

# Inadequate Support and Development Awareness Initiatives and Integration of ICT Innovations in Rural SMMEs: Case Study of Lepelle-Nkumpi Local Municipality

<sup>1</sup>Mr Lethamaga Tladi, and <sup>2</sup>Prof. Ray Kekwaletswe, PhD

**Abstract**—This research paper is sought to enlighten the Lepelle-Nkumpi Local Municipality about the importance of integrating the ‘support and development initiatives’ and ICT innovations within its Local Economic Development’s strategies (LEDs) for rural Small, Medium and Micro Enterprises (SMMEs) to amplify its Gross Geographic Product (GGP). This study reveals that the municipality disregarded this area and continued not to embrace in its 2012/2013 and 2013/2014 Integrated Development Plan (IDP) reports. A critical factor in determining the positive contribution to the SMME economy might make to poverty reduction, creating local employment, especially through micro-and-informal enterprises, is the policy and support environment offered by the local and national governments [16] Furthermore, this research paper builds on [21] which conceptualizes how web-based inventory control system and wireless technologies could be utilised to improve the rural SMMEs in Ga-Mphahlele (a rural area within the Lepelle-Nkumpi Local Municipality), leading to sustenance and competitiveness.

**Keywords**—SMMEs, LED, ICT, Support and Development.

## I. INTRODUCTION

THE embracement of entrepreneurship through support and development of SMMEs remains a crucial priority of the National Government of South Africa while the role of the Local Government is to ensure that the SMMEs sector progressively increase their contribution in growth and performance. The white paper on Local Government gives the municipalities responsibilities to ‘work with citizens groups within the community to find sustainable ways to address their social, economic and material needs and improve the quality of their lives [9].

According to [21] there was no single rural SMME from this research study participants who had been assisted or supported by the municipality or being approached by the municipality to inform him/her about the available opportunities the National Government and/or private sector have for them. Rerefence [3] also support the statement with 57% of emerging SMMEs interviewed in Gauteng and 70% in the Western Cape had never had contact with or even heard of

<sup>1</sup>Lethamaga Tladi, Junior Lecturer End User Computing Unit, Tshwane University of Technology, Pretoria, South Africa. Email ID: TladiLR@TUT.ac.za

<sup>2</sup>Prof. Ray Kekwaletswe, PhD. Senior Lecturer at the Department of Informatics, University of Witwatersrand, Johannesburg, South Africa. Email ID: Ray.Kekwaletswe@wits.ac.za.

any support institution. Available opportunities refer to: 1) Access to finance, 2) Access to training and mentorship, 3) information and competencies, just to name the few in a context of this research paper while the term ‘support needs’ refers to the external resources which rural SMMEs may gain access to regularly in order to strengthen or extend its internal resources base [19]. Furthermore, in March 1995, the Department of Trade and Industry (DTI) published a White Paper on National Strategy for the Development and Promotion of Small Business in South Africa.

The Lepelle-Nkumpi Local Municipality has disregarded the SMMEs sector in their LED strategies which form an integral part of municipal IDP report. This instance implies that the Lepelle-Nkumpi Local Municipality has no capacity to even inform the SMMEs within its boundaries about the available opportunities the national government and the private sector have for them. This research paper is sought to enlighten the municipality about the importance of integrating the ‘support and development initiatives’ and ICT innovations within its Local Economic Development’s strategies (LEDs) for rural Small, Medium and Micro Enterprises (SMMEs) and furthermore, advice the municipality as to how implement it and measure the progress through continuous process monitoring and evaluation.

## II. CASE STUDY: LEPELLE-NKUMPI LOCAL MUNICIPALITY

### A. Background

According to [9], Lepelle-Nkumpi is one of the five local municipalities within the Capricorn District Municipality in Limpopo Province and is located in the southern part of the Capricorn District. The municipality is pre-dominantly rural with the population of approximately 230 350 people. It covers 3, 454.78 km<sup>2</sup> which represents 16% of the district total land area and is divided into 29 wards which comprises of 93 settlements. About 95% of its land falls under the jurisdiction of traditional councils. According to the Economic Development Plan (EDP) November 2006, the municipality had unemployment rate of 61% out of estimated population of 241 414 and 28.7% of households without income.

### B. Socio-economic Status

The South African Local Government under the leadership of the African National Congress (ANC) has mandated all

municipalities within its boundaries a key role of addressing social and economic needs of communities while ensuring that the resource base upon which life depends is conserved and well managed. The Lepelle-Nkumpi Local Municipality's Local Economic Development (LED) Strategy, approved in 2007 by council, is aligned with that mandate to provide the Municipality with guidelines to create and facilitate economic development, realize the underlying economic development potential, and encourage private sector investment and job creation to address socio-economic matters; however the progress results are still inconsiderable.

Employment as one of the municipality top five priorities which aimed at alleviating poverty; high levels of poverty are still noticeable in the statistics from Census 2011 where about 79% of households have an income of less than R3200 per month (the household subsistence level) which is still below the bread-line or no income at all. The indigent policy was approved by council with an intension to provide subsidy to households that earn R 3 500.00 per month to access free basic services which in turn articulates that almost 21% of households are paying basic services.

### III. WHAT ARE SMMEs AND WHY SO IMPORTANT?

#### A. SMMEs Definition

The abbreviation "SMEs", which stands for Small, and Medium-sized Enterprises which is commonly used in the European Union and by international organizations such as the World Bank, the United Nations and the World Trade Organization (WTO) and in South Africa context, we use the abbreviation 'SMMEs', which stands for Small, Micro, and Medium Enterprises. The issue of what constitutes a small or medium enterprise is a major concern in the literature [1].

In Europe, there are three broad parameters which define SMEs: micro-entities are companies with up to 10 employees; small companies employ up to 50 workers, whilst medium-sized enterprises have up to 250 employees [22]. [1] report contradicts with [22] on the fact that the European Commission (EC) defines the SMEs largely in term of the number of employees as follows:

- Firms with 0-9 employees-micro enterprises;
- 10 to 99 employees-small enterprises, and lastly
- 100-499 employees-medium enterprises.

In Republic of South Africa, SMMEs are generally defined by revenue, assets (excluding fixed property) or by the number of employees [17]. In terms of South Africa's National Small Business Act (Act 102 of 1996), a small business is a separate and distinct business entity, including cooperatives and non-governmental organisations (NGOs), the size of which lies below specified thresholds, depending on whether the business is micro, very small, small or medium.

According to Kosei *et al.*, (1993:54) as cited by [17], the SMMEs are classified into two categories, the urban SMMEs and rural SMMEs. The urban SMMEs consist of two basic types: 'organised' and 'unorganised'. The organised enterprise basically involves employees that are having basic salary and has fixed premises whereas the unorganised enterprise consists largely of entrepreneurs without fixed premises who operate in

the open air, in mobile kiosks or at home, and employ few or no salaried employees, instead relying on family members or apprentices for labour. According to [3], the SMME sector includes a very broad range of businesses, from established traditional family businesses employing over a hundred people (medium-sized enterprises), down to the survivalist self-employed from the poorest layers of the population (informal microenterprises).

The upper end of the range is comparable to the small and medium sized enterprises (SME) population of developed countries; statistics reveal that an immense majority of SMMEs are concentrated on the very lowest end and these are primarily black survivalist businesses that amount to 2.5 million as compared to the 800, 000 that encompasses both micro-enterprise and the formal SME economy (Rogerson, 2004).

#### B. Why are SMMEs so Important?

Small, Medium and Micro Enterprises (SMMEs) are vital for the global economy, as they generate new jobs, generate local economic activity, create local wealth, create new ideas, and introduce new products and services, diversify the private sector, and stabilize the private sector [2],[5],[13],[15],[16],[20], and [26]. This is the reason why governments throughout the world concentrate more on developing and nurturing SMME sector to promote economic growth (Olawale and Garwe, 2010).

Numerous reports have indicated, small, medium, and micro enterprises (SMMEs) constitute almost 95 percent of enterprises within the region and directly serve as both the backbone and driver of national economies [23]. In developing countries, SMME sector is a major source of income, a breeding ground for entrepreneurs and a provider of employment and what makes that sustenance in those countries is that they have made the SMME sector feasible to become a matter of strategic importance to eliminate poverty which in turn will result in nation's economic development (McCormick, 1999) and (Berry *et al.*, 2002; Kesper, 2002) as quoted by [16].

For example; The Government of India has developed key strategies to promote and support the SMMEs sector to promote competitiveness, quality upgrading, finance, technology, and these strategies has resulted in a dramatic positive change in any sector (Sircar, 2008). And here, in Africa the SMME sector alone constitutes over 90% of business operations and contribute towards over 50% of the nation's total employment opportunities and Gross Domestic Product (GDP) (Srivastava, 2008). In Republic of South Africa, it is estimated that 91% of the formal business entities are SMMEs and they contribute between 52% and 57 % of the GDP [1].

One may ask how many SMMEs available in RSA that contributes to our national GDP; According to the study conducted by [3], there is an uncertainty in any statistical work on SMMEs. The table below compares several estimates made by various institutions in the past few years.

**TABLE I**  
DEPICTS SMMEs STATISTICS IN RSA.

Source	Survivalist	Micro	Very small	Small	Medium	Large	Total
Ntsika 1999	184 400	466 100	180 000	58 900	11 322	6 017	906 739
Ntsika 2000/ Stats SA 2000	Informal 1 138 854		330 271	94 804	52 620	12 249	1 658 797
Business Partners	2.3 million		600 000		35 000	n/a	2.9 million
Management Sciences Group Survey, 1999	micro: 960 740		formal:445 880 (of which 357 780 private				2.3 million
	"informal": 862 580						
Eskom Survey, 1999	900 00+ "in home business"; total 3 million if one includes farmers					n/a	3 million
Global Entrepreneurship Monitor, SA 2001	below 0.73	1 709 142					between 2.44 and 2.86 mil.

Source: Compiled by Rashid Ahmed, MFRC, and Magali von Blotnitz, UCT  
The correspondence between the size categories is approximate, since sources tend to use divergent definitions.

Rural areas are those parts of the residential area that were underprivileged due to the process of urbanization, and are therefore more associated with much more low economies of scale, and physical remoteness [6]. And one major factor of concern is their distance from markets, political centres, and of their access to services which yield high transportation costs. The SMME’s in these areas are tiny businesses with fewer than ten employees – often just one [14].

According to [28], the South African rural societies appear neglected, experience great poverty, deprivation and remain some of the most impoverished societies in the world. Ga-Mphahlele is a rural settlement named after chieftaincy of the Mphahlele’s and is located 50 km south of provincial capital, Polokwane and falls under Lepelle-Nkumpi Local Municipality. According to the Economic Development Plan (November, 2006), the municipality has unemployment rate of 61% out of estimated population of 241 414 and 28.7% of households have no income.

Unlike most people residing in well resourced- urban areas like Sandton, Johannesburg in the Republic of South Africa or developed economies like United States of America and Europe just to mention a few; access to goods and services can be obtained within immediate vicinity and residents do not have to travel far to access their retail outlets. Sadly, the residents in this village, Ga-Mphahlele do not have privileges to access well established retail outlets in their vicinity and they have to rely on local mini-shops called “spaza-shops”.

SMMEs entrepreneurs in this area, still have to travel at great expense to provincial capital, Polokwane to stock products to their shops and some have to hire a bakkie in that regard which results in residents paying up to 20% to 40% more for the goods [29]. Based on above statistics, nurturing the SMMEs in this area can bring bread and butter to many households and reducing the unemployment rate as part of policy objective on SMMEs to alleviate poverty, job creation, and the enhancement of national economic growth as part of post-apartheid reconstruction [16],[26], [30].

According to Biswas and Roy (2009), in rural areas, many SMMEs have constraints of capital and resources, cost-based competition, high transportation costs are some of the factors that hinder them to be their competitive edge amongst their urban counterparts and despite the challenges that these rural SMMEs are experiencing, the wireless technologies and inventory control system seems to be the promising solution to address aforementioned challenges that hinder this SMMEs to

be at their competitive edge with their counterparts are urban areas.

IV. THE VALUE OF ICT INNOVATIONS IN SMMEs

Reference [12] posits that the value of Information and communication Technologies (ICTs), particularly the Internet-based solutions have brought an irresistible force which changed a fashion in which a business is conducted and competes. Reference [20], [18]; Ramsey *et al.*, (2003) as cited by [13], [20] further added to the statement that these Internet-based solutions are cost-effective tools to assist the SMMEs to gain access to markets and ability to compete with well-established businesses while attracting large customer base.

According to Schubert and Leimstoll (2007) as cited by [12] posit that the issue of ICT innovations value to SMMEs it is considered as a ‘two sides of the same coin’. One side being in line with Michael Porter’s theories, which says that ICT adds value to SMMEs and the other side in line with Millar’s theories, which believes that ICT does not add any value since it is a commodity. Example: electricity, it is available to everyone. Yet, the two agree that competitiveness of the SMMEs depends on the fashion in which the ICT innovations are exploited in line with business strategies.

Though the ICT innovations present the possible solution to SMMEs, their adoption still remains a ‘rocket-science’ in the literature [12],[13],[20], and [21]. There are some stumbling blocks which hinder the SMMEs to venture into the digital horizon of conducting business. Here below are some of the stumbling blocks in line with the context of this study: a) High cost of connectivity, b) Lack of infrastructure, and c) Low levels of IT literacy and limited experience of ICT integration [12].

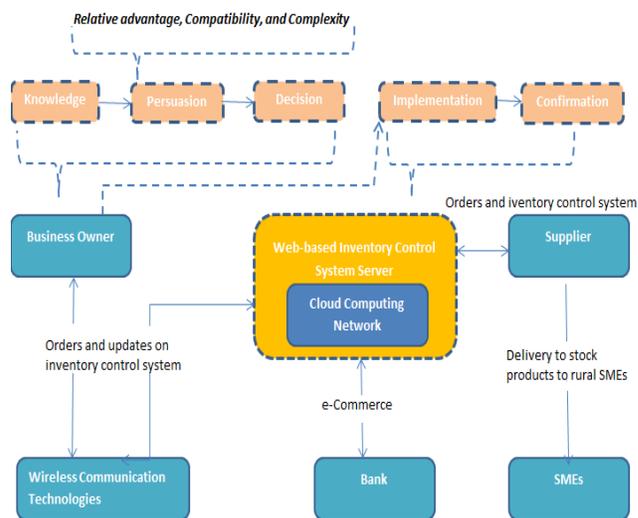


Fig. 1. Conceptualized wireless web-based inventory control system framework for SMMEs.

In an attempt to leverage all these stumbling blocks, [21] conceptualized a wireless web-based inventory control system framework for SMMEs leading to sustenance and competitiveness. The concept around the framework was to draw a coordination of business processes between the

SMMEs and suppliers when exploiting the envisaged web-based inventory control system and wireless technologies, which refers to mobile cell phones in the context of this study. This framework is derived from the [27] Diffusion of Innovation theory. Figure 1 below depicts the framework

The envisaged web-based inventory control system would be installed into SMMEs smart phones which are compatible with the application. The application would assist the SMMEs to order products from the selected supplier(s) online, get real-time updates on their businesses inventories and make payments to suppliers online. Hence the interpretive data collected from five SMMEs in Ga-Mphahlele (a rural area within Lepelle-Nkumpi Local Municipality) using qualitative data collection methods, the questionnaires and semi-structured interviews depicts that every single SMMEs have a cell phone and their using to run their business. On that note, there is much perceived usefulness on the proposed concept.

## V. RECOMMENDATIONS

Agriculture, Mining, Tourism, and Manufacturing are main sectors of economic growth identified both at local and district level LED strategies aimed at creating a critical mass of economic development upon which Agriculture takes up large portions of land within the municipality, but only employs approximately 7% of the workforce of which that articulates there is no much growth or business viability in the sector. Despite, insufficient social, economic, physical and institutional infrastructure, poor information and communication facilities challenges; The Lepelle-Nkumpi Local Municipality became the second largest contributor to the district Gross Geographic Product at 13.86% [9]. This statistics alone depicts that the municipality has a potential and capacity to grow with the available resources.

Rural development requires of all agencies at national, provincial and local government, State Owned Enterprises, and the private sector to contribute to the development of rural communities in their areas of competencies and in context of this study, we recommend that if the areas of competencies (Agriculture, Mining, Tourism, and Manufacturing) are not capable of generating the desired growth, then the municipality should venture into new horizons of business than using same practices and methods over time and expect different results. For that reason, we therefore, appeal to the executive committee and council of the Lepelle-Nkumpi Local Municipality to look at SMME sector from different perspective and develop clear and concise SMME strategy which will be integrated into LED to assist the municipality to realize its goal of “reducing unemployment by 50% in 2016 and achieve 6% annual economic growth”.

### *Proposed SMMEs Strategy*

As the majority of Lepelle-Nkumpi Local Municipality is rural and comprised of a non-commercial or industrial component, its Municipal Productivity Index (MPI) could be enhanced through its commitment in growing local economy, reducing poverty levels, and increasing business opportunities within the municipality, particularly for SMMEs sector. However, the natural resource base and economy does not

have the capacity to support the total population, forcing a large percentage of the labour force to seek employment opportunities outside of the district municipality [9].

### *Strategy:*

*The Lepelle-Nkumpi Local Municipality should develop a web-based “Social Networking Platform” to be incorporated on its website from which the residents will have a sense of ownership of the municipality by getting to decide on what projects they want the municipality to invest in them. In this case, the municipality has to set a budget and make it transparent to the residents for their desired projects which are in line with the municipal LED strategies.*

*Unleashing the resident’s power to make difference in their own environment, much less effort is spent on meeting their needs which in turn avoids unnecessary service delivery protests. The proposed platform will engage the residents to collaborate with the municipality and enable the municipality to effectively provide basic services and great investment opportunities to both local and foreign investors. The Investment and Marketing Plan that was developed to promote investment opportunities within the municipality will be used to sell the concept.*

*The Lepelle-Nkumpi Local Municipality will need to develop a business plan template and share it to local SMMEs to complete and capture it into the database. From the SMMEs business plans database, the municipality will have to share access to potential funders to speed up the funding process which in turn will result in more businesses running within the municipality. As results of more business opportunities booming, the retail stores or suppliers will come over to do the business in the municipality; meaning transportation of goods wouldn’t an issue as before which SMME had to incur high transportation costs. And this is how the socio-economic development will be realized in Lepelle-Nkumpi Local Municipality.*

## VI. CONCLUSION

Lepelle-Nkumpi Local Municipality having realized the importance of Small, Micro, and Medium Enterprises and getting the residents in action on Municipal projects, it’s an irresistible force which cannot be ignored but to seek possible avenues to implement that. The Lepelle-Nkumpi Local Municipality became the second largest contributor to the district Gross Geographic Product at 13.86% without what has been recommended in this research study. As we conclude, we recommend that Lepelle-Nkumpi Local Municipality should be prepared to venture into new horizons of doing business and play a vital role in marketing business opportunities within its boundaries, thus making sure that the potential sponsors and/or inventors know about the proposed SMMEs business plan database. For example, the City of Tshwane in Pretoria does not have any significant crop farming fields but it has Tshwane Market which sells fruits and vegetables mostly from our province, Limpopo. Now it’s our turn to make it happen!

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