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Government Finance Institute Provision: Impact of Enterprise Development on SMMEs Growth and Local Economic Development in Gauteng

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A research report submitted to the Faculty of Commerce, Law and Management, University of the Witwatersrand, in partial fulfilment of the requirements for the degree of Master of Management specialising in Entrepreneurship and New Venture Creation

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ABSTRACT

Public Enterprise Development has been applied by government to stimulate the growth of SMMEs, which are identified as a key to job creation and local economic development. This report examines the impact of public enterprise development through provision of funding by Gauteng Enterprise Development (GEP) to SMMEs in Gauteng. The research examines data on SMMEs that received Enterprise Development funding between the period of 1st April 2006 and 31st of March 2016 from GEP in the Gauteng province. The data was analysed from June 2016 with the focus on the growth in turnover and employment figures prior to and after the SMMEs participated in the GEP support program. This paper uses a quantitative research approach and positive paradigm is assumed. Also, a quasi-experimental research study is used similar to a prior study by Leeuw (2010), with a t-test to measure the growth. This implies that funding, as an aspect of public enterprise development, has a positive influence on the sales and employment growth of SMMEs which in turn has implied positive effect on local economic development (LED) in Gauteng. The results from this study showed that the number of employees increased by an average of 13 employees per company after the GEP intervention from the original average of 8 employees before the awarding of the loan. However, the data analysis of the t-test summary statistics provide sufficient evidence that Hypothesis 1: A positive direct correlation exists between finance provision and growth in employment of SMMEs, is not supported. The difference in the number of employees is not statistically significant since the p-value of the t-test (p-value = 0.095) is greater than 0.05. Thus, the null hypothesis is not rejected and it is concluded that there is no correlation between provision of finance and growth in employment of SMMEs. Hypothesis 2: A positive direct correlation exists between finance provision and growth in turnover of SMMEs, the cross tabulation showed that there was an increase in the turnover earned. It is thus, concluded that there is a positive direct correlation between the provision of finance and the growth in turnover of SMMEs.

LIST OF ACRONYMS AND ABBREVIATIONS

BBBEE	Broad Based Black Economic Empowerment
BDS	Business Development Services
BEE	Black Economic Empowerment
CIPC	Companies and Intellectual Property Commission
CIPRO	Companies and Intellectual Property Registration Office
GCIS	Government Communication and Information System
GDP	Gross Domestic Product
GEM	Global Entrepreneurship Monitor
GEP	Gauteng Enterprise Propeller
IDC	Industrial Development Corporation
IFC	International Finance Corporation
IMF	International Monetary Fund
Khula	Khula Enterprise Development Fund
NCA	National Credit Act
NCR	National Credit Regulator
NEF	National Empowerment Fund
Ntsika	Ntsika Enterprise Promotion Agency
NGO	Non-Governmental Organisation
OECD	Organisation of Economic Co-operation and Development
SA	South Africa
SEDA	Small Enterprise Development Agency
SETA	Sector Education and Training Authority
SMME	Small, Medium and Micro-Enterprise
DTI	Department of Trade and Industry

DECLARATION

I, **Sibo Molo**, declare that this research report is my own work except as indicated in the references and acknowledgements. It is submitted in partial fulfilment of the requirements for the degree of Master of Management in the University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination in this or any other university.

Sibo Molo

Signed at ……

On the……. day of……2018

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Firstly, I like to acknowledge and thank my supervisor Dr McEdward Murimbika for his guidance and motivation throughout this period.

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1 CHAPTER 1: RESEARCH PURPOSE

1.1 Introduction

The purpose of this study is to determine the impact of funding by Gauteng Enterprise Propeller (GEP) as an aspect of Enterprise Development (ED) and Supplier Enterprise Development (ESD) towards the growth of SMMEs and consequently, growth in local economic development in Gauteng Province in South Africa.

1.2 Context of the study

In South Africa the legislative framework for the Broad-Based Black Economic Empowerment is provided by the Broad-Based Black Economic Empowerment Act 53 of 2003 (B-BBEE Act) and their generic Codes of Good practice which were published on 9 February 2007 (Government Gazette, No.36928). The main aim of the Act and codes was to address the legacy of old regime so as to increase the participation of black majority in the economy and grow emerging black owned SMMEs (The Entrepreneurial Dialogue, 2009). An Amendment was passed into law and the generic Codes were published in the Government Gazette on 11 October 2013 and took effect on 1 May 2015 (Government Gazette,No.37271).This has become known as Broad-Based Black Economic Empowerment Amendment Act, 2013 (Act No. 46 of 2013). One significant departure from old BBBEE framework, the new BBBEE framework introduce penalties for certain cases. (Werksmans Attorneys, 2015)

Enterprise Development and support for growth of SMMEs has become a priority in South Africa especially with Department of Trade and Industry's amendments to the Broad-Based Black Economic Empowerment codes of Good Practise (Government Gazette, No.37271). With billions of Rands committed to it every year by corporates and government, this investment has a potential to impact socio-economic transformation. However, it has not achieved

its potential nor accomplished the underlying intentions of the Broad-Based Black Economic Empowerment policy (Fröhlicher & Pothering, 2013).

The recent Broad-Based Black Economic Empowerment Amendment Act, 2013 (Act No. 46 of 2013) highlights the importance of Enterprise Development to government. This amendment aims to address the ineffectiveness of the old BBBEE codes by integrating enterprise development with preferential procurement (Amended Code Series 400). This then, provides private sector with an efficient tool for driving the growth of SMMEs and decreasing unemployment (Endeavour White Paper, 2013). Preferential procurement will have a high impact on companies which have only been doing procurement for compliance rather than aligning enterprise development with their supply chain. The new codes will pressure corporates to engage deeper with their enterprise development initiatives; the codes require a clear link between the primary business and enterprise development especially procurement needs. This guarantees enterprise development beneficiaries access to markets (Fröhlicher & Pothering, 2013).

Ray (2010) argues that existing government programs or efforts have not had an impact on the development of SMMEs in South Africa. Leeuw (2012) in his study on the effects of corporate enterprise development on SMMEs suggested further research on the effect of public enterprise development on SMMEs for institutes such as the Development Bank of South Africa. A research gap exists in examining the impact of a government–led against private sector approach to enterprise development for SMMEs (Rogerson, 2008). It is therefore, the objective of this study to contribute in filling this gap.

1.3 Problem statement

The objective of the study is to gain a better understanding of the impact of finance provision by government institutions as an aspect of Enterprise Development on the growth of SMMEs in Gauteng. To achieve this impact, objective research data from the GEP will be used to investigate the following:

1. The relationship between provision of finance and growth in turnover
2. The relationship between provision of finance and growth in employment

A Quantitative research approach is applied to quantify the impact of provision finance on the growth of SMMEs in terms of turnover and employment.

1.4 Research question

What is the impact of finance provision by government institutes on enterprise development on the growth of SMMEs in terms of profitability and employment in the Gauteng province?

1.5 Aim of the study

The aim of the study is to examine the impact of government finance programs on Enterprise Development and SMMEs in the Gauteng province. There is limited literature and depth in South Africa specifically on the impact of public enterprise development through the provision of finance to the growth of SMMEs. The study will contribute in filling that knowledge gap and to understand from a practical perspective if government Enterprise Development finance programs have positively contributed to the growth of SMMEs

1.6 Contribution of the study

The study would help identify possible bottlenecks, if any, that may be hindering the effectiveness of government Enterprise Development finance programmes in Gauteng Province.

This research will benefit Gauteng Enterprise Propeller (GEP) and Provincial Gauteng Local Economic Development which GEP fall under. The department of Small Business Development, the Economic Development and the department of trade and industry. Also the SMMEs that are seeking or considering financial support and Practitioners and Advisors in the ED space.

1.7 Assumptions

The research assumes that SMMEs that seek to access finance want to grow and that access to finance is critical and also, a huge deterrent in enabling such SMMEs' growth. The research also assumes that government agencies are more lenient to giving funding to SMMEs than traditional banks because of their efforts towards enhancing local economic development in the country (Rwigema et.al, 2008).

2 CHAPTER 2: LITERATURE REVIEW

2.1 Introduction

This section provides an understanding of the current state of SMMEs in South Africa through a look at the challenges faced by the sector and policy responses such as Broad Based Black Economic Empowerment (BBBEE) and Enterprise Development (ED). We then look at the method used to measure the growth of SMMEs follow by understanding of provision of finance as an aspect of Public Enterprise Development impacts the growth of SMMEs. We also examine Gauteng Enterprise Propeller (GEP) and other government SMMEs supporting agencies and development finance Institutes (DFI). Finally, we finish off with understanding the term Small Micro Medium Enterprises (SMMEs) locally and identical term globally and conclude the section.

2.2 Background

Since the election of the democratic government in South Africa in 1994, the promotion and core focus on policy has been on small, medium and micro-enterprise (SMMEs) (Rogerson, 2004a, 2004b; Urban, 2006; Timm, 2011). Given the history of South Africa and high levels of inequality, poverty and unemployment (Boraine et al.2006; Turok & Parnel, 2009; Freund, 2010; Grant, 2010; Schenck & Blaauw, 2011; Ligthelm, 2012), the government set out to transform the prospect of businesses owned by Black South Africans that were disadvantaged during the apartheid regime. Therefore, the impact of this policy intervention by government is even more critical for city development considering the historic challenges noted (Rogerson, 2013). The challenges and difficulties faced by this SMMEs are well documented and analysed in many studies (Rogerson, 2004a, 2004b, 2006, 2008; Timm, 2011; Ligthelm, 2012)

Another critical challenge for urban Africa is the need to create new jobs for the 7-10million youth entering the labour force annually, most of whom will come to the cities (Thornton & Rogerson, 2013; World Bank, 2018). Now, this youth with

a limited prospect within the large private sector, public sector or government parastatal, the focus on policy development for SMMEs as the driver of job creation in many countries has increased especially in sub-Saharan Africa were the majority of enterprises are SMMEs (Rogerson, 1997; Kessides, 2007). Turok (2012) argues that it is imperative to identify policies that will strengthen urban economies. It is further stated that in the last decade there is little research on the state of the economy of the African cities, which is remarkable considering the weight of this issue (Turok, 2010). The initial aim of interventions is on enhancing SMME development in secondary centres and major cities (Nel & Rogerson, 2005; Rogerson, 2011; Rogerson & Rogerson, 2012), not neglecting rural SMME development entirely as they are also critical issue in South Africa. The critical question to be asked is whether these SMMEs can be transformed into more productive high growth entities that can employ more people and contribute to the tax revenue, which in turn, will improve public service and infrastructure (Turok, 2012). To achieve positive results, the SMMEs need to address challenges such as the lack of capital, skills, technology as well as shortcomings in the support environment and operating in saturated markets (Grant, 2010; Meagher, 2010; Turok, 2010). Turok and Parnell (2009) are not convinced that current local government capacity is sufficient to address these critical challenges.

Global Entrepreneurship Monitor (GEM) South Africa reports have focused on factors that influence failure of the SMMEs and low entrepreneurial activity (GEM, 2013; 2014; 2015 & 2016-2017). Knowledge from the policy-makers and the decision-making process perspective on the survival of SMMEs is important, particularly, for those that support SMME development as an effective tool in addressing broad socio-economic challenges (FinMark Trust, 2006). An equally crucial part is understanding those that grow and factors that lead to their growth. This understanding is important for policy debate on the SMMEs sector. This would contribute to answering questions on whether the current SMME's growth policies should be encouraged or whether review on would is most effective is required. Shane (2009) argued that the policies that encourage start-ups are worthless, instead, government should support businesses with the potential for high growth.

This literature review will explore provision of finance as an aspect of Enterprise Development by the GEP and its impact thereof, on growing SMMEs,

2.3 Understanding SMMEs in South Africa: Challenges and policy responses

2.3.1 Background

An entirely new set of policy proposals and institutions were established in 1995 at the dawn of democracy in South Africa to strengthen SMMEs based on global best practise (Rogerson, 2004b). One of the proposals from these policy initiatives was to separate non-financial and financial institutions that support SMMEs (Rogerson, 2013). The first decade of SMME support in South Africa produce mixed results; the positive being the establishment of a new system for strengthening the SMMEs sector – a sector ignored during the apartheid regime era. Consequently, the negative result being that only the SMMEs targeted were high-growth businesses and black-owned ones struggled since SMME allocated funding for supporting programs was limited (Rogerson, 2004b).

In 2006, a new policy framework was introduced to improve the SMMEs policies; this was called the Integrated Small Business Development Strategy (DTI, 2006). This new framework focused on three pillars of SMME support, which are:

1. Expanding access to credit for SMMEs
2. Expanding market access for SMMEs
3. Government and regulatory reforms engagement (DTI, 2006)

Additionally, Small Enterprise Development Agency was launched aimed at facilitating better coordination of policy initiatives. However, when this new support structure was reassessed for the period 2006 to 2011, despite its target on black-owned SMMEs, its impact was still minimal (Osiba Research, 2011). Osiba Research (2011) argued that the continued failures of South African

SMME policies, are not so much from misguidance but from the government inability to implement the programs they initiated. South Africa has one of the worst survival rates of SMMEs in the world estimated at about 80% of the business failing in the first year of existence (Masutha, 2014; SEDA, 2010). It is stated that in South Africa, SMME chances of survival in the first 4 years is 37% and they have 70-80% chances of survival in the first year (Rachelson, D. 2015). This high mortality rate is shocking considering the number of initiatives and interventions by government since 1994 to date, and the amount money spend annually to address this issue however, they have failed to reverse the rate.

Neneh and Smit (2013) established that only a small portion of SMMEs in South Africa exhibit noteworthy growth potential and contribute to the creation of jobs. Herrington, Kew and Kew (2009) explain that only one per cent of all new SMMEs in South Africa are likely to grow and survive beyond the first year. Seleetse (2012) also discovered that a great number of SMMEs in South Africa fail within the first year of establishment, and in turn go on to contribute to the growing unemployment rate, and between 50 per cent and 95 per cent of SMMEs in South Africa are reported to fail in their fifth year. South Africa, despite the dawn of democracy, remains an unequal society with too many people living in poverty and heavy jobs scarcity.

Six factors impact the South African entrepreneurial ecosystem (SAB, 2017). The first factor, is the recession which was partly influenced by the Chinese slowdown in demand for our resources. The economy has been growing slowly at 0.1% (2016) with unemployment at 27.1% and incomes dropping. The second factor is the red tape and Bureaucracy State Owned Enterprise (SOEs) dominate and prevent private enterprise from entering key sectors. Also, procurement policies are overly bureaucratised and prone to corruption.

The dominance of large firms in the economy is the third factor considered. Since the economy is traditionally dominated by big firms who prefer working with their trusted long-term suppliers instead of new business such as SMMEs.

This therefore, limits small firms, as they are unable to enter the distribution network established by big brands.

The fourth factor is the dual economy in South Africa, almost one-third of the working population is excluded from the formal economy. This creates challenges for entrepreneurs from these communities. The barriers make it hard for them to gain market access as the current market is not adequate for new entrants.

And the fifth factor considered is infrastructure. The economy still struggles with energy constraints despite South Africa been the leader in sub-Saharan Africa. Plans have been made to maintain major power stations and to generate new capacity and managing demand (The Presidency SA, Oct.2012).

The last factor considered is the education system. Due to the past inequality in South Africa, the quality of education for most black learners is still poor; it doesn't allow for innovation and entrepreneurship creativity, which is essential for economic and social growth. Also, SMMEs are therefore, faced with recruiting poorly skilled labour. A good education system is essential as it develops the human capital required to develop an economy.

2.3.2 Access to Market

The core problem of SMME growth in South Africa is poor access to market (Timm, 2011). Rogerson (2013) argued that there are three key dimensions that need to be sorted out in South Africa regarding market access for different SMMEs:

1) **Sector disadvantage**:

   This comes from most of the SMMEs been over concentrated in specific activities and segments with little growth potential and only limited returns, most of them operate at survival levels. What will

need to be address here is policy that assists them to shift to activities with higher potential.

2) **Location or Geographical disadvantage**:

Where the SMMEs are located controls its ability to provide goods and services. Many SMMEs are forced to operate from peripheral areas in both urban and rural areas thus, constraining them from accessing market opportunities easily.

3) **Competitiveness of the SMMEs**:

The last market issue that must be addressed is strengthening the competitiveness of black-owned SMMEs relative to white enterprises competing with them so that they can access private and public sector procurement value chains. And, in some cases for urban-based SMMEs to participate in global markets.

Rogerson further states that in reviewing twenty years of government support for SMMEs in South Africa, it is clear that from 1994 one consistent thread is overcoming the market access challenge (Rogerson, 2013).

2.3.3 Economic links

Building an economic link is considered to be one of the quickest ways to accelerate SMME growth especially, through accessing markets and credit (United Nations Conference on Trade and Development, 2006). This is supported by widespread international literature (Jenkins, 2007; Jenkins & Ishikawa, 2009). In fact, in many countries this issue has become a mainstream policy issue rather than just a discussion issue. (Ram & Smallbone, 2003a, 2003b; Sonfield, 2010). Rogerson (2012) state that there is a “business case” based on internal evidence for large firms to support link programmes with small businesses as their supplier of services and products. Large enterprises are

realising the economic benefits of expanding their supplier base to include SMMEs (Adobor and McMullen, 2007).

Toomey (1998) highlighted that initiatives of linking SMMEs to large businesses is not a new phenomenon in South Africa; it goes into the apartheid era too. It was during the 80s and 90s that mining firms and other leading companies in trying to improve the capacity of black-owned firms launched a number high profile corporate initiatives to incorporate them into their supplier chains (NBI, 2006a). Even though, some of this initiative was said not be driven by economic motivation rather by a tactic to obtain local licenses to operate, they still became economical in the long run (NBI, 2006b) and there were exceptional cases before 1994. Also, prior to 1994 the private sector was very scare in assisting the development of black SMMEs to the extent that any inter-linkages with the private sector consisted more of social goodwill and from the non-core part of the large enterprises (Toomey, 1998). This corporate social responsibility became insufficient after the dawn of democracy in revitalising the economy as all groups from society participated in the development of the economy (Rogerson, 2013).

The government from 2005 adopted a more aggressive approach in trying to leverage private sector procurement (Rogerson 2013). It was around this time in 2004 that the Broad–based Black Economic Empowerment Bill (B-BBEE) was gazetted and for many, this was regarded as the most critical imperatives for businesses at that moment and for the future (Juggernauth et al., 2011). With some arguing that the B-BBEE act will put the spotlight on corporate South Africa in playing its part in readdressing the social and economic imbalance (Skae, 2006). This was further boosted by provision of B-BBEE Codes of Good Practice in 2007 and the associated score cards, strengthening the policy environment (Herrington & Overmeyer, 2006). The beauty of the code was that it articulated preferential procurement goals clearly, which is to highly encourage businesses to support black-owned entities through procurement which is basically market access into mainstream economy (Herrington & Overmeyer, 2006). It also offered a set of guidelines in implementing the act in a meaningful and sustainable way (Botha & Van Vuuren, 2006).

However, with the shift of government policies promoting support for SMMEs than Black Economic Empowerment (BEE) act, it led to opposite shifts by the private sector; they prioritised the objective of BEE over enterprise development. They could often achieve accreditation for BEE without placing any serious commitment on Enterprise Development (Altman, 2010). Many preferential procurement and Enterprise Development programmes in South African corporations are seen mainly as the cost of doing business in the country rather than a serious contribution in the corporate's future sustainability and as a result, they have had varying degrees of success (Rogerson, 2013). In 2010, Supplier Diversity Councils (SASDC) was formed with the aim of driving corporate economic transformations and pushing its member to practise supplier diversity (Joseph, 2010; SASDC, 2011).

2.4 The current state of SMME access to funding in South Africa

In South Africa, one of the worst challenges facing SMMEs especially, start-ups, is the lack of capital. Various studies and reports have highlight this challenge (Rogerson, 2008a; Discala, 2016). Masutha & Rogerson (2014) found that 67% of SMMEs finance their business from their own or through family savings and the rest through bank loans. This is actually a global challenge, as highlighted by the Global Competitiveness Report 2015/2016; that the global finance crisis has created new challenges for SMMEs in particular, access finance. It also declared that access to finance in advanced economies has moved from a seventh ranked problem factor (in 2007) to the most pressing concern for doing business in 2015.

Olawale & Garwe (2010) states that lack of capital seems to be the primary factor in South Africa facing SMMEs and this leads to their failure. This is a result of lack of access to finance from the formal sector i.e. formal banks (Fatoki & Ashah, 2011). The GEM Report 2015/2016 states that the financial crisis is the longest lasting and the most serious one of the last 80 years and has a dreadful effect on the economy and entrepreneurial landscape. Also, the

recovery has very been slower than expected which has led to the International Labour Organisation's World Employment and Social Outlook (WESO) report (2016) warns that this has made reducing unemployment and underemployment very difficult. It also argues that if no radical policy decision is made, the outlook of economics is going to continue weakening, projected at around 3%, which is significantly less than before the global crisis; a devastating effect on enterprises and workers.

The SAB ecosystem report (2017) identified access to finance to be the most consistently mentioned factor interfering with the ecosystem both at the seed and venture capital stage. It states that the criteria formal finance institute like banks is not conducive for SMMEs as they are deemed to be high risk. Also, South Africa is not seen as a huge well developed venture capital context as investors are discouraged by the high degree of perceived risk of start-ups. Other than low risk context, other causes mentioned are lack of access to finance, red tape, poor credit rating, collateral and stringent lending criteria that further inhibits entrepreneurs from accessing finance. The Global Bank Alliance (2011) attests to this obstacle, that SMMEs globally are struggling to access capital for the business. This is also highlighted by various studies (Herrington et al, 2009).

2.5 Conceptualising Black Economic Empowerment (BEE)

For us to be able to dissect and understand Enterprise Development we will have to grasp the BEE legislation as in a South African context Enterprise Development does not stand-alone but is an element of the BEE legislation governed by the Department of Trade and Industry (DTI).

The South African government has embarked on a number of programmes since 1994 that readdress the inequality created by the legacy of apartheid. One of those programmes is BEE, which focused on growing Black control of shares in major companies at the start. BEE emerged as a concept in the early 1990s even though some may argue that it can be traced back to the ANC's

Freedom Charter of 1955, which declares that 'the people shall share in the country's wealth and the country's land shall be share among those who work in it' (ANC, 1955; Ponte, Robert & Van Sittert, 2007).

BEE was identified by the ANC before it was elected in government in 1994. Their Reconstruction and Development Programme (RDP) is critical in addressing inequality created by apartheid legacy implemented by the ANC when it was elected in government (ANC, 1994). However, the process was slow in achieving what was intended and on the 29th of May 1998, the former president Thabo Mbeki debated that it was impossible to dream of unity and reconciliation of different races in South Africa if there is huge socio–economic disparities that still need to be overcome (Mbeki, 1998). It was this speech and other allegations that BEE aims to enrich a few connected people and forms a black capitalist class (Randall, 1996; Southhall, 2005, 2007), which led government to come up with the concept Broad-Based BEE. This is identified as the second phase of BEE (Mbeki, 1998). The focus was now not only ownership but other elements which are:

- Employment Equity
- Management Representation
- Skills Development
- Preferential Procurement
- Corporate Social Investment
- Enterprise Development

This led to a number of industry charters and series of codes been generated under the Broad-Based BEE Act which had to be complied (Ponte, Robert & van Sittert, 2007).

2.5.1 *First Phase of BEE (1994 -2000)*

The Reconstruction and Development Programme (RDP) were later replaced by the Growth, Employment and Redistribution (GEAR) government strategy, which was the economic policy framework of the first democratic South Africa.

GEAR was based on government constraint by market response (South African History Online, 2018). It aimed to reduce government budget, considering the tight monetary policy. Also the privatisation of state assets and free trade. The government continues to change other legislation measures in an effort to untie apartheid law; this includes Skills Development Act of 1998, Skills Development Levies of 1999, Employment Equity Act of 1998 and the Schools Act of 1996. Despite these measures, Black-owned businesses in the economy are still low (Ponte, Robert & van Sittert, 2007).

Hirsch (2005) argues that this was a result of the government lacking coherent strategy overall for BEE, and quickly moving away from the interventionist approach of RDP. It was assume that ownership changes (of companies and assets) will happen natural in private sector now that finance was available to the majority of the society. Also, as most of the early BEE deals were financed by Special Purpose Vehicle (SPV) linked to the stock market. When it crashed in the late 1990s, it reversed and reduced ownership in those deals (Ponte, Robert & van Sittert, 2007).

It is against this background that the Black Business Council appointed Cyril Ramaphosa (currently, the South African Deputy President) to lead the newly formed Black Economic Empowerment Commission, which aims to address the weakness of BEE and understand the process associated with it so as to codify BEE. This unintentionally took the debate slightly away from political towards system and technical implementation (BEE Commission, 2001; Ponte, Robert & van Sittert, 2007).

The Commission released its first report in July 2000 after two years and its finding were centred around the state taking more control in driving and monitoring BEE, emphasising that the BEE project is not only the accumulation of control by Black capitalists but exerting control over White capital as well. And, that South Africa remains in a crisis due the marginalisation of Black South African. It is also argued that unregulated markets tighten existing inequalities and thus, upholds structural racism (BEE Commission, 2001; Ponte, Robert & van Sittert, 2007).

2.5.2 *Second Phase of BEE (2000-2006): Broad Base Black Economic Empowerment (BBBEE) and Industry Charters*

It is said that the Broad Based BEE was popularised by the BEE Commission in the second phase of BEE (Ponte, Robert & van Sittert, 2007).The Petroleum and Liquid fuels (P&LF) Industry charter was the released in November 2000 launching the Historically Disadvantaged South African (HDSA) which controlled and owned 25% equity in companies holding interest in the South African oil industry over a ten-year period (Republic of South Africa, 2000). HDSA is a termed used for all people who have been discriminated on the basis of gender, race and disability (Republic of South Africa, 2000). This was followed by the mining charter, which demanded mining companies to commit 26% HDSA ownership of the assets in the same period of ten years (Republic of South Africa, 2002).

The critical part about these two charters is that they were also afforded regulatory weight in the Mineral and Petroleum Resources Development Act, which placed the ownership of mineral rights to the state and that, resulted in giving it the power to grant new order licences in return for attainment of BEE targets. This gives government leverage, that is, they can use licences as above or through quotas and buying power to apply political will in order to enforce ownership targets. Also, this two charters were government led and therefore, their power embodied in the legislation and clear sanctions could be imposed as compared to the later charters which will be discussed (Ponte, Robert & van Sittert, 2007).

The granting of licences is not always enough to enforce BEE as can be seen with the case study on industrial fisheries where it was a failure (Ponte & van Sitter, 2007; du Toit et al. 2007). The mining charter identified seven pillars of Broad-Based BEE:

- Equity/Ownership

- Human Resource Development
- Employment Equity
- Beneficiation
- Housing
- Affirmative Procurement
- Community Development

In addition, the scorecard accompanied the charter listing the target to be achieved in a five and ten year period. Initially, the scorecard used a “Yes or No” target but after much criticism it was changed to a specific percentage to measure compliance (Ponte, Robert & van Sittert, 2007).

Other BEE charters were released later in March 2003 by the Department of Trade and Industry Strategy document (DTI, 2003), additionally, the 2003 Broad-Based BEE Act was passed (Republic of South Africa, 2003). Both these made it clear that not HDSAs but Black South Africans are beneficiaries of empowerment and they are assisted by the state (Ponte, Robert & van Sittert, 2007). The only problem with the later charters for over the years is that non-compliance has no sanctions. No clear or serious punishment for companies that are non-compliant.

The BB-BEE Act later mandated the Codes of Good Practise with the aim of standardising the definition, weighting and the targets used in the generic scorecard as a tool for compliance. This becomes an interesting chain of compliance where the company who wants to have a good BEE rating censures those who don't comply along the value chain. They also prove compliance by producing evidence that they procure or engage with companies that need to be empowered in accordance with the Codes. This codes where developed by Empowerdex, a leading government accredited BEE rating agency. The other advantage of the Codes is that now instead of government been the gatekeeper, government accredited BEE agencies fill that space (DTI, 2005; Ponte, Robert & van Sittert, 2007).

2.5.3 *Third Phase of BEE (2006 - Current)*

The legislative framework for the Broad-Based Black Economic Empowerment in South Africa is provided by the Broad-Based Black Economic Empowerment Act 53 of 2003 (B-BBEE Act) and their generic Codes of Good practice that were published on 9 February 2007 (Government Gazette, No.36928). An Amendment was passed into law in 2013 and the generic Codes were published in the Government Gazette on 11 October 2013 and took effect on 1 May 2015 (Government Gazette, No.37271). This has become known as Broad-Based Black Economic Empowerment Amendment Act, 2013 (Act No. 46 of 2013).

The Broad-Based BEE Act and approach was envisaged so that it supports the growth and development of SMMEs, which some see as the third phase of BEE (Jack, 2006; Sanchez, 2006). Elements on the scorecard of Enterprise Development and preferential procurement specifically focused on developing SMMEs .The new amendment that consolidate of Enterprise Development and Preferential Procurement on the scorecard which increased the total points to 40 (Amendment Code Series 400). However, there is scepticism regarding the prospect of all this development, especially with the increase entry of foreign companies and multinationals (Chabane *et. al.*, 2006). Ponte, Robert & van Sittert (2007) argue that BEE will never really be radical as it can only take limited forms due to economic policy constraints incorporated in it. In addition, it is less focused on equity which serves to reassure White capital that the radical redistribution of assets will not take place.

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2.5.4 *Conclusion*

Having gone through the origin of BBBEE and its development, one will understand why as long as Enterprise Development is an element of BBBEE it will always be highly politicised, as is not just an economic and business concept to help grow SMMEs in general or alleviate unemployment and poverty

but is specific to the benefit of the historically disadvantaged. Therefore, when measuring its impact, one must not ignore the political context it operate within.

2.6 Conceptualising Enterprise Development

2.6.1 *Enterprise Development in the South African Context*

Enterprise Development in the South African legislation is classified as a component of Black Economic Empowerment which is government policy to enhance the economic transformation and participation of historically excluded and disadvantaged Black people (DTI, 2007). They were particularly marginalised from creating their own entities (Discala, 2016). This policy is under the control of the Department of Trade and Industry (DTI), and it has set up a special unit called the BEE Commission that makes recommendations that shapes the BEE policy. This has led to the introduction of the generic scorecard and set of codes of good practice which ED is a key pillar of (Singer, Amoros, & Arreola, 2015). The codes are all used to monitor compliance. Initially, BEE was focusing on two elements - ownership and equity. The Enterprise Development element was only introduced in 2005 and came to effect as part of the compliance scorecard towards end of 2007 (Southhall, 2004).

BEE Elements	Weighting
Ownership	20
Management Control	10
Employment Equity	15
Skills Development	15
Preferential Procurement	20
Enterprise Development	15
Socio-economic Development	5

Table 1: The Old Scorecard
(Leeuw, 2012: 36)

This might explain the lack of research regarding Enterprise Development; it still is a fairly new topic in South African context (Timm, 2011). Enterprise Development (see table 1 above) is framed under Code 600 of the Broad-

Based Black Economic Empowerment Amendment Act, 2013 (Act No. 46 of 2013) (Werksmans Attorneys, 2014). One must however, note that Enterprise Development is a worldwide term referring to the development and support of enterprises. In SA, particularly it focus on support for SMMEs that have a turnover below R50 million (Discala, 2016).

They are benefits associated with complying to the new code, like enabling companies to apply tender contracts with favourable points and obtaining business licenses for certain industries within the country (Werksmans Attorneys, 2014). The codes also promote access to funding for SMMEs via available

Element	Code series reference	Current Weighting	Revised Weighting
Ownership	100	20 points	25 points
Management Control and Employment Equity		10 points	Consolidated with Employment Equity 15 Points
Employment Equity	200	15 points	N/A
Skills Development	300	15 points	20 points
Preferential Procurement	400	20 points	Consolidation between Preferential Procurement and Enterprise Development 40 points
Enterprise Development	500	15 points	
Socio-economic Development	600	5 points	5 points
TOTAL		100 POINTS	105 POINTS

Table 2: Comparing Old and New Scorecards
(Leeuw, 2012: 39).

Enterprise Development programmes existence (Mkhize, 2014). One has to consider that with new codes, a significant 40% of the points earned is allocated to supplier and Enterprise Development (Hatfield, D, 2015). This is due to the recent amendment of BBB-EE codes which came into effect on the 1st of May 2015 and has highlighted Enterprise Development topic in South Africa (Werksmans Attorneys, 2014; Fröhlicher & Pothering, 2013).

Element	Weighting Points-Amended Codes	Weighting Points-Amended Codes
Ownership	25	20+3 Bonus Points
Management Control	15+4 Bonus Points	10+1 Bonus Points-Management Control 15+3 Bonus Points-Employment equity
Skills Development	20+5 Bonus Points	15-Skills Development
New Enterprise Development	40+4 Bonus Points	20-Preferential Procurement 15-Enterprise Development
Socio Economic Development	5	5
Total	**118**	**107**

Table 3: Comparison between amended codes and previous codes including bonus points. (NEF, 2015).

As seen in Table 3, points have increased from 107 to 118. This is moderate against adverse effect of new code. Fröhlicher and Pothering (2013) state that the man aim of Enterprise Development is used as a tool to achieve socio-economic change. The (Department of Minerals and Energy, 2010) also saw Enterprise Development as a means to achieve sustainable development for transformation especially in the SMMEs sector. In simple terms, corporates support their own business requirements while providing SMMEs with access to high markets. This is basically approaching entrepreneurship through Enterprise Development.

Companies, under the BBBEE codes and charters, are expected to commit 3% of their net profits after tax to be a recognised supplier of the Enterprise Development programme (Cargill, 2010). This could be in a form of interest-free loan, equity, grants, pro bono services, mentoring and training. As a result, companies take a variety of strategies and combination of approaches (The Entrepreneurial Dialogue, 2009).

Fröhlicher & Pothering (2013) state that there are three factors that are limiting the social economic benefit of Supplier Enterprise Development from reaching its potential and these include: (I) misalignment between the indicated motivation and its strategic implementation, (ii) business skills gap of SMMEs and, (iii) the lack of applications of particular impact goals and measurement frameworks.

So far without government intervention there is little evidence that businesses would have voluntarily ventured into the Enterprise Development space. Secondly, lack of business skills is an impediment to building reliable SMMEs business suppliers, and so far, a consistently effective business development model is yet to be identified. This has led to corporates choosing less resource and time intensive approaches for business development services programmes which might not be enough to facilitate proper growth and SMMEs readiness. And lastly, the metrics to measure the impact of Enterprise Development is not consistent and align properly for instantly measuring the amount spend rather than national impact metrics (Fröhlicher & Pothering, 2013).

It is the hope of the South African government that big corporates will support SMMEs by scoring BEE points by adopting Business Development instead of just Black ownership, which is perceived to be the easiest and most visible way to transform entities to strong BEE scores (Bignews, 2007). It was argued that a focus on black ownership which creates rent-seeking behaviour among skilled and wealthy Black individuals this will go a long way to support SMMEs (Mbeki, 2009). He further stated that individuals should rather choose to buy into large corporates especially listed once instead of starting their own companies (Mbeki, 2009).

2.7 Measurement of growth performance

The research will measure SMMEs growth, that is, changes in the number of employees and turnover in this study (Leeuw, 2012). Growth in business could be measured by using the size of market value, sales, employment or

production capacity (Eurostat-OECD, 2007:81), in addition to, assets, profit margins and profits (Olawale & Garwe, 2010). McPherson (1996) was critical about using turnover or net profits as a measure stating that since most SMMEs do not always keep proper records to the extent that even at present should you request management accounts it will be a struggle to get them.

However, a number of studies have found growth in the number of workers to be highly correlated with sales and that, estimates of employment are the same as those of sales (Evans, 1987). Also, policymakers' especially in government are often more concerned about employment as a growth barometer as we have seen with the NDP (2011). It set a goal of 11 million jobs by 2030; most of these jobs will come from high growth SMMEs. It was argued that employment does not reflect high productivity increase (Delmar et al, 2003).

Therefore, using this measure of growth should be effective and applicable in this study. Calculating average annual growth rates in this way also ensures that fluctuations in between are hidden, for example, if a firm had one employee when it started and then increased its staff, only to later let go of the employees and revert back to one employee. This study will focus on the endpoints and provide us with the important final results (McPherson, 1996). It was also found that growth in employment reflect the best concurrent validity (Sheperd & Wiklund, 2009)

Impact is defined as the effect that something has on another (Qin, 2010). In this study is measured by the effect provision of finance (as aspect of Enterprise Development) has on the growth of SMMEs.

2.8 Provision of finance as an aspect of Public Enterprise Development and growth of SMMEs

Whether access to credit is fundamental to the growth of SMMEs is big debate (The Entrepreneurial Dialogues, 2009). Some argue that provision of subsidised credit may have a perverse or neutral effect on economic growth as this

increases the entrance of low quality entrepreneurs (Ghatak al, 2007). Naude, (2008) made a case that low quality entrepreneurs may actually have an adverse effect on economic development. If the number of low quality entrepreneurs increases, this could result in high borrowing costs from credit facilitators and this imposes a negative effect on other entrepreneurs of high potential who therefore, borrow and invest little as a result (Ghatak et al, 2007).

It is understandable initial working capital or start-ups can be satisfied with retaining profits even informal borrowing, i.e. from relatives and friends, however, to expand the enterprise it is less debatable that some forms of external finance is essential (Nissanke, 2001). The credit can be in a form of loans, venture capital, micro finance, and development finance like Gauteng Enterprise Propeller (GEP), National Empowerment Fund (NEF), Independent Development Corporation (IDC) and Small Enterprise Funding Agency (SEFA) (DTI, 2005).

The Entrepreneurial Dialogues (2009) state the following as obstacles to access to funding in South Africa:

- **Matching discrepancies between mandate of the funder and entrepreneurs**

  An example is the IDC - its mandate is to fund businesses that require an amount above R1 million. Most businesses that apply for funding are usually below their threshold. Entrepreneurs seek amounts that are higher than the collateral to back up funds required.

- **Too many entrepreneurs in saturated markets**

  This business are not easy to differentiate and not attractive as result.

- **Entrepreneurs lack preparedness and attentiveness**

Entrepreneurs are usually not ready for the very stringent and lengthy application processes.

- **Entrepreneurs high expectation level**

  Entrepreneurs have unrealistic expectations that the funding process will be quick and easy.

- **Perception that capital is key to entrepreneurial success**

  Entrepreneur's lack of understanding of the entrepreneurial process do not realise that business acumen and skills are also critical.

Additionally, third parties usually prepare business plans for entrepreneurs and this can create a serious problem for financiers since, entrepreneurs do not understand the plans they are submitting for funding (The Entrepreneurial Dialogues, 2009).

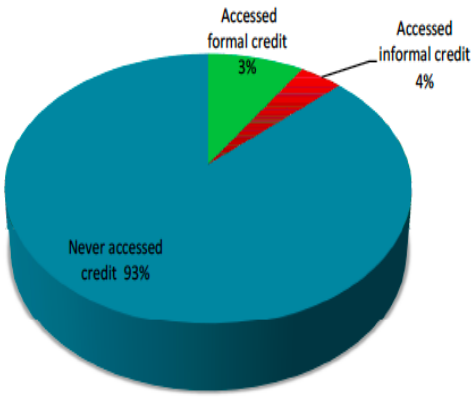


Figure 1: SMMEs credit accessed (FinMark Trust, 2010)

Access to capital is also mentioned as one of the four barriers in South Africa according to Endeavour White Paper (2013). Others include lack of access to the procurement pie, lack of infrastructure and shortage of networks and mentors. Kongolo (2010) cited lack of finance as the most serious challenge of SMMEs to grow and survive in South Africa, also, identified by SEDA as among the top three barriers (SEDA, 2012).

The same reality is reported by the 2010 FinScope survey of SMMEs in South Africa (see figure 1) that 93% of all SMMEs never had access to informal or formal finance and only 87% amongst registered businesses (see figure 2). It is evident that lack of knowledge or understanding about the advantage of funding led to many SMMEs not growing as highlighted by figure 3 (FinMark Trust, 2015).

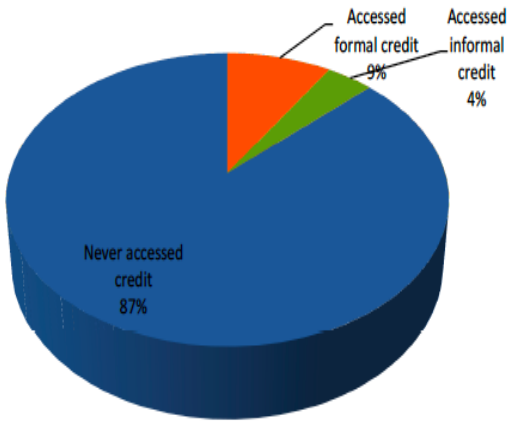


Figure 2: Registered SMMEs credit accessed (FinMark Trust, 2010)

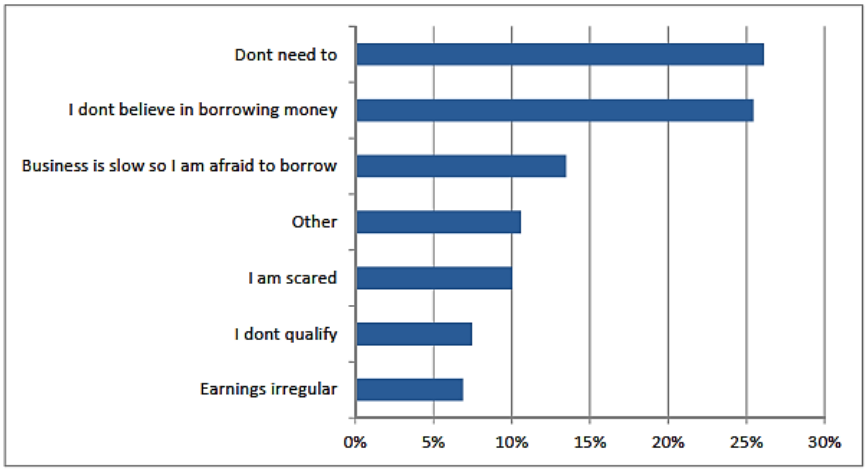


Figure 3: Key explanations for not borrowing (FinMark Trust, 2015)

The country has a population of 56, 52 million (StatsSA, 2017), however, the economically active population is far less (Endeavour White Paper, 2013). The GEM SA Report (2014) state that just like elsewhere in Africa, most businesses in South Africa cite lack of finance and low profitability as the reason for closing their business. It further identifies the following as the main sources of funding:

- Building societies and Banks
- Venture capitalist
- Angel investors

- Informal funders
- Entrepreneurs
- Funds by Government agencies

Government Enterprise Development is mentioned as a critical source of funding for SMMEs (Endeavour White Paper, 2013).

The other critical issue found by the GEM SA Report (2014) was that very low numbers of entrepreneurs even know about the government finance initiatives available for SMMEs. In Gauteng, only 14.3% know about IDC, 20.4% NEF and Department of Economic Development and Tourism (DEDAT) and GEP is at 0%.

Government Agency	Heard of %		
	Western Cape	KZN	Gauteng
National Youth Development Agency (NYDA)	33.7	53.5	65.9
Small Enterprise Finance Agency (SEFA)	11.3	21.7	4.0
Small Enterprise Development Agency (SEDA)	54.8	26.6	48.5
Industrial Development Agency (IDC)	12.5	31.7	14.3
National Empowerment Fund (NEF)	4.6	10.0	20.4
Department of Economic Development and Tourism (DEDAT)	11.1	0.0	0.0

Table 4: Usage and Awareness of Government Initiative
(GEM SA Report, 2014)

The recent GEM SA Report from 2015-2016 reveals harder findings, National experts were interviewed in 2015 about critical impediments in South Africa's entrepreneurship ecosystem. The three most critical impediments mentioned were government policy (61%), access to funding (44%) and education (42%).It stated that two-thirds of the experts cite government as a huge constraint yet government is known to have identified entrepreneurship via SMMEs as key to economic development and job creation. So much so that recently the government created a new ministry of small business development led by Minister Lindiwe Zulu in acknowledgement of its importance. Therefore, one will expect it will be the first to create an enabling environment for businesses to

flourish. Further comments from experts regarding constrains to funding include the following:

- Scarcity of angel investors, they are restricted to close-knit families and communities.
- No proper funding model for activities, i.e. business plan development, prototype development and business viability assessments.
- Funding institutes are managed by bureaucrats who make it difficult with their long requirement for entrepreneurs for funding.

Entrepreneurs lack knowledge, e.g. whom to approach and criteria funders use to assess the viability of their funding proposal.

- Lack of institutional capital to seed venture capital funds as they mainly fund private equity.
- Poor administration from funding programmes resulting in funds wasted and entrepreneurs funded not accounted for properly. People that apply are often inexperienced in the field.
- Government funding only focuses on previous disadvantaged individuals while, there are other potential entrepreneurs who could have built high growth businesses and made a significant difference in reducing unemployment but are denied access to funding.

The banking sector in South Africa is too risk-averse and most often don't fund new and small businesses. Government funding institutes as well are under pressure to make a profit and be self-sustaining, and as a result, they use the same risk matrix as the banking sector resulting in them becoming risk-averse as well.

There are also security-based lenders (requiring salary slips) which encourage more formal sector employment to access funding for a vehicle, house or even a personal loan.

Also, loans must be secured by physical property and most SMME entrepreneurs struggle to access this finance as they lack the required track records and they are regarded as high risk so they are declined assistance.

The Global Competitiveness Report of 2015/2016 notes that the global financial crisis has impacted businesses around the world and it has made it difficult for SMMEs to access finance. It states that access to finance has moved from seventh ranked in 2007 to fourth in 2015. In South Africa, a very high proportion of businesses cited access to finance as the reason they exited business in 2015 compared to the prior years.

2.8.1 *Provision of finance and growth in employment of firms*

Hypothesis 1

A positive direct correlation exists between provision of finance and growth in employment in SMMEs.

2.8.2 *Provision of finance and growth in turnover of firms*

Hypothesis 2

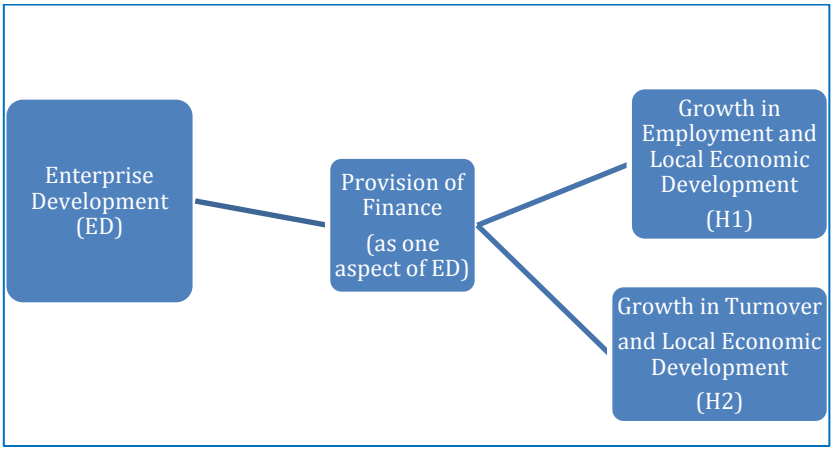


Figure 4: Enterprise Development Model.

A positive direct correlation exists between provision of finance and growth in turnover in SMMEs.

2.9 Gauteng Enterprise Propeller (GEP)

The Gauteng provincial government agency was established in 2005 under the department of Economic Development to assist SMMEs and co-operatives. It is incorporated under the Gauteng Enterprise Propeller Act (No. 5 of 2005) and a schedule 3c Provincial Public Act (Public Management Act). Its goal is to enhance the growth of the Gauteng province by assisting SMMEs with financial and non-financial support so that they could join the mainstream economy. GEP's mandate is to assist Gauteng Provincial Government to implement their policy for SMMEs (GEP, 2015).

The GEP mobilises township SMMEs, Cooperatives, informal business development through mentoring, incubation, skills training, community funding, Business Development Support (BDS), Township Business Renewal programmes and investment management, amongst other support methods. Overall, GEP aims to support Gauteng Township Economy Revitalisation, which is the policy of Gauteng Department of Economic Development (GDED). The intention is turning around dormant townships from being a distribution centre and reserve labour hubs to rather industrial, manufacturing and productive hubs, thereby, stimulating the economy from township with a view of alleviating poverty and marginalisation. (GEP, 2015)

The GEP financial support is divided into five separate finance funds namely:

- **Start-up Finance**
  Focus on assisting co-operatives and SMME's to jump-start their business through securing funding;

- **Contract and Expansion Finance**
  Assist those SMMEs that have contracts with government departments, as well as private and public entities to enable them to execute those contracts;

- **Growth Finance**
  Business that needs additional capital to expand;

- **Franchise Finance**
  This funding is to assist with acquiring new or existing franchises and working capital;

- **Micro Finance**
  This is geared toward SMMEs that show huge growth potential and fulfil the broader economic objective of poverty eradication and creating jobs;

- **Sponsorship**
  This sponsorship is geared toward an organisation that supports economic participation of people with disabilities, women and youth.

The compulsory requirements to qualify for assistance from GEP are the following (GEP, 2016):

1. SMMEs should be located in Gauteng
2. SA citizenship
3. Business must have a black majority in ownership (at least 51% black owned)
4. The entrepreneur should be the operator and owner of the entity (GEP, 2016).

GEP's main threat and challenge like many development finance institutes (DFI), is recovering loans so they can benefit more businesses and co-operatives. This resulted in 2014/2015 financial year, the organisation was placed under temporary moratorium on loan applications and new business development. It has therefore embarked on a debt collection campaign and introduces a new loan management system to improve their collection system and overall business model to be efficient (GEP, 2015).

The following is the breakdown of a budget allocation of R35, 6 million from the 2014/2015 financial year (GEP, 2015):

- R48, 884,873 total spend
- 137 deals approved
- Women owned SMMEs R26 397 831 (54%)
- Youth Owned SMMEs R26 397 831 (28%)
- People with Disabilities owned SMMEs R488 849 (1%)

2.10 Other Government SMMEs Supporting Agencies and Development Finance Institutes (DFI)

2.10.1 *National Empowerment Fund (NEF)*

The NEF was founded through National Empowerment Fund Act No.105 of 1998 (NEF Act) with a mandate to increase the participation of Blacks in South Africa's economy. The NEF is guided operationally by the NEF Act and other government policies which include the (NEF, 2015):

- Industry Policy Action Plan (IPAP)
- National Development Plan (NDP)
- Broad-Based Black Economic Empowerment Act and the Codes of Good Practise (B-BBEE)
- Preferential Procurement Policy Framework Act No. 5,2000
- King Report on Corporate Governance in South Africa 2009 (King III)
- Protocol on Corporate Governance in the Public Sector, 2002
- Public Finance Management Act, No. 1 of 1999 including National Treasury regulations (PFMA)

2.10.2 *Small Enterprise Development Agency (SEDA)*

The agency was established in 2004 as government was showing vigorous signs of their commitment in improving and supporting SMME development. It

was an agency of the Department of Trade and Industry (DTI) until recently it moved to the Department of Small Business Development. The Department of Trade and Industry (DTI) uses SEDA to provide non-financial assistance to SMMEs (DTI, 2015), this support is primarily to incubate SMMEs in all sector of the economy so that they can create jobs and reduce unemployment. SEDA was formed from the merging of Ntsika Enterprise Promotion Agency and the National Manufacturing Centre (SEDA, 2012).

The objective of SEDA is to enhance the geographical outreach and achieve an impact on SMMEs. To be the key single access entry for SMMEs and leverage resources in improving service delivery and optimising usages. Also to assist government service delivery alignment. (GCIS, 2011)

SEDA has had its share of criticism. Marivate (2014), Asah et al. (2015), Mbuyani & Ladzani (2011) and Khale (2015) all criticise its policies; they state that they are not adequately tailor-made for the operational needs of start-ups, also, the implementation of the policies lack enough enthusiasm, discipline and dedication. Worku (2015) also highlighted that SEDA's assistance programmes are often underutilized, lack resources, unproductive or mismanaged.

2.10.3 *Independent Development Corporation (IDC)*

An Act of Parliament (Industrial Development Corporation Act, No 22 of 1940) established the Industrial Development Corporation of South Africa Limited (IDC) in 1940. The Industrial Development Corporation of South Africa Limited (IDC) is also fully owned by the South African Government (IDC, 2015)

It generated its findings from commercial banks, development finance institutes, income from loans, equity investment and other lenders. IDC's initial obligation was to develop domestic industrial capacity to moderate the disruption of trade between Europe and South Africa during the second war. However, later its mandate expanded to include investments in other African countries from the late 1990s. Investment span to various sectors in Africa including manufacturing, tourism, and infrastructure and mining (IDC, 2015)

2.10.4 *Small Enterprise Funding Agency (SEFA)*

The Department of Trade and Industry (DTI) uses SEDA to provide financial assistance to SMMEs (DTI, 2015), it also uses other agencies as intermediaries like National Youth Development Agency (NYDA), NTSIKA Enterprise Promotional Agency, Centre for Small Business Promotions (CSBP) and KHULA (Worku, 2015). To obtain funding from SEFA, an entity will have to fulfil the below requirement:

- A South African citizenship or permanent residence
- Proof of Status as owner or business manager
- Have a business plan
- Proof of physical address
- Be an entity registered in South Africa
- A proof of capacity to fulfil contractual obligations
- Adequate collateral, favourable credit references and demonstration of the capacity to repay the amount funded
- Cost breakdown, time table for activities and written proposal
- A valid tax clearance certificate at the time of application submission.

2.10.5 *Khula Enterprise Finance Ltd*

Khula was formed in 1996 by the SA government and it provides funding for SMMEs. It operates via a network of intermediaries (financial) throughout the republic which includes banks, special funds and joint ventures in which it is part of it. Its mandate is for a financial support range between R10 000 to R250 000 (Khula Enterprise Finance, 2012).

2.10.6 *National Youth Development Agency (NYDA)*

NYDA was formed in 2009 from a merger between Umsobomvu Youth Fund and the National Youth Commission. Its focus is assisting the youth with

entrepreneurship and career skills. The NYDA funds youth businesses and training (NCR, 2011).

2.11 Small Micro Medium Enterprises (SMMEs)

The problem with defining SMMEs is the fact that there is no one global definition; it differs from country to country especially the classification in terms of size, turnover, employees and assets (Ardic, Mylenko and Saltan, 2011). In a sense the definition could be economical or statistical (Gaga, 2012). The economic definition is that it should be small with a small market share, not part of a big enterprise and/or owned by its founders and owners. On the other hand, statistically, one looks at its impact to relative to Gross Domestic product (GDP), exports and employment numbers (National Credit Regulator, 2011)

The World Bank defines SMMEs in terms of employees, sales yearly and assets (World Bank, 2008). While another is defined in terms of number of employees especially in developing countries where SMME characteristics are

Sector or sub-sectors in accordance with the Standard Industrial Classification	**Size or class**	**Total full-time equivalent of paid employees** ***Less than:***	**Total annual turnover** ***Less than:***	**Total gross asset value (fixed property excluded)** ***Less than:***
Agriculture	Medium Small Very small Micro	100 50 10 5	R 4.00 m R 2.00 m R 0.40 m R 0.15 m	R 4.00 m R 2.00 m R 0.40 m R 0.10 m
Mining and Quarrying	Medium Small Very small Micro	200 50 20 5	R30.00 m R 7.50 m R 3.00 m R 0.15 m	R18.00 m R 4.50 m R 1.80 m R 0.10 m
Manufacturing	Medium Small Very small Micro	200 50 20 5	R40.00 m R10.00 m R 4.00 m R 0.15 m	R15.00 m R 3.75 m R 1.50 m R 0.10 m
Electricity, Gas and Water	Medium Small Very small Micro	200 50 20 5	R40.00 m R10.00 m R 4.00 m R 0.15 m	R15.00 m R 3.75 m R 1.50 m R 0.10 m
Construction	Medium Small Very small Micro	200 50 20 5	R20.00 m R 5.00 m R 2.00 m R 0.15 m	R 4.00 m R 1.00 m R 0.40 m R 0.10 m
Retail and Motor Trade and Repair Services	Medium Small Very small Micro	100 50 10 5	R30.00 m R15.00 m R 3.00 m R 0.15 m	R 5.00 m R 2.50 m R 0.50 m R 0.10 m
Wholesale Trade,	Medium	100	R50.00 m	R 8.00 m
Commercial Agents and Allied Services	Small Very small Micro	50 10 5	R25.00 m R 5.00 m R 0.15 m	R 4.00 m R 0.50 m R 0.10 m
Catering, Accommodation and other Trade	Medium Small Very small Micro	100 50 10 5	R10.00 m R 5.00 m R 1.00 m R 0.15 m	R 2.00 m R 1.00 m R 0.20 m R 0.10 m
Transport, Storage and Communications	Medium Small Very small Micro	100 50 10 5	R20.00 m R10.00 m R 2.00 m R 0.15 m	R 5.00 m R 2.50 m R 0.50 m R 0.10 m
Finance and Business Services	Medium Small Very small Micro	100 50 10 5	R20.00 m R10.00 m R 2.00 m R 0.15 m	R 4.00 m R 2.00 m R 0.40 m R 0.10 m
Community, Social and Personal Services	Medium Small Very small Micro	100 50 10 5	R10.00 m R 5.00 m R 1.00 m R 0.15 m	R 5.00 m R 2.50 m R 0.50 m R 0.10 m

Table 5: Classification of SMMEs
(Government Gazette 1995: 8).

more labour-force characterised (Fisher & Reuber, 2000). Ayyagari, Beck and Kunt (2005) insist on investment levels, sales and total net assets whereas Kayanula & Quartey (2000) insist on staff complements to be the factor in developing countries. Ganbold (2008) states that turnover size defines SMMEs, and in developed countries it tends to be bigger compared to developing countries.

In South Africa, the National Small Business Act 102 of 1996 (NSBA) defines a small business as a distinctive and isolated entity which includes cooperatives and NGOs, owned or managed by one person or more and could be branch or subsidiary (Rwigema & Venter, 2004). SMMEs are further defined according to the National Small Business Amendment Act No.29 of 2004.

The DTI also classify enterprise in relation to the turnover in terms of National Small Business Amendment Bill. However, the cut-off points change as per the economic sectors as adjusted by StatsSA annually to provide for inflation (SEDA, 2016).

Industry Turnover	Large >Rm	Medium>Rm	Small>Rm	Very small>Rm
SIC2 Mining & quarrying	370.5	95.0	38.0	2.0
SIC3 Manufacturing	456.3	123.5	47.5	2.0
SIC4 Electricity, gas & water	456.3	123.5	48.5	2.0
SIC5 Construction	247.0	57.0	28.5	2.0
SIC61 Wholesale trade	608.0	304.0	57.0	2.0
SIC62 Retail trade	370.5	180.5	42.5	2.0
SIC63 Motor trade	370.5	180.5	42.5	2.0
SIC64 Accommodation and catering	123.5	57.0	48.5	2.0
SIC7 Transport	247.0	123.5	28.5	2.0
SIC8 Real estate & business services	247.0	123.5	28.5	2.0
SIC9 Community, social &	123.5	57.0	8.5	2.0

personal				

Table 6: DTI's lower-boundaries on enterprise sizes (adjusted by StatsSA) (Source: StatsSA, 2017)

The SMMEs are further classified as follows according to sectors, size, employees, asset value and turnover (NSBA, 1996: 15). It further categorises them according to groups which are survivalist, micro, very small, small or medium.

- **Survivalist**

  These are those enterprises that generate income below the poverty line and are considered pre-entrepreneurial. They include hawkers and vendors usually also considered similar to micro-enterprises. GEM states that these involve people who start a business out of necessity as they don't have jobs and need to survive.

- **Micro**

  They lack the formality of registrations and employ less than 5 people, for example, minibus taxis, tuck shops etc. The income is less than R150, 000 per annum.

- **Very small**

  They employ less than 10 employees and operate in a formal market. However, mining and manufacturing businesses among others can also be very small if they have 20 employees.

- **Small**

  They are more established, have more complex business practices than very small enterprises and employ more than 50 employees.

- **Medium**

  They are characterised by having additional layers of management that have power and control in the enterprise. They consist of about 100-200 employees, e.g. the mining, manufacturing, electricity and construction sector. (NCR, 2011)

It is also clear that the NSB Act acknowledges that different economic sectors will have different thresholds. What is disappointing though despite the act clarify categories most government agencies, private sector and studies don't

use them consistently as result its almost unreliable to make comparisons for statistical purpose. The DTI Review of Small Business (2008) embraces the terms SMMEs as synonymous with small businesses, and enterprise with close corporation, companies and cooperatives that are registered with CIPC (formerly CIPRO).

Among policy makers, small business experts and economists there is a clear consensus that SMMEs are drivers of job creation and economic growth, and a healthy SMME ecosystem contributes towards increased exports and improving innovation and entrepreneurship skills (NCR, 2011). Bashir Ahmad Fida (2008) argue that SMMEs are the initial step in development towards industrialisation. Fayad (2008), states that most current huge multinational enterprises started as SMMEs. Seda (2012) further argued that the SMME manufacturing sector in South Africa is major contributor to obtaining macro-economic goals, foreign direct investment, improve balance of trades and creation of jobs. The South African government identified the criticalness of SMMEs as early as 1995 when the then Minister of trade and industry (DTI), Trevor Manuel expressed the following (DTI, 1995):

- The government has no option but to focus on creating jobs with the multitude of people unemployed and underemployed
- The vehicle to do address is SMME development
- The engine is private sector to sustain economic growth as a result, government will do everything to give them space and create an enabling environment for growth.

It is clear from this that government view SMME development as a critical and important solution (Maas and Herrington, 2006). However, despite their significant importance and their huge contribution to economic growth in the country, they face a lot of challenges that slows down their growth (NCR, 2011)

2.12 Conclusion of Literature Review

In our introduction of the literature review we set out to provide an understanding of the current state of SMMEs in South Africa through a look at the challenges faced by the sector and policy responses such as Broad Based Black Economic Empowerment (BBBEE) and Enterprise Development (ED). We then look at the method used to measure the growth of SMMEs follow by understanding of provision of finance as an aspect of Public Enterprise Development impacts the growth of SMMEs. We also examine Gauteng Enterprise Propeller (GEP) and other government SMMEs supporting agencies and development finance Institutes (DFI). Finally, we finish off with understanding the term Small Micro Medium Enterprises (SMMEs) locally and identical term globally. All this was to strengthen our two hypotheses below:

- Hypothesis 1: A positive direct correlation exists between finance provision and growth in employment of SMMEs.
- Hypothesis 2: A positive direct correlation exists between provision of finance and growth in turnover of SMMEs.

It is clear from this that entrepreneurship as a strategy for job creation and economy development is seen as top priority by government. However, government in trying to make sure that the policy is just not encouraging creation of new enterprises that are not sustainable; enterprise and supplier development occupy a critical dimension to sustain this new ventures. In conclusion, the literature review shows that there is a correlation between provision of finance as an aspect of Enterprise Development and the growth of SMMEs.

3 CHAPTER 3: RESEARCH METHODOLOGY

3.1 Research Approach

This paper uses a quantitative research approach and a positive paradigm is assumed. The study has access to quantitative data on SMMEs that has received finance from Gauteng Enterprise Propeller (GEP) in Gauteng. This data is analysed in this study to measure the growth of the firms in terms of its performance with focus on turnover and employment. This would also provide us with useful insights on the impact of Enterprise Development through provision of funding from government funding institutions.

The research approach used to test the hypotheses and research approach followed is divided into steps; research problem (hypotheses), research design, sample, selection, data collection, data analysis.

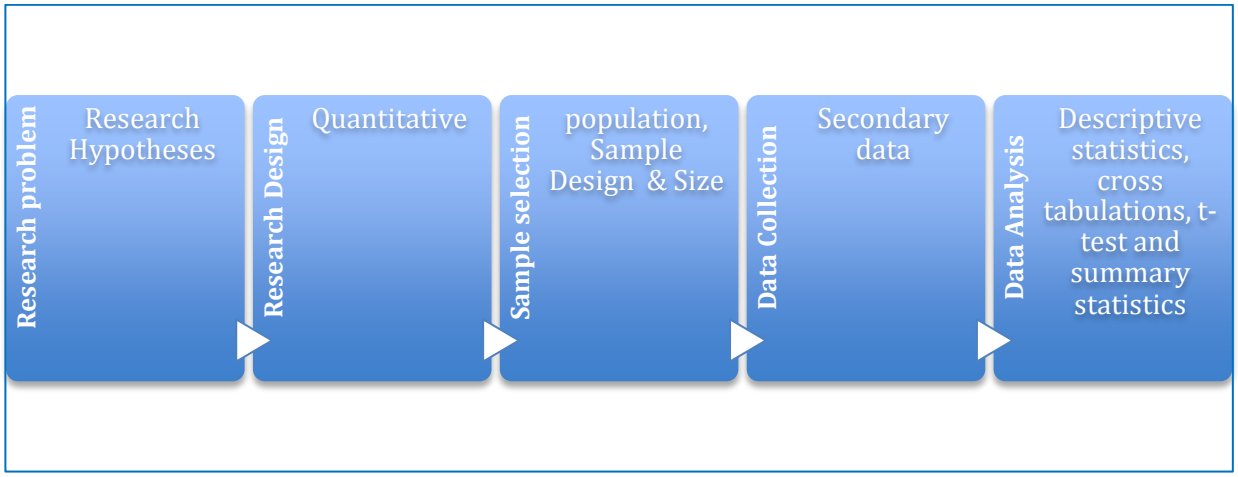


Figure 5: Research Process
(Neneh, 2011: 95).

3.2 Research Design

The main objective of this study is to determine the impact of the provision of finance as aspect of Enterprise Development on the growth of SMMEs using sales and employment as the indicators. The research design aim is to assist us to answer the objective and research question (Kerlinger, 1986). The research

strategy used is quasi-experimental similar to a previous study by Leeuw, (2012), which is an evaluation to determine whether intervention has the intended effect on participants without the control of a true experiment (Gravetter & Forzano, 2009). The research will examine actual data of SMMEs that received Enterprise Development funding between the period 1st April 2006 and 31st March 2016 from GEP in the Gauteng province. The expected outcome will be measure as of 30th of June 2016 since receiving the funds in terms of the growth in turnover and employment (Leeuw, 2012).

3.3 Population and sample

3.3.1 *Population*

The population composed of all SMMEs in Gauteng that received funding from GEP between 2006 and 2016 as part of their public Enterprise Development initiative. This population was conveniently selected since the researcher has access to the GEP fund database. Only 647 of the SMMEs fit our research target.

3.3.2 *Sample*

The aim of sampling for the research is to collect data, which represents the population so that inferences can be made drawn from the sample back to the initial population within random error limits (Bartlett, Kotrick & Higgins, 2001). The sample will be extracted from the population using a purposive sampling technique, which is basically hand picking based on characteristics. This ensures a balance on group size with the only limitation being the potential subjectivity of the researcher (Black, 1999).

In this case GEP funded 647 companies in Gauteng as per the data received , during the period of the 1st April 2006 to the 31st March 2016 .Of the 647 companies, 228 companies could not be established whether they were still in existence or not. A total of 419 companies were confirmed and verified to be

still in existence. Of the 419 companies remaining in the sample, 66 (15.8%) were still operating while the other 353 (84.2%) were no longer effectively operating on the 30th of June 2016,

3.4 Procedure for panel data collection

The panel data was retrieved from the GEP Fund database of all companies that have received enterprise development funding during the 2006-2016 period. It is defined as data that is used to answer the research question, of which initially it was not intended for that primary aim (Vartanian, 2010). The benefit of using panel data is that it saves time and the cost of data collection. The original data is in the form of an annual financial reports; it was intended to monitor the repayment of loans and interest and, the ability of the funded entity to service the repayment. These reports are submitted annually to the Gauteng department of Economic Development. GEP is an agency of that department.

3.5 Data analysis

Descriptive statistics analyses will be used as it helps us to understand data and it gives us a basic analysis of centrality of variables, spread and other distributional features of variables and other elements (Lee, 2015). This is usually the best tool to start with initially before going to complex statistics (Lee, 2015). In analysing the variables, t- test will be used to measure growth from the point just before funding to the current position. Also, cross tabulation will be used to classify SMMEs from different sectors and industries.

3.6 Validity and reliability

3.6.1 *External validity*

This external validity addresses whether the finding can be generalised beyond the particular research context (Bryman, 2004) or it can be done from the relationship found from the study (Rosnow and Rosenthal, 1999). Therefore, the

validity of the study is acceptable and if it should be done again, the same finding will be achieved.

3.6.2 *Internal validity*

Internal validity tests if the research findings are true and sound when there is a causal relationship of variables (Bryman, 2004). The measure that is used is based on the actual growth data of the SMMEs that received Enterprise Development funding between 2006 and 2016 from GEP from different industries in the Gauteng province. The research design will be able to test the correlation of variables of Enterprise Development and growth of SMMEs.

3.6.3 *Reliability*

This is to ensure that the study can be easily replicated based on the data collection techniques and data analysis procedure. Every aspect of the research design will be documented to try to maximise the research design reliability. Cronbach's alpha will be applied to ensure reliability of the instrument as well (Cronbach, 1970).

3.7 Limitations of the study

There are limitations to the study, which are the following:

- Only firms that have received finance from government institutes (GEP) as part of Public Enterprise Development are considered in this study.
- The growth entrepreneurial performance variables used are the turnover and the employment
- Only company that are funded within 2006-2016 that comply with enterprise development criteria and are considered
- Companies that received funding but exit the program are also include in the data

- The outcome for the purpose of the study was measured and analysed post investment as of 30th of June 2016

4 CHAPTER 4: RESEARCH PRESENTATION

4.1 Introduction

This chapter presents the results of the outcomes of the research that was conducted. It is divided into three parts; Part 1 outlines the population of the company that was funded by GEP and all those that had to be written off. Part 2 focuses on the results relating to Hypothesis 1 that states that a positive direct correlation exists between finance provision and growth in employment of SMMEs. And lastly, Part 3 presents results relating to Hypothesis 2 that states that a positive direct correlation exists between finance provision and growth in the turnover of SMMEs.

4.2 Demographic profile of respondents

	Frequency	Percent
Yes	66	15.8
Not-Active	353	84.2
Total	419	100.0

Table 7: Company Status

Of the database that was used to gather information, there were 647 companies, 228 companies could not be established whether they were still in existence or not. Only a total of 419 were established as existing in the sample, (66) 15.8% were still operating while the other (353) 84.2% were no longer operating.

	Frequency	Percent
Positive	46	69.7
Negative	17	25.8
Missing data	3	4.5
Total	66	100.0

Table 8: Business Confidence

Most of the companies that were still in existence and 69.7% had positive confidence about the business environment

	Frequency	%
Start-up	123	29.4
Expansion	101	24.1
Contract	102	24.3
Existing	25	6.0
Facility	12	2.9
Franchise	17	4.1
Contract Finance	18	4.3
Production Finance	5	1.2
Project Facility	4	1.0
Term loan	5	1.2
Mafisa	3	0.7
Bridging Finance/Expansion	2	0.5
Unspecified	2	0.5

Table 9: Funding Types

The huge part of the funding requested was for Start-ups (29.4%), Expansion (24.1%) and Contract funding (24.3 %).

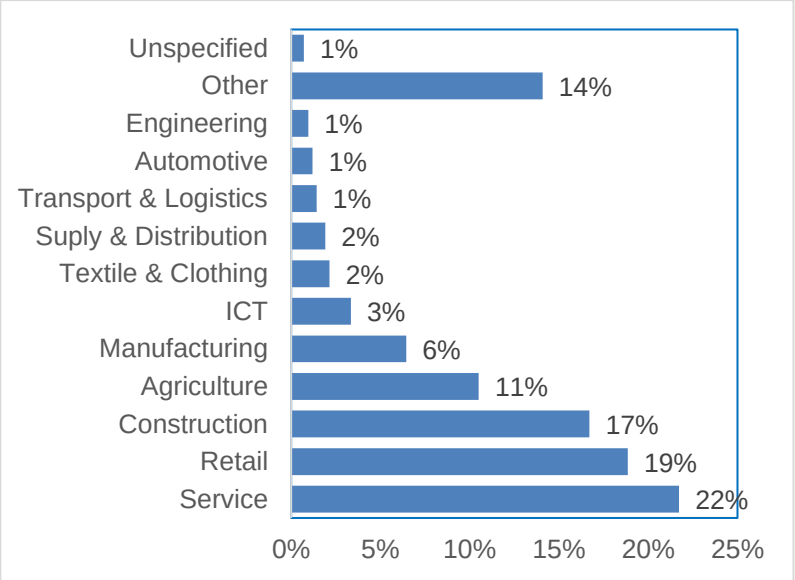


Figure 6: Industry Sector.

Companies mostly funded were from manufacturing (6%), agriculture (11%), construction (17%), retail (19%) and service industry (22%).

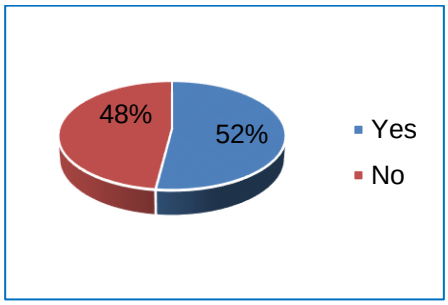


Figure 7: Composition: Women and Youth Owned.

Of the companies funded, 52% were female and youth owned businesses.

4.3 Hypothesis 1: A positive direct correlation exists between provision of finance and growth in employment of SMMEs

4.3.1 *Comparison of number of employees then and now*

Paired samples t-test was conducted to assess whether there is a significant increase in the number of employees before and after the awarding of the loan. The null hypothesis was that the difference between the two periods is insignificant and the alternative hypothesis was that the number of employees is significantly higher now compared to the period before the awarding the loan. The results are shown in table 9.

Paired Samples Statistics					
		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	Number of Employees then	7.63	64	18.99	2.374
	Number of Employees now	12.91	64	49.46	6.182

Table10: Paired Samples

The current number of employees is generally close to 13 employees per

company compared to almost 8 employees per company before the loan. The paired samples t-test results below show whether the difference in the number of employees is significant or not.

Paired Samples Test									
		Paired Differences					t	df	Sig. (1-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	Number of Employees then - Number of Employees now	-5.28	31.87	3.98	-13.24	2.68	-1.33	63	0.095

Table 11: Paired Samples Statistics 2.

The difference in the number of employees is not statistically significant since the p-value of the t-test (p-value = 0.095) is greater than 0.05. Thus, the null hypothesis is not rejected and it is concluded that there is no correlation between provision of finance and growth in employment of SMMEs.

4.4 Hypothesis 2: A positive direct correlation exists between provision of finance and growth in turnover of SMMEs.

4.4.1 *Turnover now and then*

Turnover now * Turnover then Cross tabulation						
			Turnover then			Total
			0-150K	150K- R500k	> R500 k	
Turnover now	0-150K	Count	13	1	0	14
		% within Turnover then	32.5%	7.1%	0.0%	21.5%
	150K- R500k	Count	19	3	0	22
		% within Turnover then	47.5%	21.4%	0.0%	33.8%
	> R500 k	Count	8	10	11	29
		% within Turnover then	20.0%	71.4%	100.0%	44.6%
Total		Count	**40**	**14**	**11**	**65**
		% within Turnover then	100.0%	100.0%	100.0%	100.0%

Chi-Square Tests			
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	27.763[a]	4	0.000
N of Valid Cases	65		

a. 5 cells (55.6%) have expected count less than 5. The minimum expected count is 2.37.

Table 12: Turnover now and then cross tabulation.

Chi-square was conducted to assess whether there was a significant difference in the turnover categories of then and now. The null hypothesis was that there is no association between finance provision and growth in turnover of SMMEs. The alternative hypothesis is that there is a positive direct correlation between provision of finance and growth in turnover of SMMEs. The results are shown below.

The results show that of the 40 companies that had a turnover of between (R0 – R150 00), 19 (47.5 %) now have move to a turnover of between (R150 000 – R 500 000) and the other 8 (20%) now have a turnover of greater than R500 000. Only the remaining 13 of the 40 companies still have a turnover of (R0-R150 000)

Of the 14 companies that used to earn R150 000 – R500 000, 10 (71.4%) now earn greater than R500 000. Whilst, of all of the 11 companies that used to earn greater than R500 000 are still earning greater than R500 000. A –value of 0.000 is an indication that the turnover now is significantly different from what was being earned then. The cross tabulation showed that there was an increase in the turnover being earned. It is thus, concluded that there is a positive direct correlation between finance provision and growth in turnover of SMMEs.

4.5 Summary of the results

The GEP funded 647 companies in Gauteng as per the data received, during the period of the 1st April 2006 to the 31st March 2016 ranging; 11 were different industries and few others were undefined. Of the 647 companies, 228 companies could not be established whether they were still in existence or not as their company details did not exist on the Company and Intellectual Property Commission (CIPC). Of the 419 companies remaining, 15.8% were still operational as per CIPC database and was able to get hold of them. The other 84.2% were deregistered and no longer operating. The outcome was then measured and analysed post investment as of 30th of June 2016 with the focus on the growth in turnover and employment.

The number of employees now is generally close to 13 employees per company compared to almost 8 employees per company before the awarding of the loan. However, the data analysis using t-test summary statistics provide sufficient evidence that Hypotheses 1 is not supported. The difference in the number of employees is not statistically significant since the p-value of the t-test (p-value = 0.095) is greater than 0.05. Thus, the null hypothesis is not rejected and it is concluded that there is no correlation between finance provision and growth in employment in SMMEs. Hypotheses 2 though, the cross tabulation showed that there was an increase in the turnover being earned. It is thus, concluded that there is a positive direct correlation between finance provision and growth in the turnover of SMMEs.

5 CHAPTER 5: DISCUSSION OF THE RESULTS

5.1 Introduction

In this chapter, we analyse and discuss the results of this study in reference to our literature review. We will start by discussing the finding of the demographics of the sample. Followed by results pertaining to the two hypotheses in relation to the literature review.

5.2 Demographic profile of respondents

5.2.1 *Company status*

Of the 419 companies remaining in the sample, 15.8% were still in existence while the other 84.2% were no longer operating. This is not a shock considering various studies have implied the devastating failure rate of the SMMEs in South Africa caused by a variety of factors. What is even more alarming and more concerning is that these companies actually received support from GEP but yet the mortality rate is still high.

5.2.2 *Sectors*

Most companies funded were from Manufacturing (6%); Agriculture (11%); Construction (17%); Retail (19%) and Service industry (22%). Companies who were not well funded were from Engineering (1%), Automotive (1%), Transport & Logistics (1%), Supply & Distribution (2%), Textile & Clothing (2%) and ICT (3%).

5.2.3 *Funding Product type*

The huge part of the funding requested was for Start-ups (29.4%), Expansion (24.1%) and Contract funding (24.3). The rest, that is, franchise, project facility,

production finance, bridge finance, term loans are below 6%. It is expected that most of the funding will go towards Start-ups.

5.2.4 *Business Confidence*

Of the 66 companies that were still in existence, 69.7% had a positive confidence about the prospect of their business. Considering the failure rate of businesses in South Africa and dissatisfaction about the weak entrepreneurship ecosystem, one will have expected a rather negative confidence.

5.2.5 *Composition*

Of the surviving 66 companies funded, 52% were female and youth owned businesses. This is expected and encouraging considering the GEM report surveys have been finding fewer women taking entrepreneurship as careers hence the call for women empowerment as part of the BEE Act. The youth have been described as time bombs considering there is a lack of youth jobs and the unemployment rate among the youth between the ages of 15-34 years estimated at 38.6% (StatsSA, 2017). Of the 10.3million young persons aged 15-24 years, about 30% were not in employment, education and training (StatsSA, 2017). It will have been easy to not fund youth businesses due to their lack of experience hence it is encouraging that GEP has not discriminated against women and youth based businesses.

The Global financial crisis of 2008 has created an unemployment job crisis and millions of jobs need to be created for the unemployed youth and those youth entering the workforce according to the International Labour Organisation (ILO, 2012). It is stated that in third quarter of 2017, the unemployment rate was at 27.7% in South Africa. One has to take note that youth unemployment has an adverse effect in terms of skills development and young adults' future earnings prospects which has long terms and immediate implication (Endeavour Insight, 2013). It is said that South Africa needs to create more than three million jobs for youths by 2020, i.e. 1, 2 million unemployed currently combined with the

projected 1.9 million youth entering the job market in South Africa (Endeavour Insight, 2013).

5.3 Hypothesis 1: A positive direct correlation exists between finance provision and growth in employment of SMMEs.

5.3.1 *Comparison of number of employees then and now*

An investigation was done into the impact of funding into growth of SMMEs revealed, after paired samples t-test was conducted to assess whether there is a significant increase in the number of employees before and after the loan. The null hypothesis was that the difference between the two periods is insignificant and the alternative hypothesis was that the number of employees is significantly higher now compared to the period before the loan.

The number of employees now is generally close to 13 employees per company compared to almost 8 employees per company before the loan. The paired samples t-test results below show whether the difference in the number of employees is significant or not.

The difference in the number of employees is not statistically significant since the p-value of the t-test (p-value = 0.095) is greater than 0.05. Thus, the null hypothesis is not rejected and it is concluded that there is no correlation between provision of finance and growth in employment of SMMEs.

However, another factor has to be taken into account with regard to employment in South African. Small businesses becoming the main creator of jobs is difficult, issues such as the labour law and strong labour unions, which are cited as deterrent for small business in South Africa to grow employment (Endeavour Insight, 2013). Since, the failure rate of SMMEs is high there is a certain level of fear of employing lots of people despite the fact that businesses is growing for fear of laying off people when things do not work out. This creates a lot of complications for small businesses (Hurst & Pugsley, 2011). As a result, most SMMEs remain small, either due to no interest in growth or because of the

challenges to growth (Endeavour Insight, 2013). It is true the potential to create jobs for a firm shows potential or sign of a growing business (Harrison et al, 2005), but it is wrong to assume that job creation is spread evenly across all companies as was discovered by the world bank survey. It also found that a lot of South African companies do not create new jobs (Endeavour Insight, 2013).

5.4 Hypothesis 2: A positive direct correlation exists between provision of finance and growth in turnover of SMMEs

5.4.1 *Turnover Now and then*

The research analysed the turnover using the Chi-square to assess whether there was a significant difference in the turnover categories of then and now. The null hypothesis was that there is no association between provision of finance and growth in turnover of SMMEs. The alternative hypothesis is that there is a positive direct correlation between provision of finance and growth in turnover of SMMEs.

The results show that of the 40 companies (Refer to table 11) that had a turnover of between (R0 – R150 00), 19 (47.5 %) now have move to a turnover of between (R150 000 – R 500 000) and the other 8 (20%) now have a turnover of greater than R500 000. Only the remaining 13 of the 40 companies still have a turnover of (R0 - R150 000).

Of the 14 companies that used to earn (R150 000 – R500 000), 10 (71.4%) now earn greater than R500 000 and 3 (21.4%) remain at (R150 000 – R500 000). Whilst, of all of the 11 companies that used to earn greater than R500 000 are still earning greater than R500 000. A value of 0.000 is an indication that the turnover now is significantly different from what was being earned then. The cross tabulation showed that there was an increase in the turnover being earned.

This increase in turnover could result in an increase in GDP and in income per capita for all these communities in Gauteng, which could in turn result in improvement in the local economic development of the area. One has to take into location of SMMEs; those located in less or small communities will experience slower growth than those in the capital regions or dense areas (Davidson et al, 2002, Almus & Nerlinger, 1999).

In conclusion, the cross tabulation revealed that there was an increase in the turnover being earned as we can determine that there is a positive direct correlation between provision of finance and growth in turnover of SMMEs.

5.5 Conclusion

This study looked at 66 businesses funded by Gauteng Enterprise Propeller (GEP) in Gauteng that were in operation during the period 1st April 2006 to 31st March 2016. When analysing these SMMEs as of the 30th June 2016 post-financial assistance, with the focus on the growth in turnover and employment and overall improvement in Local Economy Development, the following were observed:

- Increase in employment from 8 employees on average before funding to 13 employees after funding
- 40 companies (47.5%) that initially had a turnover of R0 - R150 000 now have a turnover of R150 000 – R500 000
    - the other 20% now have a turnover of +R500 000
    - 71.4% of 14 companies that used to earn R150 000 – R500 000, now earn +R500 000.
    - 11 companies that used to +R500 000 are still the same
- Of the companies that were still in existence, 69.7% had a positive confidence about the prospect of their business
- Companies funded were from manufacturing (6%), agriculture (11%), construction (17%), retail (19%) and service industry (22%)

- And the least of the companies funded were from engineering (1%), automotive (1%), transport & logistics (1%), supply & distribution (2%), textile & clothing (2%) and ICT (3%)
- The type of funding requested mostly was for Start-ups (29.4%), expansion (24.1%) and contract funding (24.3%)
- Of the companies funded, 52% were women and youth owned

The number of employees now is generally about 13 employees per company compared to almost 8 employees per company before the awarding of the loan. However, the data analysis using t-test summary statistics provide sufficient evidence that Hypotheses 1 is not supported. The difference in the number of employees is not statistically significant since the p-value of the t-test (p-value = 0.095) is greater than 0.05. Thus, the null hypothesis is not rejected and it is concluded that there is no correlation between provision of finance and growth in employment of SMMEs. Hypotheses 2 though, the cross tabulation showed that there was an increase in the turnover being earned. It is thus, concluded that there is a positive direct correlation between provision of finance and growth in turnover in SMMEs.

6 CHAPTER 6: CONCLUSIONS, IMPLICATIONS AND RECOMMENDATIONS

6.1 Introduction

This chapter will conclude this research. It summaries the findings relating to hypothesis 1 and 2 and the implications for practitioners and policy makers within the Enterprise Development field. Lastly, the chapter suggests further research that could be pursued within the Enterprise Development funding frame and growth of SMMEs.

6.2 Conclusions of the study

The first hypothesis that a positive direct correlation exists between provision of finance and growth in employment of SMMEs in Gauteng and local economic development, is not supported based on data analysis of the results. However, the second Hypothesis that a positive direct correlation exists between provision of finance and growth in turnover of SMMEs in Gauteng and local economic development, is supported.

This research has shown that small business impact local economic development by increasing sales, which in turn stimulates the GDP and also creates employment. It is therefore, critical the public Enterprise Development initiatives particularly, funding provision for SMMEs be supported especially for township businesses, which historically have been deprived of funding access.

However, it also clear that it is not just providing funding assistance that will grow this SMMEs; this is consistent with other studies around entrepreneurship growth. However, the entire ecosystem will need to be strengthened if SMMEs are going to be classified as Scale-ups that are proven to be the largest creators of jobs in South Africa. For SMMEs to be Scale-ups and to succeed, they will need funding, market access, talent and strong business development support (Endeavour Insight, 2013).

Therefore, the aim of this study to examine the impact of provision of finance by government as an aspect of Enterprise Development on the growth of SMMEs and therefore, local economic development in the Gauteng province has been undertaken.

6.3 Implications and Recommendations

Based on the outcome of the study, the following interventions for stakeholders in SMMEs and Enterprise Development space will be recommended.

6.3.1 Strengthening the Entrepreneurial Ecosystem

What is clear from the study is that it is not only access to finance that will ensure entrepreneurial success but an overall and vigorous focus by government and its agencies (GEP being one) and private sector on strengthening the entrepreneurship ecosystems through education, government support, financial resources and conducive business infrastructure (especially in townships), as well as, the management of how these ecosystems interrelate with the overall global environment to enable economic success which will lead to job creation.

6.3.2 Post funding Monitoring and Support

The banking system uses very efficient system and post finance (not just pre-finance) to monitor the performance of the entity to make sure that it will be able to repay the debt. It examines all the relevant covenants made up by the ratios from financial statements and management accounts submitted by the entities quarterly. The same system could be used by GEP not just for making sure they recover their loan but to alert them so they can support the entity depending on what the ratios are suggesting is the problem. It could be low sales or cash flow management etc., instead of being less proactive and just waiting for the entity to repay the loan.

6.3.3 Purchase order funding linked to the new CDS system

The Treasury department introduces the Central Supplier Database (CSD) effective from 1 April 2016. This system ensures a very effective way where all companies can access online tenders from all government departments and municipalities in central places saving time and costs for businesses. This is certainly a step in the right direction from government and strengthening the ecosystem.

What could be even more powerful is to link purchase order funding to the new CSD system, where companies that are successful awarded purchase orders or tenders, funders can access them through the system saving the time for them to go through the long route to find funds as is the norm currently. In some cases, they struggle to get funds which leads to the no fulfilling the obligation to deliver as a result blacklisted by government for non-delivery affecting their future to doing business with government.

6.3.4 Review of the BBBEE and Enterprise Development policy

The policy seems to be focused more on government forcing bigger companies especially those controlled by the White minority to assist or procure from previously disadvantaged SMMEs. What is missing though is that unless government assists those bigger companies to be strong global business players similar to government like those of South Korea and US, it will be difficult to motivate these big companies to extent their supplier chain on moral grounds if they are not growing. This current policy doesn't necessary lead to economic growth as essentially taking capital from the White minority to the Black majority is just redistribution but is not sustainable as long as the country's economy is not growing.

6.3.5 Attention toward high growth SMMEs

A huge drive towards assisting survivalist businesses is not working in SA since 1994. Every year huge amounts of money from the Treasury department is

directed towards small and micro businesses through DTI and Small business development department, which consists of SEDA and SEFA.

It is perhaps time for a strategic policy change, the main focus should be on high growth businesses at the beginning and this high growth will assist survivalists as they grow as part of the enterprise and supplier development. Even business compliance will be better if government becomes stricter or focuses only on high growth businesses and eliminates the burden on survivalist. They will be those (outliers) that grow to be high growth businesses but that is still fine as they quickly can be assisted based on their improved numbers.

6.4 Suggestions for further research

This study looked at the impact of government funding on the growth of SMMEs in Gauteng. It will be useful if this study could inspire further research on the following:

- This study was a build up from the provision of Corporate Enterprise Development funding (Leeuw, 2012) and was specifically, looking at Public Enterprise Development Funding. It will be worthy to further research further the impact of the Private/Public sector partnership Enterprise Development funding model.
- The Enterprise Development funding types or models that are effective for the growth of SMMEs
- The impact of Enterprise Development funding on youth and female owned entrepreneurs SMMEs.
- And finally, if the provision of Enterprise Development funding has any bearing should it be provided at start-up level (the first three years) versus after that period.

These research areas will help us to explore funding as an aspect on Enterprise Development deeper, so that effective policy decision can be made based on an informed researched position.

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Annexure A: Consistency Matrix

The impact of finance provision as an aspect of Enterprise Development on the growth of SMMEs in Gauteng.					
Aims of research	**Literature Review**	**Hypotheses**	**Source of data**	**Type of data**	**Analysis**
Ascertain the impact of Enterprise Development on the growth of SMMEs in the Gauteng	(McPherson, 1992), (McPherson, 1996), (Evans, 1987), (Kilby, 1971), (Reji, 2013)	A positive direct correlation exists between finance provision and growth in employment of SMMEs. (H1)	The study makes use of the Gauteng Enterprise Propeller (GEP) database of businesses they have funded	Secondary data of the unit analysis	Descriptive statistics, cross tabulations and summary statistics
Ascertain the impact of Enterprise Development on the growth of SMMEs in the Gauteng	(Reji, 2013), (SEEP Guide, 2001), (McVay & Miehlbradt, 2001), (Fröhlicher & Pothering, 2013),	A positive direct correlation exists between finance provision and growth in turnover of SMMEs. (H2)	The study makes use of the Gauteng Enterprise Propeller (GEP) database of businesses they have funded	Secondary data of the unit analysis	Descriptive statistics, cross tabulations and summary statistics