the same household is described by z_i , the extent of poverty, P_i , of this household is described by $P_i(y_i; z_i)$.

The headcount index is defined as the fraction of the population below the poverty line. In this report, the headcount index is adapted to indicate the fraction of households that fall below their individual poverty lines, and is described by means of the equation:

$$H(y; z) = M/N$$

Where: H = the fraction of households below the poverty line;

y = household income;

z = the poverty line of households;

M = the number of households with incomes less than z ;

N = the total number of households.

The poverty gap usually measures the average shortfall of the incomes of the poor from the poverty line while the poverty gap index measures the extent of the shortfall of incomes below the poverty line. In this report, the poverty gap index is adapted to be a measure of a specific household, described by the equation:

**The role of SMME's in local economic development aimed at job creation,
income generation and poverty alleviation in Zamdela**

$$R_i(y; z) = (z_i - y_i)/z_i$$

Where: R_i = the income shortfall of a household expressed as a proportion of the household's poverty line;

y_i = the income of a specific household; and

z_i = the poverty line of a specific household.

The poverty gap of an individual household (in monetary terms) can therefore be expressed by the equation:

$$G_i(y; z) = z_i - y_i$$

Where: G_i = the income shortfall of a household;

y_i = the income of a specific household; and

z_i = the poverty line of a specific household.

From the three equations above, it is clear that the poverty gap can only be reduced by increasing household income Slabbert, (1997: 47).

**The role of SMME's in local economic development aimed at job creation,
income generation and poverty alleviation in Zamdela**

ANNEXURE D

Methodology for impact assessment

Employment creation may supplement the existing income of households to such an extent that the headcount index for the population is decreased significantly. If the number of unemployed persons in a household is described by u_i , and employment opportunities can be created at an average wage level of W , the poverty gap G_i of a single household can be reduced by:

$$G_i - (u_i W)$$

or

$$z_i - (y_i + u_i W)$$

Where: u_i = the number of unemployed members in a household;

W = the average wage earned by unemployed members of
households as a result of an employment creation scheme.

An employment creation scheme aimed at the poor unemployed will have an immediate effect on the extent of poverty, because it reduces the poverty gap. However, to have a significant effect, it should reduce the headcount index. The extent to which the headcount index is reduced will indicate the success of an employment creation programme. The condition for reducing the headcount index is that the poverty gap of a household or households becomes zero or negative. This condition is described by the following equation:

$$G_i - (u_i W) \leq 0$$

Where: G_i = the poverty gap of a single household;

u_i = the number of unemployed members in a household;

W = the average wage earned by unemployed members of
households as a result of an employment creation scheme.

**The role of SMME's in local economic development aimed at job creation,
income generation and poverty alleviation in Zamdela**

The larger the number of households satisfying this condition, the smaller the headcount index becomes.

The 2003 Household survey data will be used for determining the impact of job creation on poverty in the Sedibeng District. The data renders all the information needed to test these models, for example, the age and gender of household members required to determine the individual poverty line (z) for each individual household; the combined income of each individual household (y); and the number of unemployed members in a household (u) Slabbert, (1997: 171).

**The role of SMME's in local economic development aimed at job creation,
income generation and poverty alleviation in Zamdela**

ANNEXURE E

HOUSEHOLD SURVEYS IN ZAMDELA: 2004

Township:	Section: Old/RDP/Shack	Date: Questionnaire no
Street:	House number:	Interviewer:

E1: BACKGROUND INFORMATION

1. What is the position of the respondent in the household? Cross x

Head of household	Spouse or child	Extended family Member	Boarder
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2. How many housing units are on the site?

3. How many people stay permanent on the site?

4. How long have you (respondent) stayed in the Vaal Triangle?

E2: ENVIROMENTAL

5. How do you feel about the environment in which you stay? (Mark 2 options) x

1. It is clean and pleasant	2. It is littered, untidy and dirty	3. Indifferent – No opinion	4. Something should be done to clean	5. It can be left as it is
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6. If you feel it should be cleaned up, who should take the initiative and responsibility? (x More)

**The role of SMME's in local economic development aimed at job creation,
income generation and poverty alleviation in Zamdela**

1. The municipality	2. A Street committee	3. Every person should be made responsible	4. A campaign should be organised	5. Other : (explain)
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7. If you would have the money, what would you prepared to pay monthly to have your environment cleaned up?

8. How do you experience, especially in winter, the smoke levels (air pollution) in your area? Mark with X

9. If you are making fire for cooking & heating purposes, would you like to be introduced to technologies that will reduce the smoke levels at your house?

1. Not making fire: using electricity for cooking & heating	2. Making coal/ wood fire: but not interested	3. Making coal/ wood fire: and interested	4. Using paraffin: Not interested	5. Using paraffin: interested
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10. What would you be prepared to pay monthly to have your environment smoking free?

(a)

(b)

(c)

11. How do you experience, especially in winter, the dust levels in your area? x

1. Not affected	2. Slightly affected	3. Affected	4. Badly affected	5. Unbearable (Severely affected)
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12. What would you be prepared to pay monthly to have your environment dustfree?

**The role of SMME's in local economic development aimed at job creation,
income generation and poverty alleviation in Zamdela**

13. Especially in the spring & summer, some people are using amplifiers to make loud music. How are you affected by this in your area?

1. Not affected (quiet in the area)	2. I hear it but I don't care (accepting it)	3. I hear it and it is affecting me (don't like it)	4. I hear it and I am badly affected	5. I hear it and it is unbearable (severely affected)
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14. If you feel that something should be done in your area to reduce the noise levels who should be responsible and what should be done? (Mark x more one option)

1. The municipality should control & restrict people to play loud music	2. The police should control & restrict people to play loud music	3. A street committee should control & restrict people to play loud music	4. People who disturb with noise should be fined/ punished	5. The instruments must be confiscated
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15. If you would have the money, what would you be prepared to pay monthly to have your environment quiet?

16. Has any person in your household been a victim of crime in the last 12 months?

Yes / No

17. What kind of crime? (Can mark x more than one option)

1. Assault	2. Robbery	3. Rape	4. Murder	5. Abduction	6. Other
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E3: CONSUMPTION

**The role of SMME's in local economic development aimed at job creation,
income generation and poverty alleviation in Zamdela**

**18. How much of the following items do your household buy per week/per month &
about how much does your household spend on these items per week/per month?**

Product	Kilograms/litres per week	Kilograms/litres per month	Rand per week	Rand per month	Town	Township
1. Maize meal						
2. Bread						
3. Meat/ Chicken						
4. Vegetables						
5. Milk						
6. Washing powder						
7. Coal						
8. Paraffin						

19. How does your household spend their income monthly?

Item	Rand per month	Name of shop	Town	Township	
Housing (Rent/Bond)					1
Water					2
Electricity					3
Other (coal, paraffin etc)					4
Food					5
Cleaning materials					6
Cigarettes & Tobacco					7
Beer, Wine & Spirits					8
Transport – own.....					9
taxi.....					
bus.....					
Clothing					10

**The role of SMME's in local economic development aimed at job creation,
income generation and poverty alleviation in Zamdela**

School					11
Entertainment					12
Medical Expenses					13
Investment/ Unit Trust/ Insurance					14
Gambling: Lotto.....					15
					16
Horseracing.....					17
Other (casino etc))					
Savings					18
Licenses (eg. TV, Vehicle)					19
Rates and taxes					20
Housekeeping Services (e.g. Garden)					21
Telephone.....					22
Cell phone.....					23
Car Repayment					24
Loan repayments					25
Furniture					26
Other: Specify:					27

E4: EMPLOYMENT & EDUCATION STATUS

20. Complete in respect of all members of the household (Refer to Code List)

1. Number of people in the household	1	2	3	4	5	6	7	8
2. Composition of members (Code list 2)								
3. Age of each member in years								
4. Sex (Male = 1; female = 2)								
5. Marital Status (code list 5)								
6. Qualifications (still at school) (Code list 6)								
7. Qualifications (not at school) (Code list 7)								

**The role of SMME's in local economic development aimed at job creation,
income generation and poverty alleviation in Zamdela**

8. Employment Status (Code list 8)								
9. Sector of employment (Code list 9)								
10. Has your salary increased as a result of minimum wages?								
11. Can employer afford increases because of minimum wages?								
12. Working hours been reduced because of minimum wages?								
13. (10 – 17 for <u>unemployed</u> only) skills of the unemployed								
14. Duration of unemployment in years								
15. Dismissed because employer could not afford minimum wage								
16. Willingness & type of skills Training required (code list 13)								
17. What is the unemployed doing presently								
18. Do you have matric exemption?								
19. If persons would like to study further: preferences								
20. Preferences to start self-sustaining activities								
21. Minimum wage required to take a job								
22. Income: wages/salaries per month (take home)								
23. Pension/Remittance								
24. Child Grant from Government								
25. Other Grants from Government								
26. Help (family/relatives/etc Also help in kind								
27. Informal activities (eg. SMME's)								
28. Subsidies (eg. Housing)								
29. Interest/dividends								
30. Other (specify)								

21. Does someone in your household have a vegetable garden?

Yes	No
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**The role of SMME's in local economic development aimed at job creation,
income generation and poverty alleviation in Zamdela**

22. Would someone in your household be interested in receiving assistance to start a food garden in your yard?.....
23. Would someone in your household like to be involved in a community food garden project.....
24. Would someone in your household be interested in farming....
25. Do you know small farmers in the area?.....
If so, give the address: _____
26. Does someone in your household own a sewing machine?.....
27. Do you know a clothing manufacturing business in your township?.....
If so, give the address: _____
28. Do you know any small scale welding / metal work firm in the township?.....
If so, give the address: _____
29. Has any member of your household operated a SMME's / still operating one?.....
If so, what kind of SMME's? _____
30. Taking into account your skills (or that of your household members), would you or someone in your household (unemployed persons) be interested in starting your own business or rather work together with others in a cooperative?
31. What kind of business would you like to start? _____
32. If you would like to start your own business, what kind of support do you think you will need?

**The role of SMME's in local economic development aimed at job creation,
income generation and poverty alleviation in Zamdela**

33. Do you know somebody with a catering business in your _____
township?.....

If so, give the address: _____

34. Do you think you will get a job if you are better trained?.....

**The role of SMME's in local economic development aimed at job creation,
income generation and poverty alleviation in Zamdela**

CODE LIST FOR FIELDWORKERS

Status

1 = Father

2 = Mother

3 = Son

4 = Daughter

5 = Grandfather

6 = Grandmother

7 = Grandson

8 = Granddaughter

9 = Other

Age

If less than 1 yr., fill in '1'

For the rest, fill in the age in years as it is, e.g. 45

Sex

1 = Male

2 = Female

Marital Status

1 = Married

2 = Separated

3 = Never married

4 = Living together

School Standard (only children still at school)

1 = up to std. 1

2 = std. 2

**The role of SMME's in local economic development aimed at job creation,
income generation and poverty alleviation in Zamdela**

3 = std. 3

4 = std. 4

5 = std. 5

6 = std. 6

7 = std. 7

8 = std. 8

9 = std. 9

10 = std. 10

Highest Education Qualification (Persons not at school any longer)

1 = up to std. 1.

2 = std. 2

3 = std. 3

4 = std. 4

5 = std. 5

6 = std. 6

7 = std. 7

8 = std. 8

9 = std. 9

10 = std. 10

11 = std. Diploma

12 = std. Degree

Employed/Unemployed/Non-active

1 = For employed (If a person works for 3 days or more per week for income/food/
accommodation)

2 = Informal activities

**The role of SMME's in local economic development aimed at job creation,
income generation and poverty alleviation in Zamdela**

(Person involved in informal activities for 3 days or more per week to get

Food/income/accommodation.

3 = Unemployed (Those who can work, want to work, but cannot find work. Not
housewives!)

4 = Not economically active (Those who prefer not to work or cannot work, e.g.
housewives, the disabled, students, the sick, schoolchildren)

Which sector (Formal and informal)

1 = Agriculture

2 = Mining, quarrying

3 = Manufacturing

4 = Electricity, Water, gas

5 = Construction

6 = Wholesale, retail, trade, catering

7 = Transport, storage, communication

8 = Finance, insurance, real estate

9 = Community, social and personal services

10 = Other, not defined.

**The role of SMME's in local economic development aimed at job creation,
income generation and poverty alleviation in Zamdela**

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