

# **SMALL MEDIUM, AND MICRO ENTERPRISE AND LOCAL ECONOMIC-BASE RESTRUCTURING – A SOUTH AFRICAN LOCAL GOVERNMENT PERSPECTIVE**

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## **ABSTRACT**

**S**mall, Medium and Micro Enterprises (SMMEs) worldwide are seen as the cornerstones of national economies. In South Africa they acquire government support as a means of restructuring the national economy and to reduce poverty. In local government, SMMEs are an integral part of local economic development strategies to reduce persistent spatial inequalities that are most obvious when comparing towns with townships. If SMME development could be driven by local municipalities, spatial inequalities would be reduced and the pace of local economic-base restructuring increased. Sadly, municipalities fail to take advantage of their intergovernmental relations roles and as a result rely on SMME development support interventions from national and provincial spheres of government. SMMEs have the potential to reduce unemployment, generate income, create assets, contribute to skills development, reduce the rate of crime and (often violent) service delivery protests, and attract investments in local municipalities. They thus have the potential to contribute to the local economic-base restructuring of South African local government.

## **INTRODUCTION**

The support that the South African government provides for small, medium and micro enterprises (SMMEs) is widely acknowledged as the country's effort towards economic restructuring and poverty alleviation. This acknowledgement results from governments' political and legislative commitment, through policy and strategy, to ensure that SMME development is viable. SMME development in local government typifies part of a local economic development (LED) strategy that aims to, among other priorities; achieve the local government's constitutional mandate to promote economic development. This article asserts that SMME development plays a vital role in South Africa's economic development – particularly in the restructuring of the economic-base of local municipalities.

Since municipalities are entities of local government, any restructuring effort

undertaken in respect of them will affect the character of local government in its entirety. A qualitative research method that is premised on a comparative analysis of SMME development and spatial features in towns and townships are used as the basis for the conclusions arrived at in the article. This article proposes an SMME development intervention to restructure and consolidate the economic-base of townships, in particular to transform the South African local government. Despite referring to local government in general, the scope of this article is limited to category B (local municipalities).. It seeks to influence SMME policy interventions to foster local economic-base restructuring, without which South Africa's local government transformation is unattainable. This article is premised on a public administration view, which asserts that support for SMMEs and economic restructuring are public services in which government plays a critical role.

## **CONTEXT AND SYNERGY IN ECONOMIC RESTRUCTURING**

South Africa, according to the Centre for Public Service Innovation (CPSI, 2005:3), is a lower-middle income country with a well-developed urban economy and a less-developed economy outside of the urban centres. Its society is stratified along four major lines of inequality, namely class, gender, race and space. Spatial inequality is a central concern of South Africa's local government and appears to increase with economic growth (Kanbur & Venables, 2005:2). In order to lessen the impact of a growing economy that does not equally cater for the needs of all its citizens, the South African government has, through legislation and other interventions, intensified efforts to mitigate the impact of spatial inequalities on local governance. The implementation of LED, which, among other interventions, necessitates support of SMMEs, is an intervention whose potential remains unexplored.

The spatial inequalities are a basis of (often violent) service delivery protests, which are seen by protestors in townships as a medium through which to voice dissatisfactions (Roux & Nyamukachi, 2005:689; Venter, 2005; Mbiza & Prince, 2009; Kelder, 2009). Though the structure of local government changed post-local government elections in 2000, spatial inequalities between towns and townships persist. The SMME sector, which has had major LED successes internationally, is, according to Johnston, McCarthy, Schlemmer and Bernstein (2004:5), performing poorly in South Africa, when compared with countries in the same income category, namely Chile, Thailand and Mexico. South Africa establishes, sustains and grows fewer SMMEs. SMMEs across townships are classified as survivalist in nature and are exposed to severe challenges that hamper their growth potential, while the SMME sector of towns is well established as a result an investment-appelling environment in which they operate; that nurtures and increases their growth potential.

Debates and research on economic restructuring in South Africa is confined to

the national (Luiz, 1996:137; Nattras, 1994:519), and metropolitan municipalities agenda (Rogerson 2009:113) for economic restructuring and fails to recognise the augmenting role that local economic-bases restructuring adds to achieving national economic restructuring efforts. This limitation fails to present a holistic picture of what national economies comprise of and which factors cause them to change. In fact, this limitation undercuts the sovereignty of South African local government, which is provided for in the Constitution of the Republic of South Africa.. National economic growth, or the decline thereof, is dependent on local economic performance, and one way of restructuring a national economy is to invest in restructuring local economic bases. This interdependence makes local economies even more critical and forms the basis of the conceptualisation of national economic restructuring. National and local economies thus coexist and cannot be separated.

## **SMALL, MEDIUM AND MICRO ENTERPRISES IN SOUTH AFRICA: A CONCEPTUAL ANALYSIS**

SMMEs are interpreted differently in various countries because they respond to diverse national and local government challenges and circumstances. From the South African legislative perspective, notably the National Small Business Act 102 of 1996, SMMEs are categorised into five stages of development: (1) survivalist, (2) micro, (3) very small, (4) small and (5) medium-sized enterprises. Survivalist enterprises operate in the informal economy, are undertaken by unemployed persons whose primary objective is to survive economically (Turner, Varghese & Walker, 2008:8). Little capital is invested in survivalist enterprises and therefore they do not generate as much as necessary income and assets, the owners possess inappropriate business skills and training to run the business, and the opportunities for growing the business are limited.

Micro enterprises employ about five employees and like survivalist enterprises, they operate informally, owners do not have skills to run a business, are unlicensed and as a result do not comply with legislation. Unlike survivalist enterprises, their turnover is the VAT registration level of R300 000 per annum, and they have the potential to make the transition to a viable formal small business. Very small enterprises are part of the formal economy; they employ less than ten employees, who are often professionals that are able to make use of the appropriate technology. Small enterprises are much established as compared to very small enterprises as they are registered entities that operate in fixed business premises, are organised into complex organisational structures of, at most, 100 employees. Lastly, medium enterprises are owner-managed, comply with the law and like small enterprises, are organised into complex structures of up to 200 employees that perform their duties in fixed business premises. The development and support of these SMMEs are seen as ingredients to the success of efforts to restructure the local economic-

base of South African local government and to reduce spatial inequalities in townships. This article takes the position that local economic growth is driven by SMME development. Geographical areas where SMMEs are concentrated are economically productive and generate higher local incomes than those with fewer SMMEs. SMMEs play a significant role in achieving the goal of an LED strategy, whose ideal implementation outcome is to demystify new local economic growth opportunities.

## **SUPPORT FOR SMALL, MEDIUM AND MICRO ENTERPRISES DEVELOPMENT**

An abundance of research about support for SMMEs in South Africa accentuates on the roles institutions such as the Industrial Development Corporation (IDC), Department of Trade and Industry (DTI) and their subsidiaries play in supporting SMMEs and have thus neglected the political power, from which government derives its mandate and the facilitative role that government itself plays in supporting SMME. These institutions are not self-mandatory; but rather established through legislation, which empowers them to fill existing SMME development gaps. A review of SMME literature suggests that a large amount of support is sourced from government, predominantly as a result of its regulative and facilitative roles. However, the private sector, through its increasing role in public-private partnerships (PPP) is becoming significant. Support for SMME development in South Africa is discernible in four main reinforcing types: (1) political, (2) legislative, policy and government strategy, (3) institutional infrastructure and through (4) funding and non-financial support mechanisms.

## **POLITICAL SUPPORT FOR SMALL, MEDIUM AND MICRO ENTERPRISES DEVELOPMENT**

Economic restructuring in South Africa is seen as a component of transformation that has a political dimension. The ANC's commitment to economic restructuring is discernible post-1994, the period after which it assumed office as a governing party. This period had been characterised by a number of restructuring initiatives, notably of local government transformation to deliver on its economic development mandate to cater for diverse economic needs, including women, black people and people with disabilities whom previously were marginalised from participating in economic activities. As a result there is significant political support for SMMEs, which is articulated by numerous conference resolutions that the ANC has passed over time. The most notable being its 50<sup>th</sup> national conference, held in Mafikeng during 16-20 December 1997 and its 52<sup>nd</sup> national conference held in Polokwane in December 2007. At these conferences, the ANC resolved that there is a need to continuously review SMME strategy in order to enhance its impact on society. The ANC Youth League's support for SMMEs, especially through its National Youth

Development Agency (NYDA), is also noteworthy. SMME development, as seen by the ANC, is crucial for economic development and job creation. In his 2006 State of the Nation Address, the former President of the Republic of South Africa, Thabo Mbeki, emphasised the need for cooperation between large enterprises, government and development partners to ensure that the benefits of economic growth filter down to the lower end of the dual economy. The current President Jacob Zuma, while briefing the media on 25 October 2010, justified the Economic Growth Path strategy as part of the response to the needs of SMMEs in South Africa (Zuma 2010). In actual fact, the need for supporting SMMEs surfaces in most speeches of political office bearers.

## **LEGISLATIVE, POLICY AND GOVERNMENT STRATEGY FOR SMALL, MEDIUM AND MICRO ENTERPRISES DEVELOPMENT**

Political support for SMMEs has set the tone for legislation, policy and strategy direction and has resulted in South Africa's legislation setting forth the national objectives for the SMME economy. Various pieces of legislation give evidence of the South African government's commitment to create a supportive environment within which SMMEs can prosper. These include the Constitution of the Republic of South Africa, White Paper on National Strategy for the Development and Promotion of Small Business in South Africa (1995); the National Small Business Act (102 of 1996); the Joint Initiative on Priority Skills Acquisition (JIPSA), which is an initiative aimed at developing priority skills identified in the Accelerate and Shared Growth Initiative for South Africa (AsgiSA) and benefiting priority SMME sectors; the Local Government Municipal Systems Act of 2000, which calls for the integration of developmental initiatives to reduce spatial inequalities (Geyer, 2006:2) between towns and townships; as well as policies and strategies – such as the much criticized Growth, Employment and Redistribution (GEAR) strategy of 1996 (Williams, 2000:178; Rogerson 1998:189). Among the noteworthy recently adopted strategies are the Economic Growth Path strategy (2010), which aims to create 5 million jobs and reduce inequality, poverty and unemployment from 25% to 15% in 2020 (Chabane, 2010) and Local Government Turnaround Strategy (LGTAS) published in November of 2009. Within the provincial sphere of government, the provincial Growth and Development Strategies (GDS) and provincial Spatial Development Frameworks (SDF), as well as provincial SMME desks that serve as information centres to SMMEs in each of the nine provinces, demonstrate the commitment of South African provincial government's support for SMMEs. Within the local sphere of government, the need to restructure structural local economic inequalities between towns and townships has led to the development of the Integrated Development Planning (IDP) approach with which municipalities are increasing expected to give attention to the impact of their decisions on the economic welfare of residents.

## **INSTITUTIONAL INFRASTRUCTURE SUPPORT FOR SMALL, MEDIUM AND MICRO ENTERPRISES DEVELOPMENT**

Institutional infrastructure support for SMME development has been articulated in legislative, policy and strategy pronouncements through the reconfiguration of public sector institutions' mandates to enable them to deliver on their new SMME mandate. A few examples of sector-specific national and provincial departments whose mandates were reviewed to enable them to deliver on SMME development include the Departments of Public Works (DPW), through its Expanded Public Works Programme (EPWP) (Maia 2006:16); Economic, Environmental Affairs and Tourism (DEAT); Provincial and Local Government (DPLG); and Roads, Transport and Agriculture. National and provincial sector departments offer support and resources that enhance sector-specific economic activities in municipalities. The Companies and Intellectual Property Registration Office (CIPRO), an institution established to develop and maintain a register of SMMEs in South Africa, supports the DTI in keeping abreast of the gradual development of SMMEs and their ownership. The National Development Agency (NDA), the Centre for Small Business Promotion (CSBP) in the Department of Trade and Industry (DTI), Ntsika Enterprise Promotion Agency, Khula, the Land and Agricultural Development Bank of South Africa and the Industrial Development Corporation (IDC) (Biekpe 2006:1) all play a critical role as development financing institutions (DFIs) for SMME development countrywide. In addition to support sourced from national departments, government agencies and provincially based economic development corporations (i.e., Invest North West, Limpopo Economic Development Corporation, Northern Cape Economic Development Agency, Mpumalanga Economic Development Agency and Free State Development Corporation) also provide resources and support for SMME development. The primary focus of these corporations is to promote investment, project facilitation and to assist local businesses within their provinces to diversify and to become exporters of goods and services; they also improve competitiveness and assist exporters to access new international markets. Invest North West; for example, is in the process of developing a trade competitive strategy for the North West province, which will be aligned with the national trade strategy. Invest North West also supports multisectoral trade, mainly export growth (Malefane, 2011:12).

The period following the December 2000 local government elections, which saw the restructuring of local government to deliver on its LED mandate, further expresses government's support for SMMEs. Not only was the institutional support expressed by the restructuring of mandates, but it was also evident in the formalisation of partnership agreements between institutions, notably ventures in which municipalities played a crucial role in LED indabas in district and local municipalities (Africa, 2008:1). These include LED capacity-building interventions in partnership with the Development Bank of Southern Africa's (DBSA) Vulindlela Academy, the establishment of LED agencies (LEDAs) (Malefane, 2011:1) – through

the advice and financial support from the IDC – and participating in LED conferences hosted by academic and research institutions (Biekpe, 2006:1). These are primary partnership examples through which commitment to SMME development has been formalised. The participation of municipalities in public–private partnerships to deliver services is the most outstanding example of the potential of SMMEs to restructure the economic base of municipalities.

## **FUNDING AND NON-FINANCIAL SUPPORT MECHANISMS**

Non-financial support, which has been expressed through the control of inflation, reduction of tariffs and exchange controls, offering of tax incentives and investment in economic infrastructure, also demonstrates governments' support for SMME development. The government's supportive role, through funding and non-financial mechanisms, is contained in mandates of DFIs, such as the **Khula Financial Enterprise Ltd, which established an R80 million fund in 2005 to provide funding opportunities (in the form of credit) to SMMEs.** In addition to financial support, Khula provides non-financial support through mentorship and advisory services relating to enterprise bookkeeping, human resources, legal matters and other aspects of managing a business (Agupusi, 2007:6). Some of the widely acknowledged DFIs for SMMEs include the Industrial Development Corporation (IDC), through its Small Enterprise Development Agency (SEDA), and the National Empowerment Corporation (NEP) of South Africa. Ntsika, which implements the national SMME strategy, provides non-financial support to SMMEs via a range of programmes that are accessible through a network of retail service providers classified as (1) local business service centres (LBSCs) – for assistance with business administration and general information; (2) tender advice centres (TACs) – to provide assistance and training to SMMEs on government tendering processes and information about current tenders; and (3) manufacturing advice centres (MACs), which provide industry-specific assessments and link SMMEs with highly specialised service providers (Berry, Von Blottnitz, Cassim, Kesper, Rajaratnam & Van Seventer, 2002:36).

In addition to non-financial support, South African SMMEs have access to credit from commercial banks (Turner et al, 2002:22). However, access to such credit tends to be determined by whether SMMEs meet terms and conditions, usually the submission of business plans, a guarantee (funding source against which the credit amount can be insured) and cash flow projection statements for more than two to three years. The requirements differ among commercial banks and according to the amounts of credit required by SMMEs. Further, Turner et al (2002:22) claim that credit granting tends to be in favour of SMMEs in the formal, rather than the informal, sector, since informal sector SMMEs do not usually meet credit requirements. Access to credit for SMMEs in the informal survivalist sector is made almost impossible by the recent credit legislation, high interest rates and bank

charges. In terms of the quarterly results of surveys commissioned by Africagrowth Institute for the period covering all four quarters of 2010 and the first quarter of 2011, government regulations and taxes and access to bank credit were listed as growth limiting factors by South African SMME owners.

## **SOUTH AFRICAN LOCAL GOVERNMENT**

Because the focus of this article is on local government and its role in the development of and support for SMMEs in achieving local economic-base restructuring, it is important to explain the structure of the South African government in order to gain insight about the autonomy of local government. The focus on local government, as key to economic restructuring, is in line with international developments. Since all economic activities take place within local government (cities, towns and townships), this focus is logical. In terms of the Constitution of the Republic of South Africa government comprises three spheres (national, provincial and local), which are each distinct, yet interdependent and interrelated. Local government exists in its own right (autonomous) and is divided into municipalities, which fall into three broad categories (A, B and C). Category A encompasses metropolitan municipalities. District municipalities (category C) are the main divisions of provinces and are subdivided into local municipalities (category B). One of the primary responsibilities assigned to South African municipalities is to reduce economic vulnerability, which is accomplished as part of a holistic LED strategy of the municipality. A priority of such a strategy is to adopt interventions that encourage the development of and support for new SMMEs.

Despite the superficial legislative classification of South African local government into metropolitan, district and local municipalities, major components of any further classification are often omitted. However, these components are necessary for describing local government's constructs, its challenges, policy direction and the experiences of residents in local municipalities. Local municipalities can be divided into towns and townships, consisting of distinct development features. Colonial towns, hereinafter referred to as 'towns', were previously 'white suburbs', which are better understood as economic hubs where mainstream economic activities take place. They are smaller than metropolitan areas and differ considerably from townships in terms of their economic character. They were planned to accommodate commercial and public facilities and contain a mixture of decentralised commercial centres and suburbs, industrial areas and upper- and middle-class residential neighbourhoods. Consistent with apartheid legislation, towns are places where significant public and private sector investment occurs (Madell, 2006:4). They have well-established SMMEs, which have benefited from government support over a period of decades. Despite the level of development of SMMEs in towns, the majority of public sector institutions are located in towns and therefore add to the towns' tax and economic base and

overall level of development. Towns are safer than townships and they constitute complex infrastructural networks and promote a favourable business climate, all of which tends to appeal to investors. Historically, black people were not permitted to reside in towns; if they did, they were subjected to forced removals and relocated to townships (Madell, 2006:4).

In contrast, townships in **South Africa** are underdeveloped urban areas, which, from the late 19<sup>th</sup> century until the end of **apartheid**, were reserved for non-whites (black Africans, **coloureds** and **Indians**). As noted by the South African Cities Network (SACN, 2009:4) and Williams (2000:167), townships are built on the periphery (some distance away) of colonial towns and constitute elements of racially engineered town planning legislation enforced through the Group Areas Act 41 of 1950. In terms of the Land Survey Act 8 of 1997, townships are combined with public places and are used mainly for residential, industrial, business or similar purposes, and include large **informal settlements** nearby. Towns will have at least one township associated with them. Some old townships have grown rapidly since 1994, with, for instance, wealthy and middle-income areas developing. Although apartheid has been abolished, large numbers of South Africans still reside in townships. Township livelihoods are often reliant on towns for both market and remittance.

## **THE SPATIAL FEATURE OF DEVELOPMENT AND SMALL, MEDIUM AND MICRO ENTERPRISES GROWTH IN LOCAL GOVERNMENT**

Research on local economic-base restructuring evokes questions about the composition and growth of local SMMEs, where they are concentrated, the overriding reasons for the choice of such location, how the spatial feature (of a local municipality) impacts (positively or negatively) on the local economy, and how such impact varies over different parts of a local municipality (towns versus townships), as well as over local government in general. Responses to these questions are necessary because they provide a basis for identifying economic gaps. The responses also inform the restructuring process in terms of the focus points that require attention. The spatial feature of a place (local municipality) has implications (either positive or negative) for the growth potential of SMMEs. Readily accessible supportive infrastructure creates a climate in which SMMEs are able to flourish, thus increasing opportunities and innovation, accumulation of assets and good future prospects; the reverse situation limits SMME growth, opportunities and innovation. The most obvious consequence of a weak SMME support system is that SMME owners (in local municipalities) will do whatever they have to do to survive, regardless of whether the spatial feature of a municipality reinforces growth or not. Numerous reputable studies comparing the spatial feature of development between South African towns and townships – the results of which have been widely

accepted as a means to influence local government policy direction in South Africa – have been commissioned by the South African Cities Network (SACN), Statistics South Africa, the Department of Trade and Industry (DTI) and the Africagrowth Institute. Apart from studies conducted by these institutions, however, individual research by, among others, Ligthelm, Madell, Naudé & Bloch and Rogerson have contributed immensely to the wealth of knowledge regarding the spatial feature of development and its impact on South African local government.

Despite such contribution being acknowledged, the need still exist to, from their findings, pinpoint areas where the impact of the spatial feature of a municipality is negative, where severe support systems backlogs exist, and how such impact varies over the different parts of a local municipality (between towns and townships). Their findings tend to mask how the spatial feature affects the growth of SMMEs in towns versus townships, especially against the backdrop of concomitant service delivery protests, which often occur in townships rather than towns. The spatial feature of South Africa's local government is consistent with the legacy of apartheid, with the impact spreading unequally between towns and townships. The history of SMMEs in South Africa dates back to apartheid, the period during which black ownership of SMMEs in townships was prohibited and in which black entrepreneurs faced prosecution for engaging in SMME activities (DTI, 2008:26). Even though the acronym SMME was not used back then, illegal SMME owners in townships were regarded as being self-employed. In contrast, white entrepreneurs in towns during this period were – through legislation and other local authority ordinances – encouraged to participate freely in any form of SMME activity without facing prosecution. This situation has resulted in formal SMMEs – which are mainly owned by white entrepreneurs – being largely concentrated in towns, while emerging SMMEs – which are largely unlicensed – are owned by entrepreneurs in townships. The largest SMME sector in townships is informal and is used by the unemployed as a means to provide for basic needs. This outlook is consistent with the national economic state in which first and second economies are identified. Despite remarks about the two economies emerging from national concerns, they are reflected in local government, especially between towns and townships. The first economy consists of well-established, licensed, large and complex SMMEs, which are predominantly concentrated in towns and owned by white entrepreneurs; the second economy, normally comprising informal SMMEs, is disconnected from the mainstream economy and faces structural barriers that impact negatively on SMMEs' growth potential (DTI, 2008:23). The second economy is defined as the space within which SMMEs owned by the marginalised operates; government SMME support initiatives have had little value for this economy. During the period 1994–2003, the DTI's funding for SMMEs inevitably favoured established SMMEs (often white-owned), rather than emerging SMMEs in the second economy. This situation has not only had a negative effect on the growth of SMME in townships, but on economic development in general. The spatial feature of South Africa's local

government consists of multiple interrelated disadvantages that restrain economic growth in townships and promote it in towns. Although apartheid has been abolished, its abolishment has had little impact on unleashing the potential of the SMME economy in townships.

SMME development in South Africa is generally deficient and, as noted by the majority of authors, the country establishes, sustains and grows relatively few SMMEs. As noted in the Department of Trade and Industry's Annual Review of Small Business in South Africa 2005–2007 (2008:22), South Africa's SMMEs are less dynamic than those in other countries; the majority remain in the emerging and small enterprise phases; many face liquidation; the majority are registered but are inactive; and they frequently shift their business focus within the first three years of existence. Given South Africa's history of apartheid, which meant the exclusion of blacks as potential SMME owners from proper education and access to property and/or financial resources, the extent to which their SMMEs perform is inferior when compared with those owned by their white counterparts in towns. As a result of their general lack of skills to manage, retain and grow a business, black people's SMMEs generate incomes that are far below the poverty line, little capital is invested in the business and, therefore, there is less ownership of assets. Most SMMEs owned by blacks in townships have little institutional support from government, since most DFIs are located either within national or provincial spheres of government. This location renders them inaccessible to a large majority of SMME owners in local municipalities, mainly as a result of restrictions on the informal sector and their location far from the DFIs. This corroborates evidence that SMME performance is less than satisfactory.

Although most township planning made provision for business centres prior to 1994, these were never developed, which was a deliberate apartheid strategy to ensure that public and private investment occurred in towns. Townships are located a considerable distance from main, and more particularly, national roads (Williams, 2000:167). This peripheral location of townships and their limited transport links to towns is the worst aspect of spatial exclusion (SACN, 2009:5). Although in some cases townships have expanded to such an extent that they are no longer at the periphery, spatial inequalities persist. Townships largely contain middle- and lower-income areas, with only a few middle-income households; most township households consist of poor and unemployed people. Income disparities between townships and towns are high and the benefits of economic growth for township households are far below expectations. Major (19%) reductions in the income of townships were experienced from 1995–2000, while during the same period the income of white households increased by 15% (Madell, 2006:1) – a situation that appears to exacerbate income inequalities between towns and townships.

Other dominant spatial features in terms of which townships are at a disadvantage when compared with towns include township households' lack of assets, such as quality housing, economic and social infrastructure networks (e.g.

electricity), and skills (SACN, 2003:63). Townships are also characterised by their lack of public services (health, education, recreation and development), inefficient land use, underinvestment in transport, infrastructure and telecommunications, as well as segmented labour and consumption markets, which create artificial internal barriers to trade (Naudé & Krugell, 2002: 6; Bloch 1999:1). Crime tends to be higher in townships than in towns and the crime patterns are often related to poverty and the inability of households to secure an income. This is consistent with Naudé and Krugell's (2003:165) findings on the relationship between criminal activity and geographical isolation. The researchers hypothesise that crime often increases with increasing distance from urban centres, and Demombynes and Özler (2002:3) assert that local inequality appears to be strongly correlated with both property crime and violent crime.

South African townships share similar spatial development features; the differences between them depend on the severity of the impact of the spatial development feature and how residents take advantage of opportunities available to them. These spatial features have varying degrees of impact on both the potential growth of SMMEs and on the local economic base of local municipalities and local government in general, a matter that caused the ANC-led government, immediately after assuming office, to initiate measures to support SMME development.

## **THE IMPLICATIONS OF THE SPATIAL FEATURE OF LOCAL MUNICIPALITIES FOR SMALL, MEDIUM AND MICRO ENTERPRISES GROWTH AND LOCAL ECONOMIC-BASE RESTRUCTURING**

An understanding of the historical developments around which SMMEs evolved, the current support systems that are available to them and the spatial feature of development in South Africa's local municipalities – which either reinforces or restricts the potential growth of SMMEs – is helpful in projecting whether SMME growth is realisable or not. Such an understanding is also helpful in creating a climate within which SMME development becomes possible. Local government interventions that seek to restructure their local economic base – especially in a case where the implications of the spatial feature of development and SMME support systems are not evenly spread – have to be target-specific in order to unlock SMME growth and development. The spatial feature of South African local municipalities is consistent with the legacy of apartheid. An understanding of the implications of the growth potential of SMMEs is a crucial starting point for any restructuring efforts. Several implications of South Africa's historical developments, centralised SMME support systems and the overall spatial feature of local municipalities have been identified for analysis. The implications are that not only do the spatial features impact negatively on the growth potential of SMMEs in townships and local municipalities, but they also represent a delay in the overall rate at which local

government transformation can be achieved in South Africa. Most implications identified in this article appear to be related to the historical developments that resulted in disintegrated town and township markets, and which, by their nature, represent a vicious cycle in which multiple disadvantages have a compounding effect that further intensifies spatial inequalities between towns and townships.

The foregoing discussion paints a bleak picture of an economic relationship of dependence between towns and townships. SMMEs concentrated in towns are dominant in this economic relationship, and this very dominance serves to undermine the potential growth of SMMEs in townships. In fact, their dominance intensifies what Sen and Ali (2005:2) refer to as further developing townships' [SMME] 'underdevelopment'. The patterns of SMME development differ: those SMMEs that are concentrated in towns are formal, while those in the townships are informal. This is the result of the historical advantage in which white-owned SMMEs benefited from government support, whereas those in townships did not. And particularly in the absence of any integration between the formal and informal SMMEs, the potential growth of SMMEs in townships is limited. In such a case, informal SMMEs tend to market their goods and services in their own impoverished townships. This limits their growth potential and generates a relatively small tax base, which will have no effect on restructuring their economic base. As a result, spatial inequalities between towns and townships will be intensified. SMMEs in the formal sector in towns have better prospects for growth and, therefore, also for creating jobs, accumulating assets and a skills base in, for example, the use of technology. This, in turn, has a direct influence on their competitiveness, productivity, profit margin and overall business confidence and investment – all of which makes towns ideal investment locations. The above-mentioned factors represent key success factors that render towns ideal for SMME location and investment – a situation which encourages the further growth of towns at the expense of townships.

Despite the implications of the disintegration of town and township markets, SMME support systems appear to be inadequate in catering for the needs of SMMEs in townships. As noted earlier, SMME support systems administered through appropriate political influence, legislation, policy and strategy – as well as by means of institutional infrastructure support, which appears to be driven mostly by national and provincial spheres of government and not delegated to local government institutions – might be inaccessible to a large number of SMMEs in townships, or at least would have a cost element requiring township SMME owners to cover the costs associated with travelling. Not only are township SMMEs physically inaccessible because of their location, but they are informal in nature (not registered business entities) and lack record keeping in the form of audited statements, which would further disadvantage them in terms of accessing the required funding.

The probability of SMME growth is far greater when there are reinforcing social and economic infrastructure networks, for example reliable electricity, public

education and health facilities, transport infrastructure and telecommunications networks. From a discussion of the spatial feature of development in local municipalities, it is clear that townships experience infrastructure backlogs and are much more underdeveloped than towns. The implication of poor and unreliable infrastructure networks and poor levels of development for townships is that most investors, if faced with choosing a location, would obviously choose to locate their SMME in a town, rather than a township. This has a negative impact on the SMME concentration in townships – both in terms of income generation and the creation of a tax base – and it reduces the likelihood of an effective local economic-base restructuring of townships. In order to create an environment in which townships are seen as favorable SMME locations, infrastructure development is crucial.

The spatial feature of development in local municipalities identifies crime and service delivery protests as being more prevalent in townships than in towns. The incidence of crime in townships carries a high cost in that it tends to reduce investment confidence and exacerbate migration patterns, causing high-income earners to move away from townships. Moreover, violent service delivery protests, which are more common in townships, destroy local assets and reinforce a climate that is unfavourable for SMME development and attracting new business generally. All these scenarios merely intensify the spatial inequality between towns and townships. Not only does crime impact negatively on townships in terms of social stability, but it has serious economic consequences, since it threatens the very survivalist enterprises (for example township tourism) that the South African provincial governments are attempting to boost. It thus weakens already struggling SMMEs and traps them in a situation in which their growth potential cannot be realised.

Unemployed township job seekers lack the advantage of being in close proximity to employment opportunities provided by formal SMMEs in towns. Commuting between work and home is time-consuming and represents a major disinvestment by township residents from their fragile economies. This disinvestment is consistent with Kim's (2008:11) assertion that spatial inequalities contribute to an increase in income inequality (since it has cost implications) and the inability to integrate capital markets. An intensification of these negative implications has prompted several waves of national, provincial and local government policy of varying degrees, supplemented by an increasing variety of township regeneration efforts, which have all been undertaken in metropolitan municipalities in South Africa, while local municipalities have largely been neglected. Perhaps the time is right to cascade such efforts down to the townships in local municipalities, especially to counteract the service delivery protests that appear to be a daily occurrence in townships. An intervention in which SMME development is treated as an essential ingredient, and which would lessen the impact of the negative implications described above, would play a critical role and have greater potential for restructuring the economic base of South African local municipalities.

## **THE POTENTIAL OF SMALL, MEDIUM AND MICRO ENTERPRISES FOR LOCAL ECONOMIC-BASE RESTRUCTURING**

The discussion of the spatial feature of development in local municipalities and the implications of the spatial feature for SMME development and local economic-base restructuring not only highlights the urgency of finding a remedy, but also identifies institutions that could make valuable contributions and measures that must be taken to reduce these spatial inequalities, especially in townships, where the situation is deteriorating rapidly. These measures are basically encapsulated in the need for local economic-base restructuring that is driven by local municipalities themselves and in which support for SMMEs, especially in townships, is central. Despite emphasising the development of interventions for which support for SMMEs is central, the author acknowledges that a total restructuring of the local economic base of townships (and that of local municipalities) cannot be achieved through SMME support and development alone; a set of overarching interventions is necessary. However, according to the 2011 SMME estimates for South Africa (CDE 2011), the existence of 2.5 million SMMEs – 91% of which are formal business entities that contribute around 52–57% to the GDP and 61% to employment – clearly proves the contribution that SMMEs make in reducing spatial inequalities and, therefore, in restructuring the current economic base of South African local municipalities.

Although an analysis of the spatial feature of development has located the implications of spatial inequalities in local municipalities (which severely affect townships), a discussion of the SMME support development systems, through which local economic-base restructuring can be achieved effectively, proves that the role of local municipalities is actually negligible: they fail to take advantage of their intergovernmental relations role and, as a result, rely on support systems tendered by national and provincial spheres of government; this dependency has resulted in their being less effective in reducing spatial inequalities in their municipal jurisdictions. Perhaps creating an environment favourable for SMME development can be realised if local municipalities ensure that resources and support infrastructure tendered by national and provincial spheres of government are implemented by the local municipalities themselves. This could have a greater impact, since local municipalities would be able to develop targeted interventions that identify vulnerable areas where assistance is required, and they would be able to distribute resources equitably between towns and townships. Through collaborations between local municipalities and institutions that provide SMME support systems, such as the DFIs (which also provide non-financial support) and national and provincial government departments, local municipalities have an opportunity to make a greater impact. SMMEs worldwide are recognised as a cornerstone of national economies and the means by which local economies can thrive. They are a critical ingredient of a local economy and strategy, through

which a local economic base can be built or destroyed. Policies and initiatives, such as for broad-based black economic empowerment (BBBEE), local economic infrastructure development and maintenance, housing, health, education and the overall provision of basic infrastructure and services, which are supportive of SMME development and economic development in general, would need to be considered as vehicles through which anticipated economic development outcomes could be attained. It should be noted that no single department or sphere of government can effectively take responsibility for mitigating the impact of spatial inequalities; it will be more effective if all spheres of government in which municipalities play a leading role share this responsibility. Political institutions and leaders in municipalities determine the distribution of power and fiscal resources. This puts them in a much more strategic position to integrate SMME development into a local policy. Local municipalities, using their legislative power as autonomous bodies, can play a more effective role in guiding the development and growth of SMMEs in their municipal areas of jurisdiction. Such a local policy should be undertaken by local municipalities and should consider specific challenges that face SMME owners, most notably restricted access to a whole range of SMME support services, such as improvement of economic infrastructure and the provision of basic services. Cascading SMME support services – both financial and non-financial – to increase access would have even more impact on local economic-base restructuring of local municipalities. Naturally, after drafting such a policy, effective implementation would have to be secured.

Evidence shows that SMMEs in the formal sector, as compared with those in the informal sector, can create employment, generate income and contribute to investment (Berry, Von Blottnitz, Cassim, Kesper, Rajaratnam & Van Seventer, 2002:7, 26 & 29) in local municipalities. However, this ideal economic state requires that local infrastructure improvements and maintenance and the provision of basic services receive a considerable amount of attention, as part of creating a favourable climate for SMME development. In order to bridge funding gaps, alternative funding opportunities, such as the creation of alternative credit options for SMMEs in the informal sector, would also be helpful. Access to credit by SMMEs in the survivalist economy would improve the financial wealth and growth of these entrepreneurs; SMMEs would thus be able to contribute to the creation of jobs and the generation of income for both households and townships (in the form of a local tax base). This implies that municipalities have to make it possible for SMMEs in the informal sector economy to access alternative credit to that offered by commercial banks. This has to be seen as part of a local government strategy through which municipalities support SMMEs within their municipal jurisdictions. Partnerships with LEDAs, in which the role of provincial SMME desks are cascaded down to municipalities to facilitate credit, can play a critical role in ensuring financial wealth, accumulation of assets and increasing the growth potential of SMMEs in the survivalist economy. Such an intervention must focus on the needs

of survivalist enterprises in townships and should encourage the formalisation of survivalist enterprises in a gradual way, i.e., progression from very small, small or micro enterprises through to larger enterprises, by providing incentives for such growth. This should not be seen as a reversal of discriminatory practices, but should encourage joint ventures between SMME categories (formal and informal), thereby imparting skills and sharing the use of technology and resources among SMMEs, so that they are all connected.

Measures to ensure that employment opportunities created through these interventions target residents – especially the unemployed youth and women, who are often unable to participate in economic activities – must be undertaken. These interventions will be even more effective in reducing unemployment rates, income inequalities and crime, and will boost business confidence in local municipalities. These interventions are also likely to integrate markets, but they would have to be monitored constantly to ensure that they produce the desired effect. This assertion is based on the fact that the restructuring of the local economic base of municipalities must be seen as an element of the transformation of South African local government, in which the benefits of economic growth are shared equally. Therefore, among other aspects, the focus of such interventions must be to empower SMMEs in townships in various areas, such as business management skills, bookkeeping, how to access funding and all other key success factors of SMME development. Furthermore, such interventions should be customised to meet the growth needs of SMMEs in townships. In this way, the development of SMMEs in a survivalist economy will help to mitigate spatial inequalities.

## **CONCLUSION**

A qualitative research method founded on both experimental and comparative instruments, complemented by the researcher's extensive experience, was used to analyse spatial inequalities in South Africa's local municipalities, in particular between towns and townships. The article included a conceptual analysis whose aim was to contextualise the main concepts, the discussions of spatial feature of development and SMME growth in South Africa's local government; the rationale and need for local economic-base restructuring of local municipalities; and the impact of local government spatial inequalities on SMME development restructuring. SMME development that is driven by local municipalities has the potential to reduce unemployment, generate income, create assets, contribute to skills development, reduce the rate of crime and (often violent) service delivery protests and attract investment in local municipalities in general – but especially in townships. All of the above, in turn, have the potential to contribute to the local economic-base restructuring of South African local government. However, in order to achieve this state of affairs, municipalities, because of their proximity to local communities and their knowledge of local conditions, need to take the lead in

redirecting the support that they often receive from national and provincial spheres of government. Such actions would be extremely effective in helping to reduce the spatial inequalities that characterise their local economies.

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