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An Assessment of the Roles of Small and Medium Enterprises (SMEs) in the Local Economic Development (LED) in South Africa

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ABSTRACT Throughout the world, Small and Medium Enterprises (SMEs) play a crucial role in addressing the impediments of poverty, inequality and job creation in rural areas. They are an important source of employment, particularly for women, low skill workers and the youth. The purpose of this study was to assess the role of SMEs in local economic development in developing countries. Data was collected through self-administered questionnaires and the use of random sampling. Findings of this study suggest that SMEs play a vital role in local economic development in South Africa. SMEs contribute to employment creation, wealth creation, poverty alleviation and income generation. However, SMEs in developing countries face numerous impediments, namely, lack of finance, lack of business skills and lack of operating space. The support for SMEs by the local government, private sector and civil society should be enhanced in order to increase the contribution of SMEs to local economic development. The involvement of all sectors is also necessary in the establishment and sustenance of support for SMEs.

INTRODUCTION

The definition of Small and Medium Enterprises (SMEs) varies from one country to another, but the most commonly measure used to define an SME is a quantitative measure, such as the number of employees, enterprise size, annual turnover and total assets (Perera and Chand 2015). SMEs have historically been the main players in local economic activities, especially as large providers of employment and hence, a generator of primary or secondary sources of income for many households. SMEs are important engines for the development of rural economies and communities in many countries of the world (Ayanda and Laraba 2011). The development of SMEs becomes a necessary intervention to enhance the local economic development. Ehtesham (2011) argues that crucial to the process of overcoming poverty, inequality and unemployment in rural areas is the development of vibrant SMEs, as they play a crucial role in people's effort to meet basic needs and help marginalized groups, like female heads of households, disabled people and rural families. Zeng et al. (2010) point out that the development of SMEs is interrelated to local economic development. SMEs are an engine to address the challenges of poverty, inequality and job creation in rural areas. In Europe, more than ninety percent of businesses are SMEs and they contribute more than fifty-three percent to the employment sector (European Commission 2013). In sub-Saharan African countries, SMEs contribute ninety percent to the employment sector (United Nations Educational Scientific and Cultural Organization/ UNESCO 2012). Thus, the development and growth of rural SMEs has received attention from many governments around the world as a key tool for job creation, poverty alleviation, wealth creation, revenue generation and crime reduction. Therefore, this study was undertaken to assess the role of SMEs in the local economic development in South Africa.

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Literature Review

This section focuses on the definition of the key concepts, which are used in the study such as Small and Medium Enterprises (SMEs), Local Economic Development (LED) and the theoretical frameworks, which are Sustainable Livelihood Approach (SLA) and Basic Needs Approach (BNA), the reason for adapting this framework and empirical evidence of the role of Small and Medium Enterprises in Local Economic Development.

Conceptual Framework

This section discusses the key concepts such as Local Economic Development and Small and Medium Enterprises.

In order to promote economic development, it is increasingly being recognized that microeconomic measures at the local level are needed as well as macroeconomic measures at the national level. Macroeconomics is concerned with how the overall economy works. It studies employment, gross domestic product, and inflation. Microeconomics is concerned with how supply and demand interact in individual markets for goods and services. There are numerous definitions for Local Economic Development (LED). Different organizations and experts have provided different definitions. Roseland (2012) has defined Local Economic Development (LED) "as local people working together to achieve sustainable economic growth that brings economic benefits and quality of life improvements for all in that specific community". It is about partnership in the business sector, community interest groups, municipal governments, and Non-Governmental Organizations (NGO). Its purpose is to build the economic capacity of a local area to its economic future, with economic growth, employment creation and improvement of quality of life for all.

Local Economic Development is defined by Zikhali et al. (2014) as a process in which partnership between local governments, community-based groups and the private sector is established to manage existing resources to create jobs and stimulate the economy of a well-defined territory. It emphasizes local control, using the potential of human, institutional and physical resources. Local Economic Development initiatives mobilize actors, organizations and resources to develop new institutions and local systems through dialogue and strategic actions.

The purpose of Local Economic Development (LED) is to build the economic capacity of a local area to improve its economic future and the quality of life for all (Murphy 2013). It is a process wherein the public, businesses and non-governmental sector partner and work collectively to create better conditions for economic growth and employment generation. There is no precise and clear definition for SMEs. Various conceptual definitions have been provided by different organizations, academics and policymakers to suit their purposes and objectives (Hein 2010). Some of the criteria that have been used to define the sector are the number of employees and turnover of the enterprise, among others.

Govori (2013) defines SMEs as those enterprises with a maximum 250 employees, EUR 43 million total assets, and EUR 50 million total turnovers. In South Africa, SMEs are defined as any business with fewer than 200 employees, with an annual turnover of less than R5 million, and has capital assets of less than R2 million. Furthermore, it is stipulated that the owner is directly involved in the management of the business (Rantseli 2011).

SMEs are relying solely on personal resources or money, from families and friends during the start-up as well as during the growth phase of the business (Allen et al. 2012). With the fact that SMEs do not have enough security to provide banks in exchange for loans, this has restricted them from generating or creating more jobs as well as expanding businesses. SMEs engage in different activities such as transport, agriculture, forestry and construction, they tend to employ more of the disadvantaged economic groups such as women, handicaps and the youth, and they can have an important impact on the allocation of household income to meet family, education and health needs. Most of SMEs are focused on providing basic goods and services to low-income communities ranging from health and education to food, housing, transport, water, energy and basic manufactured products (Ellis and Darko 2013; Mohammed 2011). Most of SMEs in developing countries have fewer than 50 employees. For the purpose of this study, however, SMEs are considered as businesses with fewer than 50 employees.

Theoretical Framework

The theoretical framework for this study is the Sustainable Livelihood Approach (SLA) and Basic Needs Approach (BNA).

Sustainable Livelihood (SL) Approach

The Sustainable Livelihood Approach (SLA) identifies the main constraints and opportunities of the poor people's livelihoods. It is used in planning new development activities and assesses the contribution that existing activities have made to sustaining livelihoods (Huttunen 2012). De Haan (2012) defines livelihood as comprising the capabilities, assets (material and social resources) and activities required for a means of living. In this context, capabilities refer to a person or household's ability to cope with stress and shocks, and the ability to find and make use of livelihood opportunities. Assets refer to the basic material and social resources that people possess (Anthony 2013). Activities refer to the ways in which capabilities and assets are combined to achieve livelihood outcomes, and a livelihood is considered sustainable when it can cope with and recover from stresses and shocks, maintain or enhance its capabilities and assets, both now and in the future, while not undermining the natural resources base (De Haan 2012). The SLA comprises seven core principles. These principles are people centered, holistic, dynamic, and build on strengths, macro linkages, partnerships and sustainability.

SLA frameworks are structured around key principles, which are particularly relevant to SME development. Building on assets and strengths is a distinguishing feature of SLA and helps enhance the capability of SMEs. Building on strength rather than focusing on needs leads to more sustainable development and action, and reduces vulnerability and dependency. This framework analyzes what people do and what they have rather than on their problems or needs. SLA offers useful frameworks for developing SMEs and for identifying learning and training requirements for promoting livelihoods that are more sustainable (Tsoabisi 2012). This opportunity helps improve the local economic development through job creation. Promoting SMEs through the principles and frameworks of SLA helps identify opportunities for SMEs on LED. Applying livelihood approaches can assist SMEs to increase their contribution on LED to move local poor people from merely escaping poverty to helping them thrive. Promoting rural SMEs contributes to alleviation of poverty, job creation and improved living conditions, particularly for women and vulnerable groups through increased self and wage employment (Elizabeth 2011). The framework contributes to the identification of the challenges and constraints of SMEs development. It also improves SME competitiveness in order to boost the local economic development.

SLA identifies the interventions that poor people can pursue in their poverty reduction work. Interventions such as counseling programs, education, loans, training, advice, technology and any other activities improve the livelihood of SMEs to employ the growing workforce that can no longer be absorbed by the government or in large-scale industry (Rasheed 2015). This framework enables SMEs to pursue different activities and achieve their livelihood objectives. Using the SLA involves recognizing not just what assets a poor person lacks (financial, human, social, physical, and natural assets) but also what assets they have, and builds interventions based on both, their capacities and needs. Applying SLA to realize improved assets, reduced vulnerability and prosperity, requires that all relevant role players engage fully in the process. The cooperation between the government, non-governmental organizations (NGO) and the civil society ensures the sustainability of livelihood of SMEs. Policies, laws, procedures and the public and private institutions responsible for them also adapt to this framework in order to increase their contribution in LED (Boateng 2011). The SLA places people, particularly rural poor people, at the centre of a web of interrelated influences that affect how these people create a livelihood for themselves and their households. Close to the people at the centre of the framework are the resources and livelihood assets that they have access to and use. These can include natural resources, technologies, their skills, knowledge and capacity, access to education, sources of credit, or their networks of social support.

SLA identifies the constraints of SMEs. Business development services such as entrepreneurship training, management and planning advice and improved market information and access are needed to enhance the livelihood of SMEs as well as their families (Tsoabisi 2012). Assistance in making loans and advice on dealing with financing agencies is also essential for the development of SMEs to improve the socioeconomic growth. The skills development and financing allows enhancing the SMEs' capacities and leading to business growth, increases in personal income from owners and their families as well as community revitalization through job creation. The physical infrastructure, such as roads, water, electricity, telecommunications together with business skills training and education are vital both for the wellbeing of SMEs in general and also for enabling to increase in the contribution of the small and medium enterprises in local economic development.

Finally, SLA facilitates an understanding of the underlying causes of poverty by focusing on the variety of factors, at different levels, that directly or indirectly determine or constrain poor people's access to resources or assets of different kinds, and thus their livelihoods (Carney 1998). It is for this reason that this study adopts this approach despite the criticisms laid out against it.

Basic Needs Approach (BNA)

The Basic Needs Approach was introduced by the International Labor Organization (ILO) in 1976 in an attempt to focus particular attention on the specific needs of the poor in developing countries (Deneulin and Rakodi 2011). This approach is based on the bottom-up blue print model and it introduced two important ideas to rural development strategy. "The first idea is that there is a target group on whom rural development should focus, that is, the poor. The major aim is to place the poor rural people at the center of development. Secondly, there is the acknowledgement that poverty results from a series of causes, thereby necessitating that rural development involve the interaction of a large number of interrelated activities" (Glasson et al. 2013).

Lewis (1981) argues that BNA was noting that rural development efforts have been concentrating on issues like employment, income distribution and rural development for some time so that the approach is just simply a different label attached to the same product.

Empirical Evidence

SME is an important means of survival for many families within the various community areas. Studies have shown that SMEs in rural areas in the UK (particularly remote rural areas) have outperformed their urban counterparts in terms of employment growth (Keeble 1992). Behind each success of rural a SME there is usually some sort of institutional support. Hein (2010), in a study in Western Cape, South Africa highlights the important factors responsible for the rapid development of SMEs in the rural areas as the uniqueness of the products, the development of infrastructure, strong and integrated policy support from government as well as a well-developed marketing strategy.

A recent study conducted in Limpopo by Mbedzi (2011) revealed that most local governments have taken the responsibility of the development of SMEs. They were designing different programs and projects that would meet the needs of SMEs at different levels. SME support programs have featured prominently in the local government's strategies for poverty reduction, employment creation, income generation and accumulation of assets. Thus, a large number of small enterprises were successfully established within various community areas. A local government identifies SMEs as an integral part of solving local economic challenges such as unemployment, poverty and inequality in the local areas. SME also provides basic necessities to the mass of the rural and urban poor people.

Local economic development is now being linked increasingly to SMEs. SMEs stand as a vehicle to improve the quality of life for individuals, families and communities and to sustain a healthy economy and environment. SMEs contribute to increases in household incomes, diversify household income sources, and reduce household poverty and vulnerability levels. Research evidence by Hein (2010) further shows that rural SMEs have great potential and value in creating employment, achieving equitable income distribution, alleviating poverty, building a local technological base, promoting participation of vulnerable groups, providing training ground for entrepreneurial and managerial skills and providing opportunities for use of own capital resources.

A study conducted in Ireland by Hessels and Parker (2013) indicates that SMEs are the main players in local economic development. SMEs contribute to job creation and poverty alleviation in the local areas. Thus, local government engages in supporting SME development at local level through facilitating business planning, providing training and advisory services. In addition, local government is an important procurer of goods and services. SMEs are part of the intended beneficiaries of the existing programs. The ability of SMEs to realize their potential impact on the rural economy in terms of generating employment, poverty reduction and increasing income depends largely on the availability and provision of appropriate and cost-effective development services. Beer and Kearins (2004) have found that the local government was actively involved in SMEs development. Local governments have realized the development of SMEs to be a key tool for poverty reduction and employment creation in the rural areas among the youth, old people and the women. The local government has created a conducive environment through the provision of physical infrastructures such as roads, water, telecommunication and electricity for the operation of SMEs. Chacuamba (2011) points out that the role of SMEs has been recognized as having to do with addressing the challenges of poverty, inequality and job creation in the rural area. The sector is actually aware of the need to assist in the response to the jobs crisis at the local level. The SME sector is contributing mostly to job creation especially where formal employment is no longer in the position to absorb the job-seekers, for example, the retrenchments in the civil service and parastatal sectors have eroded the capacity of the public sector as a predominant employer. These retrench resort to other income-generating opportunities in the SME subsector.

Thus, local governments provide effective assistance to local SMEs development. A study carried out by Tsoabisi (2012) observes that the local government serves as a facilitator in supporting sustainable SMEs development by establishing guidelines for SMEs development as well as providing advice, information and analysis and support for SME policy implementation among others. SMEs contribute to the creation of wealth, employment, and income generation in rural areas. They also provide the economy with a continuous supply of ideas, skills and innovations necessary to promote competition and the efficient allocation of scarce resources.

According to Kim (2011), SMEs in Africa, especially in rural areas are facing numerous impediments, such as limited access to finance, insufficient access to market and lack of business skills. Furthermore, Kim (2011) argues that African local governments impose harsh regulations on local SME development. Kim provides an example of SMEs in Ethiopia, which complain that regulations are too tight. It is also difficult to obtain a license. Additionally, proof of premises and requirements for large amounts of capital and high qualifications stifle growth.

Research Objectives

The overall purpose of this research is to understand the role of SMEs as well as to determine the barriers faced by SMEs in Local Economic Development in developing countries. The research targeted SME owners in order to investigate the role of SMEs in Local Economic Development. It is anticipated that the study could provide practical solutions to the challenges facing SME owners.

METHODOLOGY

The study used the qualitative research design and survey research method of data collection. The study involved 50 SMEs in the Eastern Cape Province of South Africa. Data for the study was collected through self-administered questionnaires and the use of random sampling. Respondents in the survey were assured strict confidentiality in order to obtain the necessary information. Responsive questions such as the names and contact addresses of the respondents were removed from the questionnaire. The questionnaire consisted of structured questions, which made it easy for the respondents to indicate their views. The use of a five-point Likert scale enabled respondents to indicate their opinion on various roles of SMEs and factors of the business environment that impact socioeconomic, growth, and development of SMEs. The Likert scale is a scale in which respondents indicate their level of agreement with statements that express a favorable or unfavorable attitude towards a concept being measured, comprising of five categories (Cooper and Schindler 2003). Primarily, a five-point Likert scale questions consist of strongly disagree, disagree, neutral, agree, and strongly agree questions except for demographic questions. Data analysis included Statistical Package for Social Sciences (SPSS). The empirical research for the study was conducted in the main survey.

RESULTS

The results of this study confirmed that SMEs in South Africa have inadequate operating spaces, lack of business skills, poor access to market and lack of financial resources for expansion as some of the challenges confronting the operation of SME in South Africa. These and others are the main obstacles of SMEs in the bid to increase their contribution in the local economic development in a developing economy. Though the respondents highlighted a number of motivations and barriers, the study realized that not all variables established in other proceeding studies done elsewhere were relevant to the operation of SMEs. Majority of the respondents supported the assertion that their business played a significant role in reduction of poverty in the study areas. SMEs are an important tool for poverty reduction through their immediate contribution to employment, income generation and training. They offer goods and services to marginalized population groups. All respondents indicated their willingness to sell certain goods at reduced prices as one way of assisting poor people as their major objectives of establishing their businesses. By selling certain goods at a cheaper price to poor people one is able to reduce poverty in the area. Most of the respondents provide basic consumer products, such as food products, garments and furniture.

The low crime rate in this study indicates that SMEs in developing countries play a crucial role in creating sufficient job opportunities for a large number of people in the region. As a result, less people commit crime. This is supported by Ntuli (2000) who found that there is a positive correlation between low crime rates and local economic development.

In conclusion, it was also observed that some of the respondents highlighted that most of SMEs in developing countries play a crucial role in generating employment for the local poor people. They represent a large part of the local economy and they help increase employment opportunities, raise productivity and raise income as well as improve the living standard of employees. This is supported by Hein (2010) who found that rural SMEs are very important providers of employment opportunities and income for disadvantaged members of the workforce, particularly population groups who are unable to find employment in regular, modern and registered activities, including unskilled, elderly and handicapped persons, women and dwellers of depressed rural areas. SMEs represent a key vehicle for the achievement of local economic objectives of employment generation and poverty reduction. SMEs contribute to the enhancement of the standard of living of their employees and their dependents as well as those who are directly or indirectly associated with them.

DISCUSSION

The analysis of data is informed by the Sustainable Livelihoods theoretical framework and Basic Needs Approach. Data is interpreted and states the responses as below.

Characteristics of Sampled SMEs

In terms of demographic data, basic information about the respondents is obtained. It provides identification material about the respondents, such as age and gender.

In the sample of 50 respondents, 39 were males, representing seventy-eight percent, whereas females were 11 representing twenty-two percent. This result shows that men are more actively engaged in the entrepreneurial ventures than women in the survey area. In terms of the age distribution of the respondents, most of the respondents who participated were between 26 and 30 years old (53.3%), 26.70 percent were above 30 years old, 13.30 percent were between 21 and 25 years old and 6.7 percent were between 15 and 20 years old. In terms of the education qualifications, the result indicates that most people who participated held a certificate (53.3%), 26.7 percent of the respondents held a degree, those with a diploma were 13.3 percent and 6.7 percent of them held other qualifications. In terms of the duration of the business, majority (46.7%) of the respondents have been operating their businesses for less than 5 years. Approximately forty percent of the businesses have been in operation for between 5 and 10 years and 13.3 percent respondents' businesses have been operating for a period of more than 10 years. In terms of the type of business, the result shows that most people who participated owned the business of catering and accommodation at 33.3 percent, twenty percent owned a printing business, 13.3 percent owned construction businesses, and 6.7 percent owned agriculture, transport, sales and designs as well as foods and retail. In terms of the nature of business, the sample studied was dominated by sole proprietors (53%) followed by partnerships (35%) and family businesses (12%).

Impact of Local Economic Development on Sampled SMEs

This section discusses the role of SMEs in local economic development of South Africa. SMEs play a crucial role in local economic development of South Africa. They are an important source of employment generation, poverty reduction and revenue generation.

SMEs Contribution to Job Creation

With regards to employment opportunities, most of the business entities play a crucial role in the local economic development of South Africa. At least twenty percent of the respondents had employees between 2 and 10 people. Approximately 13.3 percent respondents employed 6 people and 6.7 percent respondents employed more than 10 people. The respondents also appointed workers by the hour to give work to more people. SMEs are an important source of employment, particularly for low-skilled workers, women, youth, disabled people and rural families who usually make the greatest proportion of the unemployed in an emerging economy (Martinez-Fernandez and Powell 2010; Gönenç et al. 2014). This is also in accordance with Tambunan (2011), who points out that rural SMEs play a crucial role in the generation of jobs, use of raw materials, meeting local market needs, income distribution and in social mobility. They also provide goods and services at affordable costs to local people. SMEs contribute significantly to the local economies by bringing growth and innovation to the community in which the business is established (ILO 2007). They are the key to a country's economic growth and their success can help reduce poverty, improve health of families and communities, raise literacy and educational levels, and empower women (UNIDO 2007).

SMEs also play a crucial role in reduction of crime. The respondents were asked to rate the crime level in the study area. The result shows that 93.3 percent of people who participated said the rate of crime is low and only 6.7 percent of participants said the crime is high. The high degree of unemployment and poverty in rural areas with their resultant high crime rate has become one of the most prominent issues of concern in South Africa today (Statistics of South Africa 2010). Thus, the development of rural SMEs is a means of employment creation, poverty alleviation and income generation. Subsequently, job creation by the SME sector serves to benefit the local economic development in remote areas and ensure a healthy balance of economic growth in rural areas. In post-apartheid South Africa, the promotion of SMEs in rural areas remains an important priority of the government of South Africa (Department of Trade and Industry/DTI 2005).

SMEs Contribution to Tax and Vat

A large number (66.7%) of respondents were not registered for Value Added Tax (VAT) and 33.3 percent were registered for VAT. Taxation plays a key role in revenue generation. SMEs in South Africa are potentially important taxpayers. Equitable development needs revenues. In particular, poverty alleviation in rural areas requires substantial public investment in health, education and infrastructure. This investment has to be financed and public revenues are one major source. SMEs help raise revenues required to finance the services demanded by the people and infrastructure (physical and social) that will enable them to escape poverty.

Impediments and Constraints of SMEs in the Local Economic Development in South Africa

This section discusses the obstacles and constraint of SMEs in South Africa as one of the developing countries in the world. The respondents faced numerous obstacles and constraints, including insufficient capital, poor access to market, lack of business skills as well as bureaucracy and regulations.

Access to Finance

Majority (65%) of the respondents indicated that lack of credit access places a heavy burden on their business. This is supported by Nieman (2006) who found that lack of access to finance is often a major handicap to the development of SMEs in rural areas. A substantial portion of the SME sector may not have the security required for collateral. Thus, majority of SMEs in rural areas rely on the owners' personal resources or loans from friends during the start-up, as well as during the growth phase of the business.

Respondents also indicated that rising transport and logistics costs, poor service delivery from local government, lack of operating space, high rent and poor access to market were the major constraints that they face in operating their business within South Africa.

Regulations and Rules

Twenty percent of the respondents indicated that bureaucracy and regulations as well as taxes are among the major hindrances to the development of SMEs. The degree and difficulty of tax legislation and subsequent paperwork is among the major handicaps in the development of SMEs in rural areas. Furthermore, Kim (2011) argues that there are many issues and constraints related to policy, regulatory, and governance environment at the local level. These include unnecessary procedures and regulations, red tape in business licensing and registration.

The degree and difficulty of tax legislation and subsequent paperwork, is among the major hindrances to the development of SMEs in rural areas. Tax implications have the ability to increase the costs of doing business and usually impose large costs on the society as a whole. The respondents indicate that the regulation is too tight in the study area and it is too difficult to obtain a license. Additionally, proof of premises and requirements for large amount of capital and high qualifications stifle growth. SMEs are also heavily taxed. This makes it difficult for SMEs to emerge from the rural areas.

Lack of Entrepreneurial Skills and Experience

The acquisition of relevant vocational, technical and business skills is the most important factor for the success of SMEs in rural areas. It is believed that the contribution of SMEs to the local economic development can be much higher if SMEs have better business skills. Approximately fifteen percent of the respondents indicated that lack of business skills, such as accounting, business planning, management skill, and financial knowledge are the major impediments faced in other to operate their businesses. Dirven (2011) who found that most of SMEs in rural areas lack business skills, particularly among the household, the young as well as the previous disadvantaged people, also mentions that better skills could be a way of increasing incomes in SMEs. Therefore, to enhance the role of SMEs in the local economic development, both government and private sectors should be committed for provision of effective entrepreneurial business skills and relevant training.

Improvements that Need to be Made

In South Africa, SMEs play an important role in addressing the challenges of crime rate, poverty, inequality and unemployment in rural areas. They are the key in achieving local economic development goals such as job creation and poverty alleviation (Department of Trade and Industry/DTI 2005). As the result shows, SMEs play a crucial role in local economic development of South Africa, as they contribute immensely to job creation, use of raw material, meeting local market needs, income distribution and social stability. SMEs also provide goods and services at affordable costs to local people. However, SMEs face numerous challenges and constraints, such as lack of finance, poor access to market, lack of effective support from the local government and lack of operating space. It is therefore very important that the government commit itself to ensuring that rural SMEs increase their contribution to employment creation, income distribution and poverty alleviation. Strategic approach to SME development in South Africa was adapted by the 1995 "White Paper on national strategy on the development and promotion of SME in South Africa". The paper sought to help in facilitating access to information and advice, facilitating access to finance, creating an enabling environment and facilitating access to affordable physical infrastructure. The White Paper further mandated the local government to create an enabling legal framework, facilitate access to information and advice, boost procurement for SMEs and improve access to finance and affordable physical infrastructure. Nel and Humphry (1999) argue that the local governments (commonly referred to as local authorities and municipalities) have a definite role to play in the promotion and growth of new enterprises and job creation through the creation of a physical and regulatory environment, conducive to the growth of SMEs and the development of entrepreneurs. Besides the role of local government, Micro Finance Institutions (MFI) also have a great impact on the development of rural SMEs. Micro finance has been defined as a development tool used to create opportunities for the economically active poor SME owners (Oni 2012). It is the provision of credit and other financial services to the low income group and SMEs entrepreneurs to enable them build sustainable SMEs. SMEs, according to Sakr (2013), are the key to job creation, income generation and poverty alleviation, and local governments must be considered the primary players in supporting and promoting SMEs through the creation of proper physical and regulatory environment, conducive to the growth of enterprises and the development of entrepreneurs. It is widely accepted that a conducive and enabling policy and regulatory environment is crucial to the growth and expansion of SMEs in rural areas. The Department of Trade and Industry (DTI) (2005) states that a SME has the potential to bring millions of people from the survivalist or lower level to the mainstream local economy. The development of SMEs can provide an opportunity to alleviate poverty by providing employment to those who have been unemployed. Atristain (2012) further argues that true economic transformation in a rural area is best demonstrated by the performance, behavior and efficiency of SMEs.

In fact, in order to enhance the role of SMEs in local economic development in any developing nation, SME owners' satisfaction must be considered as the most paramount issue to be addressed in order to overcome the majority of the impediments aforementioned, and all the stakeholders such as civil societies, the government and the private sector should provide adequate support for SMEs. The research findings showed that SMEs play a crucial role in local economic development of South Africa. SMEs contribute to job creation, poverty alleviation, to meet local market needs and income distribution.

CONCLUSION

This study has made an effort to make a contribution to the area of the role of Small and Medium Enterprises (SMEs) in the local economic development in developing countries and has shown findings and recommendations. The literature review presented various elements within the field of SME finance, market, business skills, market access, and operating space among others.

The main findings of this study showed that lack of finance, lack of business skills, poor market access, and lack of operating space are the major impediments faced by SMEs. These and others are the main challenges facing SMEs to increase their contribution in the local economic development in developing countries.

A good understanding of the role of SMEs in the local economic development as well as the impediments being experienced by the SMEs in South Africa has been clearly identified and discussed in details and recommendations have also been discussed.

RECOMMENDATIONS

This section focuses on recommendations to SMEs in developing countries on how the role of businesses performance can be improved effectively and efficiently in order to curb the environmental hindrances within and outside the business environment. Some of these recommendations and how it could be improved are directed or related to SMEs and the policymakers that is, government and quasi-government agencies. These are discussed as follows.

SMEs are regarded as the vehicle to address the obstacles of job creation, poverty and inequality in the rural areas of South Africa. They are playing a critical role in absorbing labor, penetrating new markets and expanding economies in creative and innovative ways. The local government should increase its efforts in creating a legal environment, which provides SMEs the opportunity to flourish and blossom. An environment should attempt to provide opportunities and sufficiently attract investors as well as entrepreneurs including school leavers to be motivated enough to opt to be employers instead of looking for paid jobs.

The involvement of all government agencies is necessary in the establishment and sustained support of small and medium enterprises. This ensures that all polices, strategies and support programs are developed to support small and medium enterprises. The barriers of SMEs highlighted in the previous section suggest that the local government as a single actor may not have the capacity to promote micro enterprises without support from others.

The findings of the study showed that SMEs play an important role in the local economic development in developing countries. They are the sources of job creation, reduction of poverty and generation of revenue. Other main stakeholders such as civil society, experienced SME owners and non-governmental organizations (NGO) should cooperate to create a conducive legal environment for entrepreneurs and provide effective entrepreneurial education that will motivate them to improve their skills and business performances in the economy.

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