

# Re-Thinking the Sustainability of Local Economic Development through Entrepreneurship in South Africa

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*The objective of this paper was to explore the sustainability of local economic development through entrepreneurship in South Africa. Local economic development (LED) should be the responsibility of everyone, including local people, business owners, and the government. LED is widely seen as the panacea to increased quality of life, unemployment, poverty, and inequalities, mainly in developing nations. LED research is a relatively new topic, and policy development, planning processes, and implementation plans are continually changing with numerous alternative ideas and techniques. The study acknowledged South Africa to be a resource-rich country with incredible development potential. South Africa, on the other hand, can do a lot better to encourage entrepreneurs and small and medium-scale businesses at the grassroots level, by preparing citizens with the needed skills to contribute to economic development because effective leadership, institutions, and entrepreneurship all play important roles. The study discovered that there is no "one-size-fits-all" development policy or approach, however, economic growth is a complicated interaction of many stakeholders' perspectives on the local economy. The study believes that, in light of previous countries' failures, new routes ahead for South Africa and Africa may be explored in the marketplace of innovative ideas.*

**Keywords:** entrepreneurship, governance, local economic development, policy strategy

**JEL Classification:** M10

## 1. Introduction

The study explored the sustainability of local economic development through the promotion of entrepreneurship in South Africa. Globally, both scholars, development practitioners, and stakeholders have recognized the critical role of local economic development (LED) in creating jobs, reducing poverty, and improving quality of life (Meyer, 2014a). To achieve dynamic local development, all areas of local communities must be addressed in an integrated and holistic manner, including the economy, social, welfare,

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Article History:

Received 30 May 2022 | Accepted 26 September 2022 | Available online 30 October 2022

Cite Reference:

Enaifoghe, A. and Vezzi-Magigaba, M.F., 2022. Re-Thinking the Sustainability of Local Economic Development through Entrepreneurship in South Africa. *Expert Journal of Business and Management*, 10(2), pp.77-90.

environmental, and political challenges (Johann and Fourie, 2021, Enaifoghe, 2020). To achieve developmental success, a complete strategy for a given region must be developed (Enaifoghe and Adetiba, 2019; Rogerson, 2009).

The traditional macroeconomic policies, according to Rodrigues-Pose (2001), have historically been unsuccessful in generating an enabling developmental environment at the local level, and LED has presented an alternative to development. Rodrigues-Pose (2001), indicated that LED has the following advantages over traditional economic policies: "LED empowers and ensures local engagement, local people may participate and play an active part in planning their own economic future, LED ensures that local businesses are involved in the process and are more open to playing an active role in partnerships with local communities".

Furthermore, LED ensures that local growth is based on local comparative advantages, allowing for more resilient local economies, and LED has the potential to offer local opportunities and jobs, hence increasing the local quality of life. South Africa's current development policy emphasizes "developmental" local government with a "pro-poor" bias. The Constitution (1996) encourages local governments to intervene and play a major role in job development and poverty reduction through LED. Poor analysis of local economies, unsustainable community programs, a lack of capacity, and a lack of money are the key impediments to producing results in "pro-poor" implementation (Nel and Rogerson, 2005). The approach to achieving a sustainable local economic development plan in South Africa is to bring true change to the country's economy. The term Local Economic Development (LED) is defined as an approach toward economic development, which allows and encourages local people to work together to achieve sustainable economic growth and development (Meyer, 2014b).

The deliberate involvement of the people in LED thereby brings economic benefits and improved quality of life for all residents in a local municipal area. Since the Classical period, economists and politicians have been focused on the issue of economic progress (Johann and Fourie, 2021). Economists and policymakers throughout the world have created a variety of models and ideas for overcoming underdevelopment and accelerating economic development. According to Meyer (2014b), different models have worked to differing degrees in different nations. However, the nature of development and the development issues that countries face are not the same. Models that worked in wealthy nations do not work as well in emerging countries.

## **2. Literature Review**

### **2.1. Conceptualizing Local economic development**

Development is a constant and multifaceted process in which the setting plays a significant role. When one considers the current emphasis on government policies aimed toward Local Economic Development, there is a need to question and enlighten the embedded economic theories, particularly as they relate to local economic development. According to Wilson and Polter (2020), the LED, as a program, aims to maximize the economic potential of all municipal areas across the country, as well as to improve the resilience of macroeconomic growth through greater local economic growth, job creation, and development efforts within the context of sustainable development. The term "local" refers to the idea that political control at the local level is frequently the most appropriate area for economic intervention since it bears the accountability and legitimacy of a democratically elected government (Braubach, Egorov, Mudu et al., 2017).

Local economic development programs across the world are increasingly emphasizing entrepreneurship as a mechanism for mobilizing indigenous and local economic potential. This article investigates the role of local municipalities in the growth of entrepreneurship in South Africa. It presents a critical examination of local economic development methods and their impact on entrepreneurial growth. Deeply rural towns receive special attention, owing to their exclusion from national development initiatives and the critical need for entrepreneurial growth to address the triple concerns of unemployment, poverty, and inequality (Allen, 2012). The study noted that despite the variations in the available pragmatic statistics, there is a developing consensus that a flourishing small, medium, and micro-sized enterprises (SMMEs) sector are pivotal in addressing the socio-economic issues that plague most economies in the world today. These challenges, according to Mukwarami, Mukwarami, and Tengeh (2020), primarily concern poverty, unemployment, income redistribution, and economic growth.

As long as those concerns are unsolved, SMME growth will be on most nations' development agendas. According to Mahembe (2011) and Ramadani et al. (2015), emphasizing SMME growth has acquired

credibility globally as a feasible route to sustainable development. The aforementioned factors have an impact on the size of the SMME sector, depending on the nation and the strategy used. In countries such as India, the Philippines, Malaysia, and Brazil, SMMEs account for 60% of all businesses and have a lower influence, but economies such as the United States have a sizable SMME sector that accounts for 90% of all businesses or the employment is generated” (Soni, 2005).

Returning to South Africa, the literature contends that the predominance of socioeconomic issues has resulted in the progress of the SMME agenda (Mutyenyoka and Madzivhandila, 2014). The SMME sector’s contribution to local economic growth would be significant since research estimates that there are around 2.2 million SMMEs (including formal and informal companies) in South Africa. However, variability in reporting and statistics makes determining the true contribution of SMMEs to the national economy in South Africa a difficult process. According to Abor and Quartey (2010), SMEs account for 91 percent of formal enterprises in South Africa and contribute up to 57 percent of GDP. According to Statistics South Africa (2015), SMMEs’ contribution is capped at 40% of GDP. Aside from the inconsistencies, the SMME sector has the potential to significantly contribute to job creation, poverty reduction, and socioeconomic upliftment in South Africa (Tengeh, 2013). One may argue that the poor performance of South African SMMEs is not due to a lack of pro-SMME growth activities.

The above is perhaps because, despite the various pro-SMME growth plans implemented by the South African government in recent years, the performance of the SMME sector remains poor (Cuyugan et al., 2017; Mukwarami and Tengeh, 2017). Among the measures used to help SMME development and growth are local economic development (LED) projects (Nyawo and Mubangizi, 2015; Meyer, 2014). Despite the favourable impact of the government’s LED programs on SMME growth, current information reveals that over 40% of new company endeavours fail within the first year. According to Tengeh and Mukwarami (2017), over 60% of businesses fail in their second year, and 90% fail in their first ten years. Smaller firms may fail, owing to a lack of understanding among numerous stakeholders about how SMMEs might be strategically used to decrease poverty (Lekhanya, 2015). While several scholars have exhaustively explored the causes of SMME underperformance (Mukwarami and Tengeh, 2017; Asoba and Tengeh, 2016; Chimucheka and Mandipaka, 2015).

The majority of these writers used a problem-solving technique, and the focus of their research was mostly urban and semi-urban. This argument opens the door to a more in-depth analysis that focuses on rural regions and, more specifically, one that employs a solution-problem approach (Meyer, 2014a). Assuming that SMME failure in South Africa remains an unresolved issue, this study intended to identify and advise on the relevant elements in the context of Bushbuckridge Local Municipality (BLM) (Morgan, 2012; Bowler et al., 2007).

## **2.2. Development of SMMEs in South Africa**

Since the end of apartheid in South Africa, the growth of SMMEs has been a primary emphasis. As the country’s economic growth engine, SMMEs are said to have the capacity to create jobs and reduce poverty in rural regions (Chimucheka and Mandipaka, 2015). It is considered that SMMEs can bring about the necessary transformation in the economy through their work on job creation and poverty reduction at the grassroots level (Small Enterprise Development Agency, 2016). Designing and implementing proper LED policies is one approach to ensure that local communities benefit from the pro-SMMEs movement.

## **2.3. Government’s Efforts toward SMMEs Development**

In terms of the South African government’s effort toward the implementation of SMMEs in the country for local economic development, it is noted that one of her portfolios is to grow the economy and some do so effectively by supporting SMMEs. Since the end of apartheid in South Africa, the growth of SMMEs has been a primary emphasis. As the country’s economic growth engine, SMMEs are said to have the capacity to create jobs and reduce poverty in rural regions (Chimucheka and Mandipaka, 2015). It is considered that SMMEs can bring about the necessary transformation in the economy through their work on job creation and poverty reduction at the grassroots level (Small Enterprise Development Agency, 2016). Designing and implementing proper LED policies is one approach to ensure that local communities benefit from the pro-SMMEs movement.

Furthermore, the government has sought to address the problem of skills shortages among present and future SMME operators through Sectorial Education and Training Authorities (SETAs), which manage employee upskilling (OECD, 2015; World Bank, 2007). Given that SMMEs are generally concentrated in certain localities, their growth is dependent on LED efforts spearheaded by local governments (Chimucheka, 2015). As a result, the Department of Cooperate Governance and Traditional Affairs (DCOGTA, 2015) contends that LED rules promote individuals to explore economic possibilities in their immediate surroundings. To that aim, the government tries to fill capacity shortages that may occur in the small company environment.

As a result, LED initiatives concentrating on electrification, increasing service delivery, transportation concerns, and the regulatory framework have been addressed to address socioeconomic challenges (OECD, 2015). Fundamentally, the SMME sector has become the focal point of three government spheres in the country's fight against economic inequities. SMMEs contribute to economic growth by creating jobs and reducing the impact of poverty on historically disadvantaged areas (Tengeh, 2013, Chimucheka and Mandipaka, 2015). Given the socioeconomic disparities that exist in divided South African communities (Mukwarami et al., 2017), SMMEs have emerged as a strategic instrument in the battle against poverty at the grassroots level.

The government offers several assistance programs to youngsters through specialized organizations, including sector-specific funding, research and development, and skill development (OECD, 2015). The National Development Plan (NDP) is a new effort of the government that intends to abolish poverty by 2030. One of the NDP's key aims is to promote the growth of SMMEs inside designated local economic zones. The NDP anticipates that its efforts will increase yearly economic growth by 5%, and SMMEs will play a vital part in reaching this goal by 2030.

### **3. Research Methodology**

The study empirically examined the re-thinking the sustainability of local economic development through entrepreneurship in South Africa. The paper adopted a qualitative approach with a systematic analysis of the literature of the baseline data collected, which form a part of a collection of a randomized controlled sample. Literature was reviewed from different domains. The study used desktop research (also referred to as secondary data analysis) to collect data on the topic under study. To give credibility to the information retrieved from different domains, the utilised sources included book chapters, journal papers, thesis and dissertations. Through advanced search using keywords.

### **4. Analysis and Results**

#### **4.1. Government's Efforts in Responding to Economic Development Challenges: Programs**

The South African government since 1994 has responded to socioeconomic injustices by implementing a variety of economic development programs, including the Reconstruction and Development Programme (RDP) (Enaifoghe, 2019a; Enaifoghe and Adetiba, 2018), which brought positive socioeconomic changes to poor communities by ensuring that poor people have access to essential services such as water and housing (Enaifoghe, 2019b). The Growth, Employment, and Redistribution (GEAR) program were launched in 1996 with the same socioeconomic objective as the RDP, but with an emphasis on increasing the economy, generating jobs, and redistributing wealth (Enaifoghe, 2019a; Enaifoghe, 2019b, Enaifoghe and Asuelime, 2018a). The Accelerated and Shared Growth Initiative (AsgiSA) concept was developed ten years later (in 2006) to speed economic growth by targeted sharing of the rewards of the developing economy (Enaifoghe, 2019a; Enaifoghe, 2019b, Enaifoghe and Asuelime, 2018b).

The New Development Plan, which was launched in 2010, was aimed at discovering viable methods to jump-start economic growth. The NDP was created in 2012, with one of its goals being to correct socioeconomic inequities by growing enterprises in specified geographical areas (Enaifoghe, 2019a). However, the NDP included provisions for other economic initiatives such as the Industrial Policy Action Plan, the National Infrastructure Plan, and the National Industrial Policy Framework (NIPF) (Enaifoghe, 2019a). Through LED initiatives, the NIPF sought to accelerate industrialization by encouraging diversification, and the creation of labour-intensive industries (Enaifoghe, 2019b). The intensification of

output in the industries, and the integration of previously excluded South Africans into the mainstream economy (OECD, 2015; National Planning Commission, 2011).

#### **4.2. The Role and Contributions of SMMEs to Economic Development**

To understand the role and contributions of SMMEs to economic development from an international angle, according to studies, SMEs employ an average of 65 percent of the working population and account for 75 percent of overall gross employment creation (Mukwarami, Mukwarami, and Tengeh, 2020; Mukwarami and Tengeh, 2017; OECD, 2015). In the context of South Africa, the relevance and contributions of SMMEs have been well documented (Mukumba, 2014), even though unemployment remains excessively high by international standards, at 26 percent and above. SMMEs are the preferred mode of economic growth and socio-economic development in South Africa (OECD, 2015; Edwards and Rankin, 2015). According to the Department of National Planning and Evaluation, SMEs will produce 90 percent of jobs by 2030 as a result of the NDP.

However, the South African Institute of Chartered Accountants (SAICA, 2015) feels that such an ambitious objective would be impossible to achieve unless the government alters its approach to SMME growth. As of the second quarter of 2015, a snapshot shows an increase in the number of persons engaging in entrepreneurial activity. The related increase in employment during this period might be attributed to people working in the informal economy, albeit quantifying their contribution is difficult (Statistics South Africa, 2015). In the other direction, the contribution of SMMEs to GDP has been steadily increasing. All else being equal, this may be interpreted as evidence of the efficacy of pro-SMME policy.

#### **4.3. Challenges Faced by SMMEs and the Financial Inaccessibility**

The difficulties surrounding the survival and expansion of SMMEs have gained traction throughout the years as a consequence of the economic effect they have. Regardless, SMMEs face several hurdles to exist, much alone developing. On that point, SMMEs face several challenges related to funding, the environment, and management (Brink et al., 2003; Brinders et al., 2003). Inability to get funds Capital is the lifeblood of the business, and its availability has a wide-ranging impact on the development and expansion of SMMEs. According to several research (see Mukwarami and Tengeh, 2017; Agwa-Ejon and Mbohwa, 2015; Chimucheka and Mandipaka, 2015; Tengeh, 2013). According to several writers, like Mutyeniyoka and Madzivhandila (2014), financial aid organizations such as Khula Enterprise Finance and the South African Microfinance Apex Fund (SAMAF), which are designed to give financial help to small enterprises, are not efficiently operating.

##### **4.3.1. Inadequate Business Skills**

The availability of finance does not ensure the success of the firm, and intellectual capital is undeniably a prerequisite for any business to begin operations. Along these lines, existing literature identifies the business management abilities required to keep a company growing: leadership, financial management, information management, networking, and human capital management (Mukwarami and Tengeh, 2017).

##### **4.3.2. Inadequate Technological Resources**

The relevance of access to technology in the growth of SMMEs is well established in the literature, with special emphasis placed on its facilitation of access to both local and worldwide markets, as well as the exchange of business information (Enaifoghe, 2021; Enaifoghe, Balogun and Afolabi, 2021; World Bank Group (2021). Fatoki and Garwe (2010) discovered that a lack of technical infrastructure hampered the expansion of SMMEs in South Africa in similar research. The lack of technology in the SMME sectors has contributed to the problem of SMME operators having insufficient market knowledge (Oreku et al., 2009; Ocloo et al., 2014). As a result, it is critical to understand that new technology is critical to the development of SMMEs since it gives a plethora of options for SMME operators to explore.

### 4.3.3. Xenophobia

Targeted assaults against foreign-owned SMMEs in South Africa are on the rise, notably in townships where foreign immigrants hold the bulk of small businesses in the form of spaza stores. The incidence of xenophobic-related assaults has a detrimental impact on the expansion of SMMEs in rural and township regions (Dlamini, Adetiba, Enaifoghe and Mlambo, 2020). In South Africa, studies have shown that xenophobia is a possible impediment to the development of SMMEs (see Asoba and Tengeh, 2016; Tengeh, 2016). The study emphasized the harmful impact that competition and xenophobia had on immigrant-owned companies in South African communities.

## 5. Theoretical Framework

### 5.1. Understanding the Classical Approach to Economic Development

The classical approach can be adopted to address and re-think the local economic developments through the establishment of entrepreneurial programs in South Africa for sustainable development. According to Adam Smith and his Classical school followers, economic progress is the result of two factors: division of labour and the market, in which the activities of numerous buyers and sellers influence societal consequences (Kaszczyszyn and Sypion-Dutkowska, 2019). Around 10 Individuals and countries can increase their 'Wealth of Nations in the Classical meaning by specializing in activities where they have a competitive advantage and exchanging the surplus of their goods with other nations (Haninger, Ma and Timmins, 2017). As a consequence, trade should result in mutual advantages for all trading parties in terms of output, revenue, and job creation. As a result, an increase in output and income (GDP) was regarded as a measure of progress.

A country is deemed to be developing as long as its GDP per capita rises. However, this is a relatively limited perspective of development since it ignores the problem of rising economic inequality as well as the human dimensions of development: poverty, deprivation, happiness, education, health care, capacities, unemployment, and gender (World Bank, 2009). Furthermore, trading patterns have not always favoured emerging countries (Todaro and Smith, 2009). In many cases, developing nations' trade conditions have deteriorated because they specialize in basic and agricultural exports. These items' prices tend to change a lot, and they have a low-income elasticity of demand (Thirlwall, 2008). On the other hand, many LDCs, particularly in Africa, tend to specialize in and trade in abundant mineral resources and oil. To borrow Schumacher and Pearce's terminology, Africa is not short of resources, whether they are 'God-given' (primary) or man-made' (secondary) (Leigh and Blakely, 2016). The availability of resources is therefore critical to the development process.

Many resource-rich countries, however, have a dismal record of economic development: the so-called "resource curse." Any growth route must ensure the well-being of persons in the current and future generations. Some of the resources are non-renewable and prone to depletion, and increased usage of scarce non-renewable resources puts future livelihoods at risk. We are ultimately responsible for the extinction of life on our planet if we ruin it. The question that remains is whether this progress is sustainable. According to Schumacher and Pearce (2002), as a foundation for sustainability, we must learn to live in harmony with the environment and with one another. If present resource-use behavior is unsustainable, it begs the issue of how well-being and opportunities will be created in the future. Can technical advancements lead to increased productivity, hence propelling economic growth and sustainable development?

The essential aspect of sustainability is the present generation's effective management and harnessing of a diverse portfolio of money, labour, and resources (natural and environmental) for human well-being now and in the future (Atkinson, Dietz and Neumayer, 2007). Excessive government interference in the economy leads to rent-seeking behaviour. Other elements that influence economic development, of course, include the availability of a sufficient pool of trained labour, access to technology, openness to trade, capacity to manage finances, and capacity to innovate and adapt to changing conditions.

## 6. Discussion of Findings

### 6.1. Nexus Between Entrepreneurship and Local Economic Development

Entrepreneurship is a key aspect of every society's growth. As a result, there is reason to assume that entrepreneurship matters, and sometimes to speak as if it is the only thing that counts (Oswald, Proto and Sgroi,

2015). Entrepreneurship, according to Peter Kilby (1971), is the famous Heffalump, "a gigantic and important animal that has been chased by numerous persons using various trapping equipment, but no one has so far succeeded in capturing him." Everyone who claims to have seen him says he's huge, but they dispute on his specifics... and the hunt continues.' According to Peter Drucker (2002), entrepreneurship is not mystical, it is not mysterious, and it has nothing to do with DNA. It's a fact of thinking and like any discipline, it can be learned.

According to Harrison (2005), entrepreneurs have an innate proclivity; it is instinctual and in their DNA. It is critical to understand that entrepreneurship does not occur in a vacuum. It thrives in an atmosphere that encourages entrepreneurs to take risks when economic and noneconomic conditions are favourable. According to Schumpeter (1934), the entrepreneur is the hero of the economic growth process. In an otherwise stagnant equilibrium condition, he causes change. However, Kaszczyszyn et al (2019), propose that change and growth occur through persons who have a high degree of need achievement (n-Ach). These people work for achievement and growth not for the sake of societal recognition or personal gain, but for an inner sense of accomplishment for having achieved something.

Entrepreneurship presents itself in a variety of ways, and there are many types and degrees of entrepreneurship: o in the informal sector o in the formal sector o in SMMEs o in the cooperative sector o in the NGO and civil society sector o in the destructive crime sector (Leigh and Blakely, 2016). Some work as social entrepreneurs at the regional or local community level to satisfy community needs, while others work in the commerce sector to meet market demands. The quality of entrepreneurship and entrepreneurs is crucial for the life and growth of regions and rural communities, just as it is in a formal corporation. Thus, entrepreneurship is obviously linked to the practice of Local Economic Development (LED).

This is a strategy for economic development that permits and encourages local citizens to collaborate to achieve long-term economic growth and development, resulting in economic advantages and enhanced quality of life for all residents in a local or municipal region. The diversity, number, and expansion of local efforts to foster entrepreneurship and small company development are expanding. This interest in supporting entrepreneurship in local development stems from the view that the emergence of new shareholders in established enterprises not only corrects previous imbalances but also opens up new economic avenues with numerous advantages.

Part ownership in one firm leads to an almost universal desire for ownership of one's wholly owned enterprise, and the central government and local municipalities, in their desire to combat local problems (KwaZulu-recent Natal's shift to dealing with unemployment is an example), are attempting to foster this new group of entrepreneurs through empowerment procurement and development schemes. In South Africa, much progress has been achieved with these programs, but it is too early to establish their net advantages. And, of course, the social, political, and economic conditions that exist locally influence the extent to which these advantages are realized. As a result, we must not squander this new local development and entrepreneurial links by failing to provide effective governance for people wanting to improve themselves.

## **6.2. Development Approaches in South Africa**

To advance development and stimulate entrepreneurship, South Africa has embraced a big-push, state-development model. Various national and regional policies and initiatives have been implemented to accelerate economic growth and foster entrepreneurship through the establishment of SMMEs. This is founded on the solid understanding that SMME entrepreneurship positively contributes to a country's economic growth, job creation, innovation, competition, poverty alleviation, income generation, and individual wealth. A few such examples are listed below. The Macro Economic Research Group (MERG) Report, the Reconstruction and Development Programme (RDP), the GEAR strategy, and the Small Business Act of 1996. The Small Enterprise Development Agency (SEDA), the Khula, Ntsika, Umsombovu Youth Fund, the Accelerated and Shared Growth Initiative (ASGISA), and the Sector Education and Training Authorities are among them (SETAs) (Enaifoghe, 2018a).

The National Empowerment Fund 1998, Affirmative Procurement Framework Act 2000, and broad-based Black Economic Empowerment (BEE) initiatives. Considering all of these measures, the degree of entrepreneurship in South Africa, both nationally and provincially, remains quite low and has, surprise,

dropped in recent years. Supporters of state planning or developmental states claim that the state, rather than a market-oriented system, should act as a catalyst in a country's growth process. However, the 'Washington consensus' holds that the desired policy framework for economic growth and development is contingent on governments granting more leeway for the market-oriented system. Certain standards of good behaviour are vital for supporting growth and development, according to the initial Washington consensus of the 1990s.

The initial Washington consensus for South Africa's development strategy relied on policies ranging from fiscal discipline to trade liberalization, as well as privatization and property rights. As a result, an economy that practices fiscal discipline implements tax changes that encourage risk-taking and entrepreneurship, is open to FDI, and pursues an export-oriented strategy is more likely to thrive. There are significant difficulties that must be acknowledged. When elections are approaching, countries tend to run budget deficits and increase public spending as a percentage of GDP.

### **6.3. Role of Institutions and Good Governance**

Institutions, as broadly defined, are the dominant behavioural rules of the game in society that regulate and influence human relationships (North, 1990). Institutions can be formal (created by legislation, legal contracts, and regulations enforced by external parties) or informal (created by individuals) (established by moral codes of conduct, norms, traditions, customs, and self-enforcing agreements (Maduku and Enaifoghe, 2020). Institutions are essentially standards of behaviour that enable transactions and guide economic agents' decisions. Good governance and institutions are critical for economic development and progress. Citizens, legislators, public officials, and service providers are all involved in governance (Maduku and Enaifoghe, 2018).

Governance is defined by the World Bank as the process through which public officials and organizations obtain and wield authority to deliver public goods and services such as education, health care, infrastructure, and a favorable investment climate (World Bank, 2008). Corruption should be eliminated through good government. According to Maduku and Enaifoghe (2020); Maduku and Enaifoghe (2018), good governance should hold politicians responsible for their actions and provide citizens with a role in decision-making processes. Good governance, according to the South African King III Report, is about effective and responsible leadership that is characterized by discipline, transparency, independence, accountability, responsibility, fairness, and social responsibility (King, 2009).

The proportional importance of formal institutions grows as an economy grows and the scope of market trade broadens and deepens (Enaifoghe, Maramura, Maduku et al (2020). Because markets do not self-create, they require institutions. For markets to work efficiently, institutions that create and preserve property rights are required, and individuals must be able to depend on the terms of contracts signed with others and follow due process in courts of law (Rodrick, 2007). Growth and development are related to good institutions. According to the IMF (2003), four types of market-supporting institutions are required to promote growth and economic performance.

As a result, for a country to be economically successful, it needs institutions that should: "protect property rights, uphold rules of law and rein in corruption or provide appropriate regulation (of markets) to counteract the sources or consequences of market failures; support macroeconomic stabilisation and ensure a sustainable fiscal stance; promote social cohesion, guarding against extreme poverty and reducing civil conflict (conflict management)". The World Bank's research from 1996 to 2008 indicates that governance and growth go hand in hand; nations with stronger governance develop faster. The level of real income per capita is connected to the quality of institutions. When institutional quality improves, there is an overall improvement in people's income and real GDP per capita (World Bank, 2003). Improvements in institutional quality have a considerable influence on growth rates in Sub-Saharan African nations.

Changes in the policy environment, according to a World Bank study (2003), have a considerable, albeit minor, influence on a country's economic performance. Institutions include the level of legal protection for private property and the quality of government. Nevertheless, it is important to note that the government has a key role to play in terms of advancing the socio-economic development of a country. This function can be played by providing infrastructure, basic education, health care, and social capital, among other things, to compensate for market inadequacies and failures. State involvement to ostensibly alleviate a market constraint frequently leads to additional failures and, as a result, rent seeking by public authorities to the disadvantage of private individuals (Krueger, 1990).



However, this creates a new source of failure since the correct individuals are not making choices or establishing policies (Mijiyaya, 2008). All too frequently, those in positions of authority who are expected to look after the poor and vulnerable are the ones who plunder the state's resources to further their greed and selfish goals.

#### **6.4. Governance Indicators and Entrepreneurs in South Africa**

In the case of South Africa, governance metrics based on a variety of sources appear to be falling on several important criteria. A deteriorating trend in governance indices may not be a positive reflection for long-term growth and development; yet, this does not rule out the possibility of an affluent South Africa serving as the engine of Africa as Japan did in East Asia. Regular elections, as well as transparency and openness in decision-making, are required for voice and accountability (World Bank, 2010). The expected media control law may stifle the voice and accountability that are hallmarks of good or democratic administration. The following are the important findings: Maintenance of peace and political stability is a healthy sign for growth and development, this measure rose from 28% in 1998 to over 40% in 2019.

Government effectiveness decreased from over 80% in 1998 to below 80% in 2009. This may reflect that institutions of service delivery need to be improved to keep them responsive, accountable and responsible to the citizens. From 1996 to 2009, regulatory quality stayed relatively constant. This demonstrates that the government may usefully control activities that appear to benefit the people. The rule of law measure in 1996 was 54%, and that it was almost the same in 2008, but somewhat improved in 2009. There are indications that the rules of justice and the public interest are being followed and are not being 'abused' by those in positions of power or influence.

#### **6.5. Entrepreneurship in South Africa**

It should be emphasized that South Africa is rich in natural resources and minerals. In contrast, Mauritius, Korea, Japan, and Taiwan are all developing countries. Human capital is the primary source of growth in these nations. Nonetheless, these nations have managed to achieve significant economic growth and enhance the quality of life for their citizens, thanks in part to a strong work ethic and strong, successful, state-led investment efforts that have allowed entrepreneurship to flourish. South Africa requires more enterprises, both formal and informal. However, the business climate is not sufficiently appealing, as is the situation throughout most of Africa (World Bank, 2006). As Robert Guest (2005: 20-21) points out, conducting business in Africa may be difficult.

Bad roads, punctuated by traffic stops manned by bribe-hungry cops, make moving goods even small distances difficult and expensive.' Countries, particularly those in Africa, will need to overcome poverty and unemployment to build a more affluent future for SMMEs and bigger businesses (Moss, 2007: 223). Many African nations have a big, dynamic informal sector in which people participate in a variety of activities ranging from selling fruits and vegetables to sewing and manufacturing small things, not to mention prostitution and drug dealing. Individuals participate in these activities not out of a sense of 'opportunity entrepreneurship,' but rather out of a sense of 'necessity entrepreneurship.' Many of these untrained, desperate, and impoverished informal operators have no other option for work. They rely heavily on local resources and produce mostly for the local market.

Small operators in the informal sector collectively contribute significantly to their country's GDP and jobs. Policies or organizations that penalize value-added informal sector businesses would stifle the growth of indigenous entrepreneurs. In the informal sector, both micro-entrepreneurs and labourers are learning. Hopefully, enough formal small sector enterprises will emerge from the critical mass of informal operators. Entrepreneurs in Africa encounter more regulatory barriers than in any other area. More change is required in Africa since the costs of conducting business are exorbitant due to cumbersome rules and regulations, challenges in securing property rights, inefficient courts, poor institutions, and infrastructure.

Some African nations, such as Rwanda, Mauritius, Botswana, and Namibia, are seeing rapid economic growth as a result of efforts in bringing reforms to their business environments. Despite the benefits of a less regulated environment, Sub-Saharan African nations have experienced the lowest levels of business reform "intensity among other groups of countries over the years 1996 until 2008" (World Bank, 2009).

## **6.6. The Need to Promote SMME Entrepreneurship in South Africa**

Despite South Africa's aggressive effort to boost SMME entrepreneurship, the degree of entrepreneurial potential has fallen in recent years, according to recent Global Entrepreneurship Monitor (GEM) publications. According to the GEM report 2005, South Africa has the lowest levels of entrepreneurial activity among emerging nations, ranking lower than India, Brazil, Mexico, and Argentina. According to Global Entrepreneurship Monitor (GEM) data, South Africa's early-stage total entrepreneurial activity (TEA) fell from 9.43 percent in 2001 to 7.8 percent in 2008 and 5.9 percent in 2009. South Africa placed 35th out of 54 participating nations in 2009, with a TEA (5.9 percent) that was lower than the average (11.7 percent).

The TEA is a measure of the percentage of people between the ages of 18 and 64 who are active in starting or running a new business for up to 3.5 years. This reduction from 9.43 percent in 2001 to 5.9 percent in 2009 reflects the fact that fewer people (5.9 out of 100) between the ages of 18 and 64 started businesses in 2009 than in 2001. (GEM, 2010; Herrington, Kew and Kew, 2010). As a result, it appears that the amount of entrepreneurial activity is insufficient to support South Africa's development and employment objectives. Enterprise growth through public sector promotion should be a profitable investment, but the results have been unsatisfactory. South Africa outperforms other growing countries such as Thailand and Mexico, South Africa establishes and sustains fewer businesses per head of the population.

A reduction in the amount of entrepreneurship has major repercussions for local and national employment generation. This is especially important given South Africa's high levels of unemployment, crime, poverty, economic inequality, service delivery problems, and budget deficits. A study of the business environments in four nations (Mauritius, Botswana, Singapore, and South Africa) suggests that if South Africa wants to foster greater entrepreneurship, it must strengthen its wide economic, social, and political governance environment (as the tables above illustrate). It is clear from the chart above that launching a business and creating jobs in South Africa is far more challenging than in Singapore and Mauritius.

When the labour market is flexible, more jobs are created. Firms may be hesitant to recruit labour if they are unable to terminate it. The government's involvement in furthering development is critical. Economic growth may occur without development. As Sen (1989) points out, empowerment implies strengthening people's skills rather than imposing additional regulations and rules. This may be accomplished by providing individuals with education and training, health care, necessities, the freedom to pursue their interests and abilities, and chances for advancement. While the government's involvement is critical, it is critical that the government confine its operations to those in which it has a competitive advantage and enables the private enterprise to flourish.

The institutional context in which operations are carried out is crucial for economic growth and development. South Africa has the potential to become richer and more successful. There is no one development plan. Many African countries are still on the wrong track. The solutions to Africa's economic difficulties are in the hands of Africa's leaders, who desperately need to be inspired by East Asia's achievements (Mills, 2010). In an interconnected and global world, they must adapt to change, adopt new technologies, and capitalize on trade possibilities. Africa is growing, with a market of 900 million African customers; it can reinvent itself with "passion in the voices of entrepreneurs, the leadership of global firms, resolve... of the Diaspora, and hope among young Africans" (Mahajan, 2008: 219-220).

It cannot, without a doubt, rise with terrible administration or leadership, bad policies, and bad institutions. Both the public and private sectors must play supporting roles at all stages of growth; otherwise, entrepreneurship, which is vital for individual and national success, would be suboptimal.

Finally, in today's high-tech, the knowledge-driven era of growth, most new technologies are represented in specialized gear, such as new computers or cellular phones, and the concepts necessitate the application of education and skills (human capital) as well as entrepreneurship. Human capital and knowledge generation are crucial for long-term growth and development. While funding may be a constraint in some circumstances, bad governance is frequently a barrier. Foreign aid can help to bridge the financial gap. Foreign help, when appropriately invested, has the potential to raise productivity, increase saving and investment, and ultimately lead to self-sustaining prosperity.

## 7. Conclusion

In conclusion, the study looked at the sustainability of local economic development through the promotion of entrepreneurship programs at the grassroots level in South Africa. It was indicated that both scholars, development practitioners, and stakeholders have globally recognized the critical role of local economic development (LED) in creating jobs, reducing poverty and improving quality of life. The study discovered that to achieve dynamic local development, all areas of local communities must be addressed in an integrated and holistic manner, which includes the economy, social, welfare, environmental, and political challenges. It also finds that to achieve developmental success, a complete strategy for a given region must be developed.

Traditional macroeconomic policies have historically been unsuccessful in generating an enabling developmental environment at the local level, and LED has presented an alternative to development through the promotion of entrepreneurship. The study acknowledged South Africa to be a resource-rich country with incredible development potential. Looking at her capacity to effectively host the 2010 World Cup proves this to be true. South Africa, on the other hand, can do a lot better to encourage entrepreneurs and small and medium-scale businesses at the grassroots level.

To do so is by encouraging entrepreneurs and small and medium-scale businesses at the grassroots level, the study recommends the need to prepare citizens with the needed skills to contribute to economic development. As a result, effective leadership, institutions, and entrepreneurship have key roles to play. The study further recommends the need to establish excellent governance in the social, political, and economic elements for the implementation of local development strategy.

### 7.1. Further Study

As it is well established that no study is exhaustive and other possible studies may arise, this study recommends the examination of challenges faced by Local Economic Development, Challenges and possible solutions to tackle the identified challenges in the South African context.

**Author Contributions:** Both Authors contributed equally to the development of this paper.

**Acknowledgements:** I wish to acknowledge the following special people who stood by me and inspire me with their moral support and encouragement while writing this research paper, thank you Anita Walaza and Jordan Eromonsele Enaifoghe for your support, you are highly appreciated.

**Funding:** This research received no external funding.

**Conflicts of Interest:** The authors state that they have no conflicts of interest.

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