



## An Examination of the Procedures used by the Amathole District Municipality for Implementing Socio-economic Strategies for Stimulating Small, Micro and Medium Enterprise Development

Akeem Adewale Oyelana<sup>1\*</sup> and D. Reckson Thakhathi<sup>2</sup>

*Department of Public Administration, University of Fort Hare, Alice, P.B. X1314,  
Eastern Cape, 5700, South Africa*

*E-mail: <sup>1\*</sup><201100592@ufh.a.za>, <sup>2</sup><rthakhathi@uhf.ac.za>*

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**ABSTRACT** The paper examined the procedures used by Municipal Managers for implementing socioeconomic strategies for stimulating Small, Micro and Medium Enterprise (SMME) development in rural communities of the Amathole District Municipality (ADM) in the Eastern Cape Province of South Africa. The objective of this paper was to investigate the procedures for implementing socioeconomic strategies used by the ADM managers for stimulating SMME development in their local communities in South Africa. This paper used a literature review methodology to unpack the procedures used by the ADM managers for implementing socioeconomic strategies for stimulating SMME development. Similarly, the findings of the study show that the municipality has poor procedures and guideline in implementing socioeconomic strategies for stimulating SMME development in their rural communities. The findings from previous studies revealed that in fact, the ADM faced poor procedural challenges in implementing socioeconomic policy and practical steps that can be taken to address these challenges. The paper gave some contextual clues on the study and explores the Henri Fayol's Administrative Theory of Management Decision and municipality precise Local Government Turnaround Strategy (LGTAS) Guidelines framework for implementation, together with documental analysis as sources of data used in the study. The implication of the findings are that unless the municipality improved or rectified their socioeconomic strategic procedures, the role of ADM managers in implementing socioeconomic strategies for stimulating SMME development in their rural communities will continue to experience negative socioeconomic development.

### INTRODUCTION

Poor social infrastructural facilities and unemployment in South Africa, during the last decade continue to be serious bottlenecks or challenges facing almost everyone directly or indirectly. This kind of situation is very common and is generally considered to be endemic in the rural communities where very little attention is received from the authorities because of their remoteness. In case of the ADM rural communities, the unemployment situation is caused because of huge reserves of natural resources such as sandstone, slate, sand and clay (Tshabalala 2008: 3). In addition, there is lack of investment in the establishment of SMME and provision of

sustainable social infrastructures that will allow it to flourish in this district area and poor implementation of socioeconomic policies for stimulating SMME in the rural communities by the government. Hence, governments have a key role to play in facilitating the operation of SMME through good policy procedures and effective implementation of socio-economic policies intercession or involvement.

This study will explore these problems and their background, with a view to recommending strategies to stimulate socioeconomic growth for SMME Development in the ADM area in such a way that these SMME developments will contribute towards the alleviation of poverty and unemployment among the rural communities. It is very important to stress that this focus areas also serve as the point of alignment with the municipal IDP.

### Statement of the Problem

Despite the fact that South Africa has been seen as one of the countries in Africa that is

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\*Address for correspondence:

Akeem Adewale Oyelana  
Department of Public Administration,  
University of Fort Hare, Alice,  
P.B. X1314, Eastern Cape, 5700, South Africa  
Cell: +27837286640  
E-mail: 201100592@ufh.ac.za

currently and predominantly operating democratic system of government where the rule of law is observed supremacy of law in place and the human rights respected, yet the citizens of South Africa are being denied access to employment opportunities and basic social amenities. In addition, the constitution of South Africa (Act 108 of 1996), section 152 also stipulates that some of the objectives of local government are to provide basic services to communities in a sustainable manner and promote socioeconomic development (Republic of South Africa 1996; Magwa 2011). Although many of the citizens have the potentials and poor orientation of establishing small businesses which could empower them so as to be self-reliant and reduce some burdens of huge employment creation by the government, many of the citizens who want to establish small businesses in their communities have been affected by poor government socioeconomic strategies and implementation procedures. As it is believed that if good procedures are used by the Amathole District Municipality (ADM) for implementing socioeconomic strategies for stimulating SMME development in their rural communities, there will be economic and social changes in the communities and if poor procedures are used for stimulating SMME development in their rural communities, there will be setback in the rural development.

Some of the causes of poor procedures used by the Amathole District Municipality (ADM) for implementing socioeconomic strategies for stimulating SMME development in their rural communities are as a result of lack of visibilities studies of the rural areas, inexperience and incompetency among the Municipal Managers in following proper SMME policy procedures that will actually develop the rural community as different rural communities are endowed with different natural resources. Hence, the study attempts to recommend good socioeconomic strategic measures to be taken by the government in order to effectively execute good policy procedures for stimulating SMME development in their rural communities.

### Objectives of the Study

- To investigate the procedures for implementing socioeconomic strategies used by the ADM managers for stimulating SMME development in their local communities

### Research Questions

- What are the procedures for implementing socioeconomic strategies used by the ADM managers for stimulating SMME development in their local communities?

### METHODOLOGY

This paper used a systematic review of literature from journals, books, conference reports, and internet sources. The researchers' intuitive experience and knowledge in Public Administration, Government, United Nations' Development Programme publications to raise debates and discourses on issues pertaining to the analysis of the procedures used by the ADM managers for stimulating SMME development for implementing socioeconomic strategies in their local communities in the Eastern Cape Province of South Africa were also used.

### OBSERVATIONS AND DISCUSSION

#### The Procedures used by ADM for Implementing Socioeconomic Strategies for Inspiring SMME Development in the Rural Areas

In order for ADM to implement socioeconomic strategies for stimulating SMMEs in the rural areas, the District Municipality used the following principles and strategic procedures:

#### Local Government Turnaround Strategy (LGTAS)

LGTAS is an essential guideline document in which some of its main objectives are to inform and guide municipalities "when preparing and implementing their own turnaround strategies (Kruger 2010). This guideline document must be read together with the State of Local Government Report (SLGR), Local Government Turnaround Strategy (LGTAS) and the LGTAS Implementation Plan (Kruger 2010: 3)".

In addition, the Constitution of the Republic of South Africa also recognised three types of municipalities and stated their local government legislative frameworks (Cooperative Governance and Traditional Affairs 2009). The categories are: category A – is responsible for metros, B – is responsible for local municipalities, C – is re-

sponsible for District Municipalities (DMs). In addition, these categories of municipality comprises of: six (6) Metropolitan (Category A), two hundred and thirty-one (231) Local Municipalities (Category B) and (Category C) is an additional forty-six (46) District Municipalities in which ADM is known as DC12. Importantly, as at the period of creating stage of local government (post-2000), a system of categorisation was presented as (A-C2) (Cooperative Governance and Traditional Affairs 2009).

### **Local Government Implementations Main Concerns**

The local implementations that specifically focused on the Local Government Turnaround Strategy identified the following as the main concerns (Local Government level Cooperative Governance and Traditional Affairs 2009):

- “Address immediate financial and administrative problems in municipalities;
- Regulates to stem indiscriminate hiring and firing;
- Ensure and implement a transparent municipal supply chain management system;
- Strengthen Ward Committee capacity and implement new ward committee governance Model;
- Differentiate responsibilities and simplify IDPs (agreement with each municipality on the ideal scope of functions to be provided and how best the State can support service delivery through intergovernmental agency arrangements);
- Funding and capacity strategy for municipal infrastructure (funding and capacity strategy for municipal infrastructure in rural areas including extending MIG grant to 2018 and utilising annual allocations to municipalities for repayment of loans in order to accelerate delivery);
- Prepare for next term of local government inspire public confidence including commitment by political parties to put up credible candidates for elections”.

### **Municipality Local Government Turnaround Strategy Procedures**

According to Cooperative Governance and Traditional Affairs (2009), municipality Local Government Turnaround Strategy procedures include:

- (a) The Turnaround Strategy focuses on eradication of different obstacles within the municipalities and brings various opportunities to them in order to reveal their own performance.
- (b) In order to develop each area within each municipality, every municipality should identify its own area of development in accordance with the province.
- (c) It is very important at this point that each municipality should be able and must be able to build up its own specific turnaround strategies and in fact, work amicably together. In addition, they should be able to build their own strategies usually at the end of a particular agreed period of time. To achieve this objective in the country, each municipality should build up its strategy according to its own priority, state of affairs of its own local area and managerial capabilities. While taking this positive decision, it also very imperative to mention that the each municipality should take the most important national and provincial departments’ plans into consideration.
- (d) It is very necessary to ensure that Local Government strategies are supported with strategic goals of the nationwide strategy. To achieve this goal, each municipality must evaluate and assess its own policy weaknesses, strategy formation, strategy structures and procedures, strategy implementations and process. Finally provides measures to be taken in order to enhance and develop the state aims and objectives.

### **Theoretical Framework**

#### ***Henri Fayol’s Administrative Theory of Management Decision***

The Administrative Theory of management was developed and propounded by Henry Fayol. This theory focused on the theory of management where Fayol proposed five primary functions of management which include: Planning (Kinicki and Williams 2013: 9), Organising, Staffing, Directing, and controlling (Narayanan and Nath 1993 cited in Van Vliet 2011; Wren et al. 2002; Fayol 1916 cited in Shafritz et al. 2015). In fact, Fayol stressed that the control function is necessary in order to receive an effective feedback for adjustment and analysis of divergence

(Fayol 1916 cited in Shafritz et al. 2015). In addition, Fayol also focused his attention on the “fourteen principles of management which include: Division of work, Authority and responsibility, Discipline, Unit and Command, Subordination”, Remuneration et cetera (Fayol 1916 cited in Van Vliet 2009 and Shafritz et al. 2015).

Fayol’s administrative theory has proved that in many organisations such as government (municipalities) and Non-Governmental Organisations (NGO), it is very important to implement these administrative functions especially when making management decisions that would be of importance to both organisations and public. It will also be of importance to the municipality managers in South Africa to make use of planning which is one of the Fayol’s management functions and was termed as forecasting, predicting, foreseeing and anticipating for future needs of the people. This administrative theory will be of importance to the municipality managers in the sense that it will help them to foresee and make good preparations in formulating and implementing socio-economic strategies that will meet the demand of rural communities. Administrative functions according to Wren (1995: 8), “is the means by which the various parts of the undertaking communicate with the outside world”. This simply means that once strategies are formulated within organisations such as municipalities, effective implementation of such policy is another issue that needed to be adequately addressed because it will have neither positive nor negative effects on rural communities.

Similarly, the researchers of this study is also emphasizing that Fayol Administrative Theory is democratic in nature due to the following five most important principles initially developed in 1908 which include Wren (1995: 8): (i) “unity of command - every action must be ordered by one person only; (ii) the hierarchical transmission of orders- chain of command; (iii) a separation of powers which involved defining and delimiting activities through authority, subordination, responsibility and control; (iv) centralization, the extent to which authority would be delegated (decentralized) or not; (v) order - a place for everything and everything in its place”

In addition to the above five principles, Wren (1995:8) emphasised clearly that Fayol added disciplining and anticipation and eventually extended these principles to fourteen. Because of his experience, he believed that these fourteen

principles of management would be useful in an organisation such as municipality in South Africa for the purpose of formulating policy, making decision and embarking on the implementation of the effective policy that will improve the rural communities. “He maintained that principles were not rigid but flexible and capable of adaptation and served as lighthouses to guide managerial actions. Anticipation, or foresight (*prévoyance*), would become in later writing the planning job of the manager. In 1908 Fayol indicated the need for long-range planning and the need for adapting to changing environmental circumstances”.

### **Empirical Framework: Current Situation**

The corporate Geographical Information System (GIS) Strategy was developed after the user requirements analysis was undertaken with inputs from key stakeholders within the Amathole District Municipality and its local municipalities under its jurisdiction (ADMIDP 2015-2016: 53). This then culminated into initiatives to assist with spatial planning and management. The biggest challenge is the availability of skill sets to undertake and implement successfully this system as it is a fairly new technology since it transforms town planning, land administration and development planning.

The major initiatives that are currently in place are (ADMIDP 2015-2016: 53):

- Water Infrastructure integration – capturing and integrating the corporate GIS with the Water Information management Systems since it holds the infrastructure’s assets. The challenge is maintenance and updating of new water infrastructure and assets. But the major issue is the backlog in terms of the assets transferred from the local municipalities and Department of Water Affairs.
- Land Use Management System – integration to the corporate GIS and updates from the local municipalities. The major challenge is to complete and be consistent in flow of information thus requiring a business process mapping exercise with a requirement for all role players involved in managing land parcels and ervens.

The GIS Shared Services was established to assist local municipalities due to the lack of GIS skills at local municipality level. Of course the

benefit being the ability to continue with the GIS service and maintenance of the systems deployed in each local municipality as ADM installed a GIS server for each municipality in its jurisdiction (ADMIDP 2015-2016: 54). Furthermore, ADM is hosting an integrated GIS website that is accessible over the internet to be used by local municipalities and anyone who is a potential investor or has interest in the region. This cause is beneficial to economic growth and development (ADMIDP 2015-2016: 54).

“From the perspective of several observers, it is acknowledged that the lack of water infrastructure (ADMIDP 2015-2016: 53) and lack of significant mineral deposits are the essential factors confronting the development areas of the Amathole District Municipality in the Eastern Cape Province of South Africa. There is little investment in the district in which Amathole District lies. Despite the fact that some efforts have been made in the last ten years by the government to improve the situation, the historical deficiency has created a locational disadvantage for the district. The political and socio-economic practices in these areas have resulted in bulky of the people having access to only one asset class, namely, land, but no right to trade the land. The result that even those who are better suited to other trades cannot exchange their land right with someone who could use the land more beneficially, thus constraining development of both trading “class” and commercial farmer “class” The system also discourages investment in improving the land and intensification of the use land. Amathole District not only has significant mineral resources, but also has not benefited from investment in major irrigation developments. This lack of investment in economic infrastructure and system has been compounded by the establishment of Transkei and Ciskei, which also did not receive adequate investment in economic infrastructure, human capital or social infrastructure. The result is that not does the district lag behind the national average in terms of economic activity and average per capita income, but it faces declining job numbers, relocation or closure of companies and decline in number of commercial farms. Because of the historic lack of, or inappropriate investment, the district faces considerable challenges to economic development because of AREDS/LED Strategy (2015):

- Low level of human development,
- Under-development,

- Ineffective governance – sovereignty, power, authority and control

The result is that more and more people are dependent on a depreciating asset class. This adds a “human capital” disadvantage to the location of the system. However, high levels of unemployment and poverty persist, stretching the development chasm or gaps”.

## Conceptual Framework

### *The Concept of SMME Development*

In “a number of industrialised countries, the re-emergence of the small firm was witness in the late 1970s and 1980s due to two major events (Cornelius 2010: 21). Firstly, spectacular cases of large enterprises running into economic difficulties and shedding employment across in nearly all industrialised economies while the latter’s small sectors (or part of it) went relatively well through the period of turbulence that started in early 1970s. Secondly, Birch (1979 cited in Cornelius 2010: 21) finding reveals that small firms created the majority of new jobs in the USA, spread quickly around the world and provoked an upsurge in research on employment shifts towards smaller units. Up to this day there has been a concerted effort by word governments to promote the economic activities of small firms.

Different categories of small businesses can be distinguished, each one with its unique characteristics, obstacles and requirements for support. These include:

- (i) *Survivalist Enterprises*- These are activities by people who are unable to get a paid job or enter into an economic sector of their choice.
- (ii) *Micro-Enterprises* - This business usually belongs to a single owner, some family members and at most one or two paid employees. No business permit, No VAT registration.
- (iii) *Small Enterprises* – It constitute a category that is difficult to demarcate vis-a-vis “small” “big” business categories business owner/managers controlled. The employment of 200 and capital asset (including property) of about R5 million are usually seen as the upper limit”.

The creation of enabling environment is of crucial importance for SMMEs to thrive, diversification of economy, stimulation of investment,

flourishing of entrepreneurship and penetration of new markets.

### ***The Concept of Rurality***

Though the definition of rural areas vary from countries to countries and from area to area, this study recognized and identified rural areas in the South African perspective as areas which are sparsely populated, marginalized, exploited and most people depend on natural resources such as farm produce.

Globally, rural regions have the same features. Inhabitants are spatially scattered. Agriculture is the main occupation of the people living in the rural communities and opportunities for resources mobilization are limited. However, from the perception of different researchers, there is no regular definition of rural. The definition of rural is different from one country to another, from one continent to another and from one region to another.

Rural regions could be described as the landscape where its entire environment is full of pastures, forests, mountains, deserts and total number of people living in a particular area is low from about 5000-10,000 people and sadly enough, the majority of these people are farmers with little or poor income at the end of their farming activities (such as harvesting) (Atchoarena and Gasperini 2003).

"The international Fund for Agriculture Development (IFAD) developed a framework for understanding the concept of rurality in their 2000/2001 Rural Poverty Report by defining its two main characteristics. The first characteristics is that rural people usually live on farmsteads or in groups of houses containing perhaps 5000-10000 persons, separated by farmland, pasture, trees or scrubland and secondly, the majority of the rural people spend most of their time on farms" (IFAD 2001).

The fast recovery and sustainability of rural areas and rural improvement is a complicated procedure and all aspects of communities need to be tackled as well as social, economic, political and environmental aspects. Rural improvement needs integrated and ample or wide-ranging plans for successful, triumphant, victorious and driving implementation. It is therefore pertinent at this juncture to state that some of the impediments confronting the rural communities and rural development or improvement could be

overcome through the provision of basic needs, a people-centred approach and most excellent use of local information, knowledge and facts. The provisions for solutions on how the rural communities and rural development or improvement could be achieved are unique and most paramount for each and every area; in fact, a "one size fits all" tactic will not be successful.

### **CONCLUSION**

The study has strong implications on the implementation of the socioeconomic policy formulation and procedures for stimulating SMME development by the policy-makers. The study gives a strong foundation to policy-makers to come up with good policy procedures and relevant socioeconomic strategies that would improve the rural communities in South Africa. The important variables or guidelines highlighted and discussed in the study will help the policy-makers to come up with relevant and effective policy procedures for encouraging SMME development in the rural communities in order to reduce poverty and improve service delivery to support the establishment of SMME development. By knowing the important guidelines, the policy-makers are able to use their resources efficiently to target problematic areas and address the sluggish implementation of socioeconomic strategies for stimulating SMME development in South Africa. Hence, the study gives an opportunity to policy-makers to come up with vibrant socioeconomic strategic procedures to speedily stimulate SMME development in the rural communities in South Africa

### **RECOMMENDATIONS**

The policy-makers are generally responsible for creating a conducive and sustainable environment for SMME development. Good implementation of socioeconomic policy and procedures undoubtedly, improves the establishment of SMME development while poor socioeconomic strategic procedures hinder the efforts of SMME development in the rural communities. In the light of the procedures used by the Amathole District Municipality (ADM) for implementing socioeconomic strategies and with a view to stimulating SMME development in their rural communities, the following recommendations are made to the policy-makers:

- The government should ensure that the monitoring and evaluation team are established to assess the District Municipal Managers performances and ensure that these managers strictly abide by to the municipal implementation procedures, socioeconomic strategic guidelines and procedures for stimulating SMME development.
- The government must ensure that adequate policy procedures and guidelines are made available within the municipality in order to ensure effective implementation of socioeconomic strategies for stimulating SMME development in the communities.

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