

Supporting Small Medium and Micro Enterprises in South Africa

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Abstract

The Local Government sphere in South Africa faces several cogent developmental challenges. Several interventions have been introduced to confront these challenges, which include poverty, unemployment and skills shortage, with partial success. In this article, a conceptual framework is proposed for small, medium and micro enterprises (SMMEs) in South Africa. The literature review includes an analysis of documents issued by four municipalities as well by the former national Department of Provincial and Local Government. In this regard, an explanation of the concept of SMMEs is provided so as to contextualise the study. Apart from the lack of funding, SMMEs appear to suffer from a lack of information, efficient production technologies, and the inadequate use of management and control systems. To further contextualise this study, the debate on local economic development (LED) in the South African local government sphere is presented to highlight the current challenges. Common characteristics of LED and SMMEs are also enunciated so as to establish the nexus. Finally, drawing from the above context and discussions, a conceptual framework is articulated and presented, which is intended to assist municipalities to ensure that viable SMME strategies are developed.

Keywords: municipalities; local economic development; small, medium and micro enterprises

1. Introduction

The challenges of developing countries, including South Africa, centre on how to ensure that development interventions are effective so that the majority of citizens benefit from the economic activities of the country. This is because sustainable economic activities are necessary for the wellbeing of society. South Africa has provided numerous initiatives in response to developmental challenges. Interventions to promote local economic development include initiatives such as public-private partnerships as well as the promotion of small, medium and micro enterprises (SMMEs). In this article, only the concept of SMMEs receives attention. The purpose of this article is to propose a conceptual framework for municipalities in supporting SMMEs. The article is not intended as an analysis of whether SMMEs are successful as service providers, but rather, on whether a conducive environment for SMME success has been established. Municipalities such as the City of Tshwane Municipality and the

Amathole District Municipality have established sections/departments/units that administer SMMEs as a sub-unit of LED and, alternatively, as an economic development department. Nel (1998) notes that the term 'economic development' is used in preference to LED, which may confuse the actual understanding of LED as a supported national programme that municipalities are required to adopt, customise and implement. The description is necessary as the concept of SMMEs is used in the context of LED implementation.

The concept of SMMEs is explained to clarify the point of departure. Since SMMEs are embedded in LED, it becomes the responsibility of municipalities to ensure that the economic development challenges are responded to within a regulated and supported framework of SMMEs. In this regard, an LED strategy is formulated by municipalities to support the establishment of SMMEs within and by municipalities. The common characteristics of LED and SMMEs are also explained. Finally, a conceptual framework for SMME establishment and support is provided to indicate what municipalities should consider when adopting and implementing an SMME strategy.

2. Local Economic Development in South Africa

The establishment of an LED strategy by the former Department of Provincial and Local Government as an overarching policy framework is necessary for the development of local communities (DPLG 2006). In this strategy, reference is made to the Constitution of 1996 and the White Paper on Local Government of 1998. The implication of this legislation is that the LED function of municipalities is not to create jobs directly, but to facilitate an overall economic and social environment that promotes the creation of job opportunities. In response to its provincial economic challenges, the Gauteng Provincial Legislature has passed the Gauteng Enterprise Propeller Act 5 of 2005, which provides provincial stipulations to tackle issues relating to small enterprise support in Gauteng province. This has led to the establishment of the Gauteng Enterprise Propeller (GEP) as a provincial agency to give effect to this ordinance. The GEP, like the municipalities, serves as a facilitator in supporting sustainable small enterprise development, establishing guidelines for SMME development as well as providing advice, information, analysis and support for SMME policy implementation among other things. However, the establishment of the GEP has not been linked directly to the municipalities in Gauteng to ensure that LED and SMMEs become functional areas. The management of GEP therefore requires more attention to facilitate the way municipalities assist SMMEs in Gauteng. This discussion is intended to help provide a context for the understanding of the concept of SMMEs in South Africa.

To understand the role of municipalities in LED, the White Paper on Local Government of 1998 puts forward four interrelated characteristics of developmental local government, namely, maximising social development and economic growth;

integrating and coordinating; democratising development; and leading and learning. While there is a close relationship between these four different characteristics, it should be emphasised that social development and economic growth, as well as the democratisation of development, should be regarded as key SMME features for sustainable LED. The White Paper also provides a framework within which municipalities must develop their own strategies for promoting the social and economic development of communities. Developmental outcomes as mentioned and identified in this White Paper include the provision of household infrastructure and services; creation of liveable, integrated cities, towns and rural areas; local economic development; and community empowerment and redistribution.

Local economic development (LED) is a policy for economic development that allows and encourages local people to work together to achieve sustainable economic growth and development. This policy should be aimed at bringing economic benefits and improved quality of life to all residents in a local municipal area. Frieda Human, Lochner Marais and Lucius Botes (2008) view LED as a function of local government in an economic sense, which is required to create viable conditions conducive to the success of business activities.

LED is concerned with the creation of an environment that will engage stakeholders in implementing strategies and programmes. LED policy should be aligned with the country's macroeconomic strategy, which is focused on re-entering the global market, providing a climate which is amenable to international investments, enhancing the role of the private sector, and reducing the role of the state. The word 'local' in local economic development points to the fact that political jurisdiction at local government level is often the most appropriate place for economic intervention as it carries the accountability and legitimacy of a democratically elected body. LED is about communities continually improving their investment conditions and business-an enabling environment to enhance their competitiveness, retain jobs and improve incomes. This is essentially what the understanding of the democratisation of development should be about. To ensure that LED policy may be translated into deliverables, the development of LED strategy within municipalities with a provincial and national alignment is imperative.

Frieda Human, Lochner Marais and Lucius Botes (2008) promote a strategic approach to the development of local economies and a shift away from narrow municipal interests focused only on government inputs into ad hoc projects. In effect, strategic planning ensures that priority issues are addressed and limited resources are utilised to the maximum. Once an LED strategy has been initiated, there is a need to ensure that its implementation is realised. In the context of this article, how SMME initiatives thrive will depend on this LED strategy.

In supporting the above notion, the five-step planning process as developed by the World Bank is detailed below, in which an attempt is made to apply the context to the concept of SMMEs in South African local government:

2.1 Stage One: Organising the Effort

A community considers the LED policy planning process by identifying the local people, local public institutions, local businesses, local community organisations and other local groups of interest in the local economy that could establish and run SMMEs. The skills and resources that each one of these stakeholders brings to the strategy process provide a critical foundation for success. A resource audit is a necessary input to the strategy, and should include the identification of financial, human and capital resources that can contribute to LED strategy.

2.2 Stage Two: Conducting the Local Economy Assessment

The aim of the local economy assessment is to identify the local community's strengths and weaknesses, including its human resource capacity, local government's friendliness to all types of SMME activity, and the opportunities and threats facing the local economy. The goal of assessment is to create an economic profile of the communities and other regional, national and international competitors within the local economy.

2.3 Stage Three: Developing the LED Strategy

Most importantly, the LED strategy and action plans must be finely assessed against the staff resource capacity to carry them out, as well as budgetary constraints. The strategy's action plans should be incorporated into the work and budgetary programme of the local government and other stakeholders. The aim is to leverage strength, overcome weaknesses, exploit opportunities and deal with threats to SMMEs.

2.4 Stage Four: Implementing the LED Strategy

Strategy implementation is driven by the LED action plans. Ongoing monitoring is provided through formal structures identified and created in step one. Evaluation of specific project outcomes ensures that the strategy continues to lead to the achievement of the LED vision, goals and objectives through SMME activities. In undertaking strategy implementation, it is important to identify and establish the appropriate institutions SMMEs may use to carry out the plans.

2.5 Stage Five: Reviewing the LED Strategy

Effective monitoring and evaluation techniques could help to quantify outcomes, justify expenditures, determine enhancements and adjustments, as well as develop good practices. The LED strategy should be reviewed at least annually to ensure that it

remains relevant to the various LED options including SMME initiatives. It may be that the initial conditions have changed or that the assessment was incorrect for the local conditions. The LED strategy that is intended to address SMME needs should evolve continuously to respond to the ever-changing competitive market environment.

According to Rogerson (2008), LED needs to be seen as having the following dimensions in order to evolve sufficiently and respond to the SMME approaches:

- Existence at the policy level, that is, the municipality's decision to be more businesslike, or to encourage procurement and investment.
- Existence at an institutional level, that is, having a job centre or being a Section 21 company in terms of the Companies Act 71 of 2008.
- Existence at the project level, that is, it should operate as a defined, focused undertaking. For example, the establishment of a chicken cooperative company could be ideal.

Organising LED within the different spheres of government listed above is intended to give meaning to the way the concept of SMMEs could be expressed in municipalities. It is necessary to highlight that, since the SMMEs are embedded in LED, municipalities would require innovative approaches to satisfy the economic developmental needs of its community. This could be useful in realising the implementation of the SMME concept. In realising the implementation of LED strategy to improve the economic conditions of its community, the City of uMhlathuze has provided an exemplary strategy for implementation during the period 2008–2011.

An outline of pertinent challenges that could hamper SMME development and success was undertaken while possible remedies and the role of the municipality in developing SMMEs were addressed. These include start-up and venture capital, local business centres, reforming the tendering policies, establishing a database, as well as monitoring and evaluating SMME activities. To further understand the organisation of LED strategy, as well as satisfying SMME needs, Phila Xuza and Mark Swilling (2008) propose a consideration of institutionalising the different roles of stakeholders in municipalities. The intention of presenting LED strategy and its institutionalisation is to ensure that its implementation approaches to issues such as SMMEs are undertaken within a guided framework. Phila Xuza and Mark Swilling (2008) further allude to the notion that institutional arrangement and implementation of LED should be done with the following in giving further effect to SMME initiatives:

- Non-governmental organisations: One role of NGOs might be to find external resources other than those of government to support the LED projects of a municipality. In the application of SMMEs, NGOs could assist individuals and cooperatives with entrepreneurial skills and business ideas.
- LED units: The creation of LED funds by government has been intended to support community projects that were politically endorsed by the

municipality. This prompted the majority of municipalities in South Africa to create LED units to support SMME initiatives within the municipality.

- LED forums: Participation of LED stakeholders such as NGOs, institutions of higher learning and the business sector serves an important role in ensuring that LED activities such as SMME initiatives within the municipality are monitored locally.
- Donor agencies: The involvement of donors in the development of South Africa is essential. However, this should be treated with caution, since such involvement is largely seen as a short-term solution for long-term problems. This is due to the limited amount of money that can be dispensed. In this regard, the local municipality should be able to engender sustainability in the established SMME projects.
- Development agencies: The formation of agencies could serve as an important initiative to support LED at all community levels for different activities. The establishment of the Industrial Development Corporation (IDC), which supports the formation of development agencies and provides the seed funding necessary for the expansion of SMMEs in South Africa.

The above institutional arrangements could also give meaning to the implementation of LED strategy realised through SMMEs, as argued in this article. While this article advocates that SMMEs are inherent to LED, a theoretical analysis indicates that a distinction could be drawn between these two (LED and SMME) variables. However, in this regard, the relationship between LED and SMMEs, highlighting common characteristics warrants a brief overview.

3. Small Medium and Micro Enterprises in South Africa

The National Framework for LED in South Africa aims to support the development of sustainable local economies through integrated government action. This government action is developmental and stimulates the heart of the economy which comprises those enterprises that operate in local municipal spaces. The framework is underpinned by an appreciation of the evolving practice of LED internationally and is based on the unique South African context and challenges.

The promulgation of the National Small Business Act, 1996, gave formal recognition to the existence of the small business in South Africa. This recognition served as a basis for the establishment and promotion of small businesses by all spheres of government. The recognition discussed in section 3(1)(a–e) of the NSB stipulates that a National Small Business Council be established to fulfil the following functions:

- to represent and promote the interests of small business, with emphasis on those entities contemplated in the National Small Business Support Strategy

- to advise the national, provincial and local spheres of government on social and economic policy that promotes the development of small business

Since the notion of small business has been formally recognised, the challenges to be overcome in improving economic development and growth are legion. This article focuses on the role of local government and its policy interventions to address developmental challenges for small business. This is because the creation of LED units and other methods on the institutionalisation of LED in local government requires an understanding of the different forms this implementation could take, including SMME development. During the initial stages of the development of LED policy and strategy in 2002/03 by the former Department of Provincial and Local Government, LED activities were already credited with the establishment of SMMEs in various communities. These included several women-driven entrepreneurial initiatives. Accordingly, Rogerson (2008) concurs that SMMEs have been acknowledged as an application of LED policy from its inception and formalisation in South Africa.

Visagie (1997) espouses the recognition and value of the SMMEs in the generation of new employment and competitiveness, in which, the government must endeavour to bring SMMEs into a regulatory framework for labour standards. The South African municipalities are facing the enormous challenge of poverty, which requires interventions to improve the conditions of the poor. The introduction of the SMME concept requires that the municipal role be clarified, not as a business owner, but as a facilitator of an environment conducive to the development of business initiatives by community members. Rogerson (2008) provides examples of SMMEs in most African countries which include handicrafts, speciality food outlets and tourism. This identification is necessary, because SMME policy should support specific sectors within a particular municipality. Rogerson (2008) further quotes a study by the World Bank (2000) regarding value chains within a particular area of SMME operation, such as tourism, to ensure that there is an understanding of the business environment. In this regard, municipalities are expected to become the major role players in LED in creating an opportune policy environment to facilitate SMME activities in the following ways:

- creating employment opportunities.
- developing infrastructure in a way that provides business opportunities for local communities.
- encouraging cooperatives to help the community become active in the local economy.
- promoting economic development and growth through strategies that create a conducive environment for investment.
- developing and sustaining the main economic sectors.
- promoting the development of small businesses and enterprises, namely, small, medium and micro enterprises (SMMEs).

The above discussion confirms that municipalities are confronted with major developmental challenges, which require urgent attention. The intention is to identify the location of SMME strategy in the context of LED functions. This means that as indicated by the former Department of Provincial and Local Government, municipalities are required to create an environment that promotes LED and encourages SMME initiatives. However, municipal SMMEs are not always linked to LED activities. For example, the speech by the Mayor of the City of Tshwane Metropolitan Municipality highlights the intention to consolidate SMME projects with Tshwane women and cooperatives without any mention of the LED as a unit or activity (Ramokgopa 2009). The term 'SMME' is used in South Africa to refer to small businesses or enterprises. They are any entity, whether or not incorporated or registered under any law, consisting mainly of persons operating small enterprise concerns in any economic sector, and established for the purpose of promoting the interests of small enterprises.

One of the challenges faced by SMMEs in South Africa remains their inability to maintain effective presence within the economic system for a relatively long period of time. A need exists to investigate the existence of SMMEs and how they can promote LED. However, as earlier discussed, this is not the focal point of this article. The presence of supporting entities in the economic system and the vitality of this role suggest that SMME programmes and projects should reasonably operate in a favourable environment created by municipalities. The primary role of municipalities is defined in the Constitution of the Republic of South Africa, 1996 (the Constitution), as the 'promotion of social and economic development' and reinforced in the White Paper on Local Government of 1998 and other associated legislation such as the White Paper on Municipal Service Partnerships of 2000 and the Municipal Systems Act 32 of 2000. Sections 152(c) and 153(a) of the 1996 Constitution states that a municipality must "structure and manage its administration, budget and planning processes to give priority to the basic needs of the community and to promote the social and economic development of the community".

It is the aim of the South African government through legislation and other policies to support the development of sustainable local economies through integrated government action. This developmental action stimulates the heart of the economy, which consists of a collection of enterprises including cooperatives that operate in local municipal areas. In this regard, LED strategy is not about what municipalities do, but more critically what the three spheres of government do together with municipalities in supporting the generation of local economies through functional and effective SMMEs. In order to unpack the notion of SMMEs within municipalities in the context of this article, it is necessary first to understand the conceptualisation of LED as applied in this article.

4. Relationship and Common Characteristics of Led and Smmes

LED and SMME concepts have various characteristics in common. The discussion of the common characteristics of LED as seen in public–private partnerships, as well as SMMEs such as food outlets used in municipal programmes, illustrates the bond between them, since they are more related than distinct. This analogy explains the nature of their power and influence, and the contributions they can make to the economy of South Africa. The common characteristics identified include several areas such as the following:

- strategic intervention by municipalities.
- transforming or restructuring the manner in which municipalities conduct their business.
- focusing on development.
- consultative and multi-sector in orientation, which both reflect the operation of a municipality.

While the promotion of SMMEs is identified as a cornerstone of or as being inherent to LED, the interplay between municipal LED strategies as bandwagons and the existence of SMMEs is clear. This is because LED strategies are required to offer both municipalities and the private sector (including SMME initiatives) the opportunity to work together to improve the local economy. This interplay should be aimed at enhancing the competitiveness of various SMMEs and should encourage sustainable growth that is inclusive and participatory for the community. On one hand, LED strategy should be understood to be a result of actions and interventions of local government and the constant improvement and integration of national priorities and programmes in the local sphere (Nel 1998). On the other, SMME development and operation should be construed to be an outcome of LED strategy aimed at enhancing the living conditions of communities. This understanding emphasises the notion of LED strategy providing a bandwagon for SMMEs.

According to Rogerson (2008), LED processes and business cycles at times operate on different scales with varied implications, while there are some commonalities when devising policies and strategies. Hence, project development within the LED sphere, in particular within emerging areas, needs to incorporate the needs of SMMEs during the start-up phase. For example, the need is not only for business advice and support, but also for the provision of business infrastructure, because this is generally inadequate in many municipal areas both poor and rich, although to differing degrees. Some of the additional common characteristics tying LED and SMMEs in South Africa could include the following as espoused by Rogerson (2008):

- **Community participation and involvement in decision making**

Community participation is aimed at inspiring confidence in the local economy and mobilising resources for the advantage of local communities. This is intended to enhance the management and implementation of economic development strategies that are participatory, realistic, feasible and viable for development opportunities. The fact that a strong community participation culture within municipalities has not taken place outside party political influence means that SMMEs are faced with enormous pressure to ensure the inclusion of the general community.

- **Efforts to encourage establishment of community-owned businesses**

The citizens will be resourceful, skilled and able to take full advantage of economic opportunities. They are innovative and able to participate in and/or establish, run and grow thriving enterprises. They produce locally made and branded products for the domestic and international market that are of high quality and appeal to the needs of different consumers. Despite support from the government to ensure that SMMEs are owned by local cooperatives, this has not been sufficiently realised, as many of the businesses are largely owned by individuals within municipalities.

- **Strengthening municipal in-house capacity in for local business growth**

Most municipalities have embraced LED strategies and are implementing fully-fledged supply-chain management policy to govern decision making in their procurement processes. Through these policies and strategies, municipalities have strategically channelled resources and support to promote SMME development. The main challenge, however, is to develop and implement sound monitoring systems to guide the measuring of performance against outcomes achieved.

- **Intergovernmental relations with provinces and national departments**

Coordinated structural planning within the context of the integrated development planning (IDP) process is necessary. This could offer the potential to link economies and accelerate growth directly by public-private sector investment and through facilitating the strategic development of competitive advantage. The performance of a local economy is dependent on both effective local governance and the input of other spheres of government in local spheres. An example is the establishment of Seda by the Department of Trade and Industry. The involvement of both provincial and local government is necessary in the establishment and sustained support of SMMEs. However, the challenge is always how to manage the interplay among these stakeholders. This remains a major challenge since intergovernmental relations in

South Africa has not been a success story. Challenges including duplication of resources and lack of coordination of activities have not been fully addressed thus far.

While the above discussion may be regarded as a paradox in that SMMEs are a subsector of LED and cannot exist without LED, the above lessons highlight additional common characteristics shared by the concepts of SMMEs and LED. It is imperative to indicate that this (SMME as a subsector of LED) should not always be the case. Municipalities should adopt innovative approaches to ensure that some SMMEs' activities are independent variables from LED at times. This could increase the sophistication of SMME projects and avoid their oversimplification, which could decrease innovation and contribution to local economic growth. To further consolidate the argument regarding the need to understand the concept of SMMEs as distinct from LED as described above, a conceptual framework for the improvement of SMME initiatives within municipalities is discussed below.

5. Challenges Facing SMMEs

SMMEs are considered the engines of growth in developing countries. They have played a vital role in creating jobs, spurring innovations, and creating new products, and thus contributed to economic vitality and growth. However, in considering the situation in African countries, there are several impediments that have to be removed in order for SMMEs to flourish. Kim (2011) alludes to the notion that the strong presence of Asian SMMEs in Africa and increasing competition have negatively affected local SMMEs. Most notably, according to Kim (2011), African countries lack the governmental capacity necessary to properly support the development of local SMMEs. It is pointed out that African governments impose harsh regulations on local SMMEs. Kim (2011) provides an example of SMMEs in Ethiopia which complain that regulations are too tight. It is also difficult to obtain a licence. Additionally, proof of premises and requirements for large amounts of capital and high qualifications stifle growth. SMMEs are heavily taxed.

Kim (2011) further provides examples for Ghana in which emerging SMMEs tried to enter the oil market. However, it is said that the existing legal system provided a more favourable environment for international companies. Consequently, it became impossible for local SMMEs to compete with international firms that have greater know-how and capital. The Ghanaian SMMEs raised concerns about the bidding process which seem to favour foreign companies. Information about contracts is not made available to local providers and there are perceptions of a lack of transparency.

Phila Xuza and Mark Swilling (2008) discuss the critical elements and challenges facing the South African SMMEs in this manner:

- **Financial management**

Financial management is a crucial field within the environment of SMMEs that

presents potential obstacles and challenges. Management competence is often determined by the availability of management and financial information. Lack of financial sources is often reported as the major obstacle for businesses, including lack of financial planning and control, bookkeeping and profit realisation. Hence, a proper financial history and business operation is crucial for success as well as recognition by potential financiers.

• **Production and operational issues**

Various operational aspects may impact on the success of the SMMEs, namely, lack of management skills and ethical conduct and practices, lack of proper quality control in the production process, lack of capacity and skills planning, problems with the suppliers of resources and limited attention to developing suitable products or services. It is also common knowledge that business managers reward themselves with bonuses and incentives before a turnaround profit is realised.

• **Access to technology and market**

A change in the socio-political sphere has brought some changes in the market economy. Entrepreneurs need to be technologically aware and understand the business systems and operations. Innovations and upgrading of existing systems need a boost. Marketing factors such as poor location and structures, inability to interact with potential clients and customers and lack of a customer-friendly approach also impact on the success and elevation of SMMEs.

• **Fraud and theft**

Recognising the important role played by SMMEs, it is crucial to look at the negative consequences of fraud on their businesses. Despite their important contribution to the socioeconomic development of South Africa, many SMMEs are exposed to the high cost of the fraud wave currently engulfing corporate South Africa. Appropriate measures such as internal controls and whistle blowing should be put in place to curb the scourge. Accordingly, procedures and mechanisms should be put in place to alleviate the problem and sustain the business operations.

• **Inadequate management**

This particular problem is broad but includes weaknesses in terms of business knowledge, lack of management skills, poor or inadequate planning, and inexperience. There is an overreliance on the single ownership manager of most small firms and there is a reluctance to move away from this managerial tendency on the part of the owner-manager. This results in and translates into poor human resource

practices where no new qualified staff is hired or authority and responsibility delegated to other employees.

6. Small Medium and Micro Enterprises: A Conceptual Framework Proposition

Considering the pivotal role that municipalities are required to play in establishing conditions conducive to SMME development, it is necessary to understand and propose viable approaches for South African municipalities. This understanding is premised on the fact that the introduction of the concept of SMMEs has not substantively benefited poor people in South Africa. This is despite municipalities in general having introduced the formalisation of LED units which have initiated SMME projects in local communities. A conceptual proposition customised for South African local government could assist in the improvement of economic conditions in this regard. In order to ensure functional SMME initiatives that respond to the developmental agenda of the government in South Africa, several aspects that should be heeded are identified and explained below.

• SMME Development and Implementation Strategy

This strategy serves to implement LED that supports the concept of SMMEs. Municipal initiatives and programmes must seek to ensure that adequate support and delivery mechanisms exist across the entrepreneurship continuum. This means that every phase from pre-start-up to start-up, business survival, growth and expansion, and turnaround of ailing businesses should be carefully planned.

• Implementation Challenges

Poor implementation remains the most important feature of economic projects for most municipalities in South Africa. A key question has been whether government should provide finance directly to address the requirements put forward by the private banking and financial service sector in supporting the development of SMMEs.

• Human Resource Services

De Coning (1992) believes that human resource services include, among others, specific services such as SMME training, advice, mentorship and institutional arrangements which are key for SMMEs advancement. One of the key challenges of these SMMEs is their inability to attract and maintain a qualified workforce for securing productivity and profitability. This usually occurs because workers are often unskilled and/or inexperienced. The SMME strategy should seek to provide training opportunities for needy members of the community.

• **SMME Community Cooperation**

Visagie (1997) embraces the notion that traditional and not-so traditional SMMEs have not considered the implications of valuing and managing a diverse workforce and unwritten rules are still skewed. A strategy is required for managing diversity which takes into consideration the effects on SMMEs of cultural, racial, gender, age and other kinds of diversity.

• **Financial Services**

Financial services represent the overall process involved in securing basic financial products such as loans, grants and donations. SMMEs need to engage in the establishment of relationships with appropriate financial service providers. The SMME strategy should make provision for SMME projects to ensure viable and sustainable initiatives.

• **Infrastructure Services**

Infrastructural services include services associated with the provision of basic information and communication technologies (ICT) infrastructure, as well as physical infrastructure. Some providers may offer SMMEs the opportunity to undertake their activities within appropriate business premises conducive to productivity. Therefore, the establishment and support of SMME initiatives could provide much-needed assistance to meet the local challenges of economic development.

The conceptual framework is proposed to help South African municipalities take a proactive stance in attempting to understand the concept of SMMEs. This could serve as a necessary basis for municipalities to facilitate conditions suitable for SMME establishment and support, to promote sustainable local economic growth. Municipalities have the potential to influence their economies by contributing directly or indirectly to job creation in their areas of jurisdiction. However, it is not the primary responsibility of municipalities to create jobs, but rather to facilitate conditions for job creation.

7. Conclusion

The purpose of this article was to describe how the concept of SMMEs is used in South African local government as an application of LED. This article indicated that the readiness of local government to adopt the concept of SMMEs and apply it as an LED strategy has not been sufficient to respond to the developmental challenges they face. Moreover, the creation of LED units and other institutional components does not sufficiently support SMMEs in South African local government. It is also fair to say that one needs to have customers in the marketplace who would want to buy the goods

and services on offer. One of the main factors in the success of any small business is the existence of a real business opportunity. It is not enough that the business opportunity exists; of more importance is the manner in which the opportunity is exploited or seized. Therefore, the article concludes that, among other things, the improvement of infrastructure, such as technological applications and transport, should be incorporated into the SMME implementation strategy.

The Department of Trade and Industry (DTI) has established the Small Enterprise Development Agency (SEDA). This should be the key vehicle for localised enterprise support. This should be complemented with a network of sector-specific business support service providers. The best way of achieving this should be explored by SEDA with the aim of ensuring that access to relevant support is broadened and localised. It is critical that municipalities develop strategic relationships with SEDA and provide the necessary information to their communities. It is equally critical that SEDA uses the municipalities and information services to extend the reach and range of its services and be perceived to be local and driven and locally owned.

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