



Research Article

Gauteng Enterprise Propeller's Support on Manufacturing MSMEs in Gauteng

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Abstract: The purpose of this study is to assess the effect that the support provided by the Gauteng Enterprise Propeller (GEP) has on Micro, Small and Medium Enterprises (MSMEs) in Gauteng. The study aimed to explore the kind of support the GEP provides to MSMEs and the effect of that support on their annual turnover, employment, and employee income levels. A descriptive research strategy, incorporating mixed methods of data collection, was used. Questionnaires were used to collect primary from the selected sample of MSMEs, while secondary data were obtained from the GEP's reports. The results of the study illustrate that the support provided by the GEP is generic and does not address the specific needs of the MSMEs. Furthermore, the support provided by the GEP was found to be supply side driven, as it is not informed by the needs of the MSMEs. It was determined that the support resulted in an increase in annual turnover and income levels for employees, while employment remained stagnant. MSMEs prioritized higher productivity as opposed to increasing the number of employees.

Keywords: GEP, MSME's, manufacturing, support, employment, annual turnover

JEL Codes: L26, L38, L53, L60, M13, O17, R50

1. Introduction

Micro, Small and Medium Enterprises (MSMEs) have been recognized globally as key generators of employment, income and economic growth (OECD, 2009). To leverage the opportunities and benefits linked to MSMEs, the South African government adopted the National Development Plan as an over-arching policy to guide the country's socio-economic development trajectory. Ultimately, inclusive growth, improved living standards, reduced poverty and inequality are the primary envisaged outcomes of the plan. Manuel et al. (2011) acknowledge that accelerating inclusive and sustainable growth is essential for realizing the NDP outcomes and vision. In this regard, the target is to treble the size of the economy so that 11 million job opportunities are created, with 90% of those jobs generated by MSMEs. The NDP identified MSMEs as catalysts for economic growth and employment creation.

At a provincial level, the Gauteng Provincial Government (GPG) adopted a Transformation, Modernisation and Reindustrialisation (TMR) strategy, which emphasises the role of MSME development and township economy revitalisation in stimulating inclusive and labour-absorbing economic growth. TMR mainly focuses on developing

MSMEs so that they are central in the production value chain of key industries, thereby simultaneously addressing issues of inequality and inclusion in the province. In this regard, the Gauteng Provincial Government identified the Gauteng Enterprise Propeller (GEP) - the Development Finance Institution responsible for providing financial and non-financial support to MSMEs - as enablers of MSME development in the province.

While extensive literature supports the globally acknowledged view that MSMEs play a crucial role in stimulating economic growth and creating jobs, recent studies show that MSMEs have failed to drive economic growth and create jobs in some countries. Mukole (2010) asserts that, in South Africa, MSMEs accounted for about 91% of the formal business entities, contributing to about 57% of GDP, and providing almost 60% of employment in 2010. However, the MSMEs' contribution to employment and economic growth has declined in recent years. Liedeke (2019) also found that MSMEs contribute only 20% and 47% to the GDP and total employment of the country, respectively. This indicates that despite the ambitious NDP target for MSMEs to stimulate growth and create jobs, MSMEs in South Africa are deteriorating in terms of their contribution to GDP and employment.

In an attempt to understand the reasons for MSMEs' insignificant impact on economic development in South Africa, it is critical that the effectiveness of the support provided to MSMEs be evaluated. It is against this background that this study was undertaken to assess the number of jobs created, the turnover of the firms, as well as the income generated for the employees. However, among other factors, the effect of the support was determined by the kind of support provided by the GEP; therefore, it is crucial to investigate what support the GEP provided to determine if it is aligned to the needs of the MSMEs in the manufacturing sector in Gauteng province.

2 Literature review

2.1 *Infant industry protection and MSME development*

The theory of infant industry protection is not clear on the protection of MSMEs in the South African environment. This lack of clarity is potentially attributed to studies about the role and importance of MSMEs in stimulating economic growth and employment creation only becoming prominent in the late 1970s, as will be highlighted below. However, the theory on infant industry protection dates back to the 19th century, when Alexander Hamilton argued for the protection of United States industries that were in their early stages of development against imports from Great Britain (Melitz, 2005). The rationale for the infant industry protection theory is that emerging industries should be protected from global competition until they develop economies of scale and are globally competitive. The theory argues for protection at an industry level and not at the firm level. The concept of firm heterogeneity within the industry is important in arguing for the protection of small businesses.

Firms are heterogeneous, as they differ in size, productivity, human capital, skill intensity and other characteristics that make them unique (Lin & Weng, 2019). These firm characteristics are closely linked to the technological capability and competitiveness of a firm. This suggests that an industry might have a variety of firms that are both competitive and not competitive, depending on the individual firm characteristics. An infant industry might consist of large firms with technological capabilities and competitiveness, which might unduly benefit from industry protection. This undue benefit might result in allocative inefficiencies arising from industry protection extended to productive and competitive firms. According to Kruger (2011), productivity is a major determinant of the global competitiveness of a firm. Despite being in an infant industry, a highly productive firm is likely to be export-driven and globally competitive. Therefore, only small firms characterized by poor productivity, lack of technological capabilities, and competitiveness need to be protected against competition.

MSMEs have become increasingly important for developing countries, not only for their potential to stimulate economic growth but for their role in redistributing resources and transforming the economy. According to Fatoki (2014), MSMEs have a critical role in accelerating the achievement of wider socio-economic goals, including poverty alleviation, and reducing inequality in developing countries. Empirically, the study by Ali et al. (2014) found that a strong and negative relationship exists between MSME development and poverty levels. The increasing global competition has negatively affected small businesses in developing countries, rendering them less successful in competing on a global stage. Low productivity and poor technological capabilities make it difficult for MSMEs to compete. Soobramaniam and Worrall (2017) state that, compared to most larger firms, small businesses are generally less

well-equipped to face increases in international trade.

Chang and Andreoni (2016) extend the argument on infant industry protection by asserting that government should provide support to MSMEs, which include, among other things, research and development, worker training, and subsidies that will enable them to accumulate productive capabilities over time. In an economic environment where small businesses continue to play a major role in economic growth, employment creation, and innovation, it is argued that specific protection should be targeted at the firm level to achieve greater efficiencies. Furthermore, there is a strong case for MSMEs to be protected in South Africa due to the historical injustices and laws that advanced capital and economic concentration towards large corporations.

2.2 The role of MSME's in creating jobs

The argument supporting the view that MSMEs are the engines for employment creation stems from the work of David Birch. Birch (1979 in Neumark et al., 2011) provided the first evidence that small firms were a key source of job creation in the United States of America, accounting for 66% of new jobs created between 1969 and 1976. Since those research findings, there has been extensive literature on the role of small firms in creating jobs. Despite the extensive literature supporting the view that small businesses are the engines of job creation, some researchers are not convinced. The main critics of Birch's findings are Davis et al. (1996), who argue that Birch's calculation, which divides firms into size classes and then examines the variation in job growth across size classes, is subject to a regression fallacy that leads to an upward bias in small firms' estimated contribution to job growth.

After investigating the small firms' contribution to employment, job creation and growth in developing countries, Ayyagari et al. (2014) found that small businesses create the largest share of jobs, have the highest sales and employment growth, while large firms have the highest productivity growth. Research on the role those small businesses play in creating jobs was extended to include an investigation of the quality of jobs created by small businesses. In recent years, the South African government's emphasis has been to build a growing economy that will extend beyond just creating jobs, and instead of creating decent and quality jobs. Brown et al. (1990) recommend that policymakers should be cautious about implementing policies that support small businesses as these businesses create fewer desirable jobs, often for a short period, pay less and without benefits such as medical aid.

It has also been suggested that the size of the firm does not matter in job creation, but the age of the firm does. For instance, Armington and Odle (1982) determined that small businesses were not job generators, but new businesses created the largest share of jobs in the United States between 1978 and 1980. Furthermore, it was argued that firms of different sizes made different employment contributions at different stages of the business cycle. Recent evidence shows that in South Africa, small businesses do not create substantial jobs.

3. Methodology

A mixed method approach was used for data collection. Mixed method enables the researcher to collect, analyze and integrate quantitative and qualitative data. This method of data collection was preferred because it provided the researcher with an opportunity to gather secondary data from the GEP as well as collect primary data from the MSMEs; therefore, providing a balanced analysis of both the supply side (GEP perspective) and the demand side (MSME's perspective). Structured questionnaires were used to gather data on the perception of MSMEs on the GEP support and its effect thereof. The researcher planned to select a mix of medium to small-size businesses operating in the manufacturing sector across the different regions of the province. However, due to the limited number of MSMEs in the manufacturing sector and the lack of willingness to participate in the study, questionnaires were distributed to randomly selected MSMEs. Random selection increases the probability of a researcher collecting more representative data which captures the diversity of the sample. However, this number consists of all the businesses which registered on the GEP database regardless of whether they were supported or not.

3.1 First data set

The first set of data was collected from the GEP's MSME database and reports. The data collected from the GEP

consisted of a database of MSMEs with a list of MSMEs categorized per sector, details of MSMEs, the location of MSMEs, the kind of support provided to MSME's and the number of jobs created. The data contained in the database was panel data collected from 2012 to 2016. The location of MSMEs was categorized to reflect five regions of the Gauteng province which are the City of Johannesburg, City of Tshwane, Ekurhuleni, Sedibeng and West Rand. The GEP annual performance reports were also used to supplement the data contained in the database and for triangulation purposes.

3.2 Second data set

The second set of data was collected through questionnaires which were distributed to MSMEs supported by the GEP. The questionnaire was chosen as a tool for data collection as it could be administered virtually, cheaply and with ease, without physical interaction with the respondents. This was quite important given the constraints on physical interaction brought about by COVID-19. Secondly, the questionnaire was chosen because its results are easily 22 manually quantifiable. The primary data was collected to supplement the secondary data from the GEP database as well as for triangulation and validation purposes. Questionnaires were distributed to MSMEs that had been operating for a minimum of five years to enable the researcher to observe the effect of the support provided by the GEP. The questionnaires sought to gather data on MSME's perception of the support provided by the GEP. Additionally, the questionnaire provided information on key variables for this research study, which are: the number of persons employed, the average salary paid to employees and the annual turnover before and after GEP support. The three variables stated above are the selected indicators to measure the effect of the GEP support on MSMEs. The study used a descriptive research strategy to produce a description of individual MSME's perceptions of the GEP support as well as its effect on their businesses and employees.

3.3 Ethical concerns

In this regard, the researcher obtained an Ethical Clearance Certificate from the University of Johannesburg, College of Business and Economics Research Ethics Committee, which was an indication that the research study did not contain any ethical risks. Furthermore, the researcher declared to the respondents all the ethical requirements he was expected to comply with. It was clearly explained to the respondents that they were participating in the study voluntarily, without compensation, and could withdraw at any stage. It was explained that the information provided by the respondents in the questionnaires would be treated with confidentiality and be used only for the purposes of the study.

4. Overview of the MSME sector in South Africa

4.1 Profile of MSMEs in South Africa

Stating the status quo of the MSME sector is critical in informing the targets of the envisaged contribution of MSMEs to the economy. The status quo will be the baseline in which the performance of the MSMEs in South Africa will be measured against. This section provides a snapshot of the MSME profile in South Africa.

Despite the NDP's ambitious targets on MSME growth and contribution to GDP, MSMEs are not growing. This is illustrated in the table above by the decline in the number of MSMEs and their contribution to the total turnover of all enterprises in South Africa between 2016 and 2021. The number of jobs created increased by only 0.74 percent. The situation might be worse in 2022 given the impact of COVID-19 and the July 2021 unrest on MSMEs.

Table 1 also shows that informal MSMEs are generally more than the formal MSMEs. Given the fact that government interventions on MSMEs are mostly targeted on formal MSMEs, there might be a missed opportunity in the informal MSMEs. Government should consider tailor-made support to informal MSMEs to leverage on opportunities presented by the sector.

Table 1. Profile of MSMEs in Gauteng

Key indicators	2016Q3	2021Q1
Number of MSMEs	2343058	2325203
Number of formal MSMEs	657707	667111
Number of informal MSMEs	1593816	1552814
Number of jobs	9683639	9757287
MSME contribution to turnover of all enterprises	41.2%	37.4%

Source: Small Enterprise Development Agency (2022), Quarterly SMME Update

4.2 Challenges faced by MSMEs in Gauteng

4.2.1 Access to finance

Despite the country's strong financial services sector and availability of Development Finance Institutions, access to finance remains a challenge for MSMEs. Stringent requirements set by financial institutions for funding eligibility is one of the reasons for the lack of access to finance. These stringent requirements present what I call an MSME funding paradox. This paradox stems from the fact that documentation is required by financial institutions to prove bankability, profitability, and stable financial position of MSMEs before funding can be granted. On the other hand, MSMEs require funding from financial institutions to operate optimally, generate profit and build a stable financial position. According to Global Entrepreneurship Monitor (GEM) (2016), about 28 percent of the entrepreneurs closed their businesses due to problems in getting finance.

4.2.2 Red tape

The regulatory environment and requirements play a huge role in an entrepreneur's decision to start a business. Regulatory hurdles and bureaucracy have hindered the growth and sustainability of MSMEs as they make it difficult to start a business. An evaluation of the Integrated Strategy for the Promotion of Entrepreneurship and Small Enterprises revealed that zoning by-laws, complex compliance requirements and administrative inefficiencies at the municipal level give rise to burdensome red tape (Department of Performance Monitoring and Evaluation, 2018). The lengthy process of registering a business is another form of red tape which hinders entrepreneurs from starting their businesses. Consequently, many entrepreneurs resort to operating informal businesses to avoid the regulatory and registration hurdles.

4.2.3 Lack of coordinated and targeted policy support

Fragmented policy support is one of the factors which continue to stifle MSME growth and sustainability. Gauteng has several Development Finance Institutions which offer both financial and non-financial support to MSMEs. The support offered by these institutions is often fragmented, therefore, not yielding the expected outcome. The policy intervention offered to MSMEs is often broad and general, constituting a one-size fits all policy while medium requires targeted and specific intervention, which is different from what small enterprises would require. Formal also require specific and different support from informal enterprises.

4.3 Historical context of MSME's in South Africa

It is almost impossible to discuss any phenomenon of an economic nature in South Africa without highlighting the political background of the country (Kunene, 2014). South Africa's political background is characterised by a history of discrimination and inequality, which sought to exclude Black people from participating in the mainstream economy. The history of exclusion and discrimination dates to the 17th century when the Dutch fought the indigenous people of

South Africa to take control of the land (Qunta, 1995). In addition to the war over land, legislation was used to further exclude Black people from economic activities. Legislation such as the Native Land Act of 1913 was used to dispossess land from the indigenous people, which advanced the socio-economic inequality. According to Qunta (1995), only 13% of the land was reserved for Africans, while the rest was reserved for Whites. Modise and Mtshiselwa (2003) and Atauhene (2011) assign this land dispossession as the source of Africans' poverty in South Africa. For Blacks, land was an important resource used for subsistence farming. There are, however, different views regarding the disposition of economic resources from Black South Africans. Cronge, et al. (1998) assert that economic resources were centralised and owned by the state; it was mistakenly believed that the state was better equipped to control them and entrepreneurial activities than individuals, thereby hampering entrepreneurial development.

The exclusion of Blacks from the mainstream economy was also driven by discriminatory labour laws, such as the Vagrancy Act of 1809. Adams (1993 in Chalera, 2007) holds that "the effect of the Vagrancy Act was to declare all Black people who were not working for Whites as vagrants and as such, breaking the law". This measure sought to ensure that Blacks remained workers for the White masters, while Whites continued to have ownership and control of the factors of production. Ayandibu and Houghton (2017) assert that Black South Africans were forced to be labourers and discouraged from owning businesses. These socio-economic injustices were among the factors that gave birth to the high wealth and income inequality that haunt South Africa. The above-mentioned discriminatory measures thus had a significant contribution to the structural challenges faced by MSMEs in South Africa.

Cronge et al. (1998) provide a rather general view of the effects of disposition of the economic resources and entrepreneurial activities from Black South Africans. According to Cronge et al. (1998), public inefficiency and market distortion caused government-led interventions to hamper MSME development and entrepreneurial activities. This argument implies that the effect of centralising the ownership of economic resources and entrepreneurial activities affected entrepreneurs in general, without classifying them according to race. However, Bushe (2019) is specific in his analysis as he argues that the gap between Whites and Black South Africans, brought about by the unjust history of apartheid and colonialism, deprived Black South Africans of an opportunity to start their own businesses. This suggests that the effect of the unjust history was mainly felt by Black South Africans, as it hampered entrepreneurial activities for the natives.

4.4 The legacy of South African political landscape on MSMEs

The discriminatory laws were abolished or repealed after the country gained democracy. However, the damage caused by such laws seems to be failing to reverse the impact of these policies, and its implications continue to define the socio-economic status of Black South Africans today. The historical labour laws, such as the Vagrancy Act of 1809, instilled a culture of a "servant mentality" in Black people and discouraged any entrepreneurship aspirations. This assertion is confirmed by the low Global Entrepreneurship Index of South Africa, which was 32.9 in 2018 (Zoltan et al., 2018). Even today, many South Africans still prefer to work for a "master" than establishing new businesses. Ladzani (2010) asserts that education for Africans was gradually reduced to the level required to make Blacks good labourers in the apartheid era. This culture is also exacerbated by the South African education system that continues to train students to work for someone else rather than creating an entrepreneurial culture.

As discussed above, the political background of South Africa gave rise to high economic and capital concentration, which had adverse implications for MSMEs. The highly concentrated capital enabled a few monopolies to gain market power, which created a non-competitive environment for aspiring entrepreneurs. This setting ensured that the status quo remained and continued to favour a few monopolies. The general theory on monopoly suggests that monopolies will use their dominant power to rent-seek in order to gain higher profits. According to Dixit (2014), the higher profits raise the possibility of the monopoly firms spending financial resources to acquire market power and deter entry for other firms. The legacy of this historical setting is still prevalent in South Africa. In support, Makgetla (2004) and Kruger (2011) allude that the economic concentration continues to define the economic setting in South Africa even post-1994, creating limited opportunities for Black businesses. A study conducted by the Matumba and Mondliwa (2015) -on competition and barriers to entry for Soweto Gold Beer - found that the high concentration in the beer industry continues to create barriers for entry among potential small businesses. Given this historic background, it is clear that the development and promotion of MSMEs in South Africa is justifiable to level the playing field.

5. Findings of the study

The support provided by the GEP had a positive effect on all the indicators, albeit the employment creation numbers were uninspiring. As a result of the GEP support, the increase in annual turnover was followed by an increase in salaries paid to employees and stagnant employment numbers. Although MSMEs' important role in employment creation is supported by empirical literature, the study's findings contradict the empirical literature since MSMEs failed to be the source of employment creation. While employment remained relatively stagnant, the increase in salaries means businesses are more concerned with increasing productivity than increasing employment. Moreover, increased salaries induce labour productivity. Research should be conducted to investigate the reasons why South African MSMEs fail to create jobs.

6. Managerial implications

The effect of the support provided by the GEP, to some extent, is influenced by the type of support provided by them. If the support provided does not respond to the business needs of MSMEs, the effect of the support becomes minimal. A one-size-fits-all form of support provided by the GEP led to misalignment between the needs of the MSMEs and the support they received. The support being offered should respond to the investigated needs of the MSMEs. The GEP's reactive approach in providing support has hindered many MSMEs from getting necessary interventions. MSMEs also indicated that the GEP has not provided or committed to providing support to them in response to COVID-19. MSMEs proposed that the GEP convenes MSME forums to allow them and the GEP to exchange information and experiences and develop MSME support packages that are informed by their reality. Most importantly, the GEP should support MSMEs in rebuilding their businesses post COVID-19.

6.1 GEP support of MSMEs per sector

In South Africa, there is a general misconception of equating MSMEs to spaza/backyard shops. These are mostly businesses started by the owner to earn a living while focusing less on contributing to the economy and employment creation. For MSMEs to contribute meaningfully to the economy, they must be at the heart of key economic drivers and sectors of the economy. The Gauteng Economic Development strategy, titled "*Transformation, Modernisation and Reindustrialisation Strategy*" (henceforth, referred to as TMR), recognises the services, transport and manufacturing sectors as among the key economic pillars of the province. Government intervention should thus be targeted and directed towards stimulating these sectors while not neglecting others.

Figure 1 shows that most of the MSMEs that were supported are in the services, food and hospitality and agricultural sectors, representing 43%, 17% and 11% of the total number of MSMEs supported, respectively. The large number of MSMEs in the services sector reflects the economic strength of the Gauteng province. However, the low proportion of MSMEs in the manufacturing sector - only accounting for 5% of the total number of MSMEs supported - is a cause for concern for a province that is an industrial hub of the country.

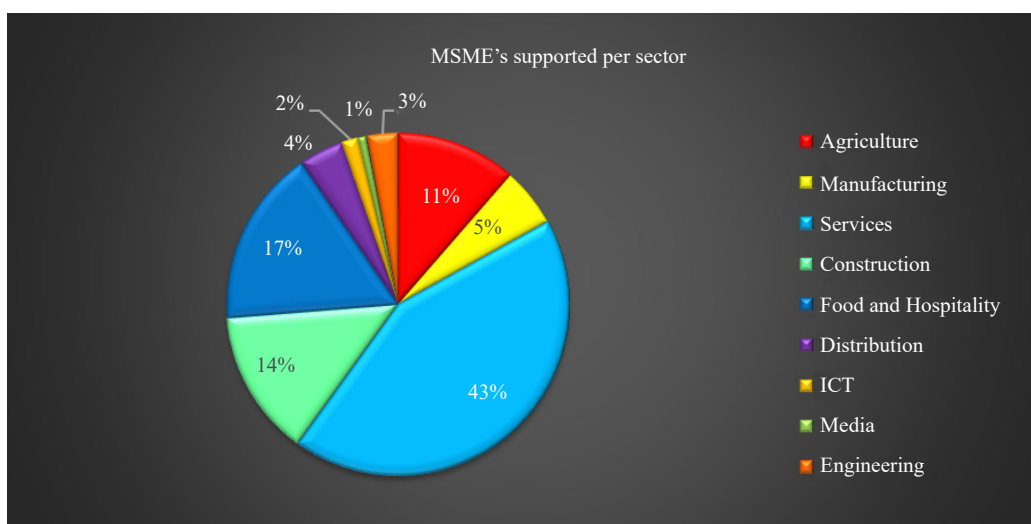
The high proportion of MSMEs in the services sector and the low proportion of MSMEs in the manufacturing sector is in line with the findings of the GEP's Impact Assessment Report (2018), with services and manufacturing sectors accounting for 38.9% and 16.8% of the total number of MSMEs supported, respectively. From a theoretical perspective, the manufacturing sector is regarded as an engine of growth (Ngibe & Lekhanya, 2020). From a policy perspective, the TMR strategy recognises the reindustrialisation of the Gauteng economy as a key element in building a growing, dynamic and resilient economy, with manufacturing driving that reindustrialisation.

6.2 Industrial transformation in Gauteng

Industrial transformation in Gauteng has been characterised by a shift in the economic structure from the mining industry as well as industrialisation that supported the mining sector. The province experienced a major de-industrialisation, with many mines closing down and subdued manufacturing activity. Figure 1 depicts the reality of a stagnant manufacturing sector in Gauteng as indicated by the low proportion of MSMEs in the manufacturing

sector. Despite the low proportion of MSMEs in the manufacturing sector, the disaggregation of the support provided to MSMEs per sector has some characteristics of an economy that has undergone a structural change process. This is shown by the relatively low proportion of MSMEs supported in the labour-intensive agricultural sector, while the proportion of MSMEs in the modern and skill-intensive services sector is high. The structural change in India was also characterised by a shift from the agricultural sector to the services sector, while manufacturing remained relatively stagnant (Bosworth & Collins, 2005).

The emergence of new industries such as ICT, Media and Engineering re-emphasises the role of Gauteng in Africa’s Industrial and Digital revolution. Several fast-growing economies across the globe have embraced these new industries as an integral part of their long-term economic development plan, with incentives and policy support directed to these industries. Figure 1 above shows that ICT accounted for only 1% of the total number of MSMEs supported. This is not in line with the Gauteng province’s development agenda as the province seeks to cement its position as a leader in the ICT sector in Africa. South Africa is leading Africa’s ICT revolution, with more ICT hubs than any African country (World Bank, 2016). With the advent of the 4th Industrial Revolution, the Gauteng province should leverage the opportunities presented by this digital era and support more MSMEs in the ICT sector. Government should direct more support to target the new industries, which are also referred to the industries of the future.



Source: Own calculations based on GEP database, 2012-2016

Figure 1. MSMEs’ supported per sector, 2012-2016

6.2.1 Support packages provided by GEP to MSMEs

The support provided by the GEP can be broadly categorised into financial and non-financial support. The financial support offered to MSMEs is in the form of loans, with contracts up to 12 months, and an 8% fixed interest rate per annum.

The non-financial support is in the form of (i) training interventions, which include pricing and costing, entrepreneurship skills, business management skills, business plan development, and others; (ii) business development support interventions, which include budget preparations, business turnaround plans, accounting and bookkeeping, marketing planning, among others; (iii) human resource interventions; (iv) quality assurance support interventions; (v) legal support and technical support.

These support packages are standard and apply to all cooperatives and small businesses, whether formal or informal. These support packages appear to have been developed to support formal businesses and exclude informal businesses, which contribute significantly to employment creation. This points to a one-size-fits-all form of support being provided by the GEP, with no tailor-made solutions for individual business needs. Informal businesses have

unique business needs and thus require a different set of support packages. For example, informal businesses may require containers or proper stalls from which to operate. The standard support provided by the GEP has the potential of excluding certain small businesses that require specific support. Table 2 shows how MSMEs perceive the support provided by the GEP.

Table 2. MSME perception of the support provided by Gauteng Enterprise Propeller (%)

	Strongly agree	Agree	Not sure	Disagree	Strongly disagree
Satisfied with the registration process	33	40	0	17	10
GEP regularly monitors business performance	7	20	13	33	27
GEP understood my business needs	30	10	30	30	0
GEP provided tailor-made support for my business	10	20	20	50	0
GEP contributed to the performance of my business	20	40	10	20	5
GEP regularly requests feedback on my satisfaction with the support provided	0	30	10	20	40
GEP has asked for my business needs and support required considering the COVID-19 pandemic	0	10	10	10	70
General satisfaction with the support provided by GEP	30	40	20	0	10

At the time of conducting the interviews, GEP had 21 MSMEs in its database. All the businesses were contacted telephonically, but only 17 could be traced. The questionnaires were thus sent to these 17 businesses. Several questions were posed to the respondents regarding their perception of the GEP's support, and responses were grouped into eight categories, as highlighted in the table above. The response rate showed that 73% of the respondents were satisfied with the application process, while 27% were not satisfied. This finding was supported by the GEP Impact Assessment Report (2018), which found that more than 60% of sampled respondents were satisfied with the registration process. The reasons for dissatisfaction were mainly attributed to delays by the GEP in providing feedback on the application, according to the responses. It was also found that 27% of the respondents agreed that the GEP continuously monitors business performance and proactively provides required interventions, while 60% disagreed and 13% responded that they were not sure. The GEP's delays in responding and the lack of follow up after the support was provided were some of the areas respondents felt the GEP should improve on. MSME development is not a once-off activity, where a business is provided with funding and left to operate on its own without continued support. Moreover, finance development institutions' objective is not profit generation through the loan repayments by MSMEs, but to nurture and develop MSMEs to be fully sufficient businesses; hence, monitoring the MSMEs' performance and following up is an essential element of MSME development.

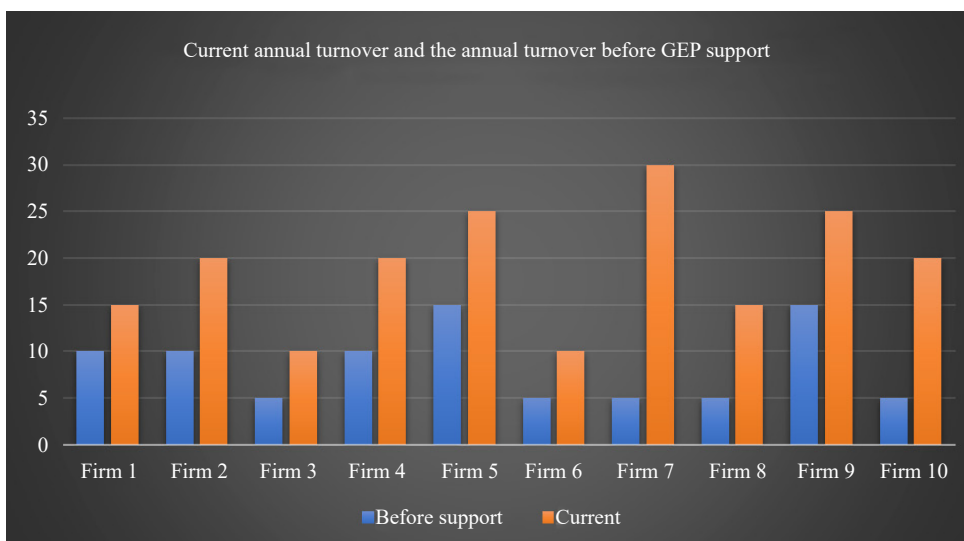
Further, only 30% of sampled respondents believed that the GEP provided them with tailor-made support to

respond to their individual business needs, while 40% of the respondents believed the GEP understood their business needs. This is a cause for concern as it makes it difficult for MSMEs to receive support that responds to their needs. The GEP's lack of understanding of individual business needs is a result of the one-size-fits-all support it provides to MSMEs. As stated, standard support packages are offered to all businesses, regardless of size, without understanding their individual business needs. Micro-businesses have different needs from medium businesses, and formal businesses have different needs from informal businesses. A lack of understanding of individual business needs may lead to misalignment between the GEP and MSMEs' perception of the support provided and received; the GEP may pride itself on providing support to a large number of MSMEs and delivering on its mandate, but the support provided might not respond to the businesses' needs. Consequently, this results in wasteful utilisation of resources as the support packages offered do not yield the intended results, leaving MSMEs under-developed.

About 60% of the respondents indicated that the support provided by the GEP contributed to the performance of their businesses, while 25% believed other factors drove their business performance. This response is critical for this study as it validates that the changes in the indicators selected for the study are indeed attributed to the support provided by the GEP. Moreover, merely 30% of the respondents agreed that the GEP regularly requested feedback from them on their satisfaction with the support provided. The GEP's failure to request feedback from MSMEs is a cause for concern as it makes the communication one-sided, and the support provided is supply-side driven, with no input from the demand-side. This deprives the MSMEs of a platform to voice their dissatisfaction and recommend changes to the support package.

While the respondents raised some concerns with the support provided by the GEP, most of them were initially satisfied with the support they received; only 10% of respondents shared their overall dissatisfaction. The GEP Impact Assessment Report (2018) found that the overall satisfaction with the support provided was between 60 and 65%. To corroborate the findings, the study used three variables to establish what support was offered to MSMEs, namely, annual turnover, number of persons employed, and average salary paid to employees. *Annual turnover.*

The effect of the GEP's support was measured by comparing firms' annual turnover at the time of data collection, to their turnover before the GEP's intervention. Figure 2 shows the current annual turnover and the annual turnover before the GEP's support. Numbers are allocated as proxy to indicate the annual turnover as follows: < R200,000 = 5; R200,000 - R500,000 = 10; R500,000 - R1 million = 15; R1 million - R5 million = 20; R5 million - R10 million = 25; R10 million - R15 million = 30.



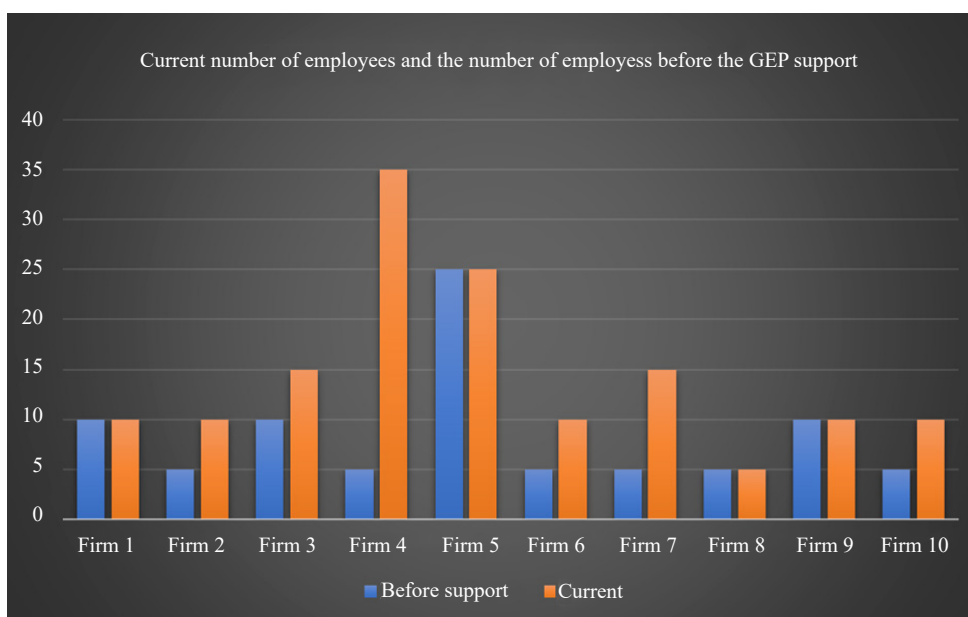
Source: Collected through questionnaires

Figure 2. Current annual turnover and the annual turnover before GEP support

The annual turnover for all the firms saw an increase after receiving support from the GEP. However, the increase in the turnover cannot be attributed to the GEP support for all the firms, since 25% of the firms indicated that their business performance was driven by factors other than the GEP support. Firm 7, followed by firm 10, had the largest increase in turnover, both increasing from a turnover of less than R200,000 before the GEP support, to a current turnover of between R10 million and R15 million, and between R1 million and R5 million, respectively. Figure 2 shows that 50% of the firms had an annual turnover less than R200,000, while 30% and 20% of the firms had an annual turnover between R200,000 and R500,000, and R500,000 and R1 million before the GEP support, respectively. These findings align with South Africa’s MSME Landscape Report (2019), which found that most small businesses in South Africa have an annual turnover of less than R200,000. Despite some firms indicating that their performance was not driven by the GEP’s support, this intervention has generally led to increased turnover.

6.2.1.1 Employment creation

Figure 3 shows the current number of employees, and the number of employees before the GEP’s support. Numbers are allocated as proxy to indicate the categories of employees as follows: < 5 = 5; 6 - 10 = 10; 11 - 15 = 15; 16 - 20 = 20; 21 - 25 = 25; 26 - 30 = 30 and 31 - 35 = 35. It is important to highlight that, respondents were asked to indicate their number of employees before COVID-19. This was done to eliminate COVID-19’s effect on employment numbers, which would have undermined the effect of the GEP’s support by reducing the number of employees; many small businesses had to reduce their staff due to COVID-19.



Source: Collected through questionnaires

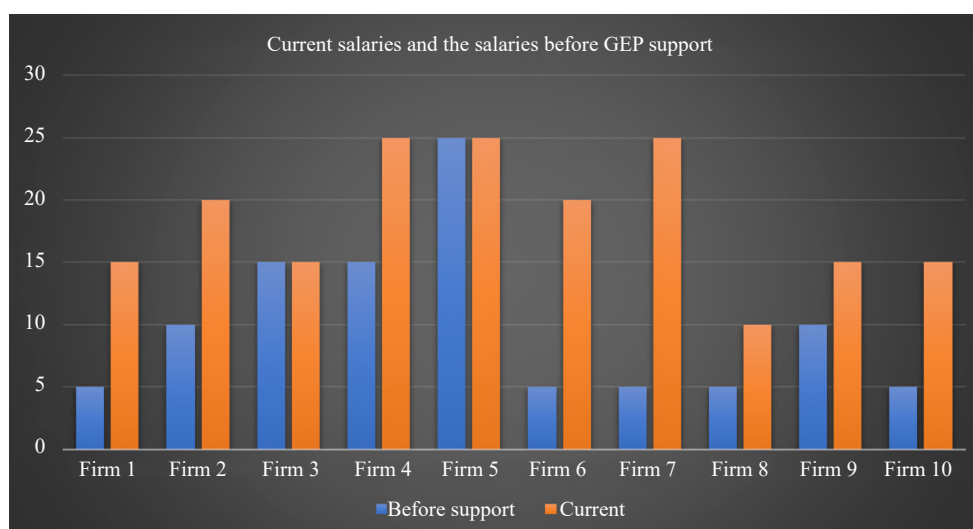
Figure 3. Current number of employees and number of employees before the GEP support

As illustrated in Figure 3, 60% of the firms saw an increase in their number of employees after receiving support from the GEP. Firm 4 had the largest increase in their number of employees, increasing from less than five employees before the GEP’s support, to the current 31-35 employees. Most firms currently employ between six and 15 people, with firms 4 and 5 being the two outliers, employing more than 20 people. The employment created by these firms is uninspiring compared to the increases in their annual turnover. This suggests that the increase in turnover did not translate to job creation. The lack of job creation by MSMEs is also shown in Table 1 above, where jobs created by the MSMEs in South Africa only increased by a moderate 0.75 percent between 2016 and 2021. The MSMEs uninspiring job creation should be a cause for concern for policymakers, as both the MSMEs and the manufacturing sector are

envisaged to be solutions to employment problems in the province. These findings thus contradict extensive empirical literature which suggests MSMEs are the drivers of employment creation, especially in developing countries. The limited studies which are set to review and assess the MSMEs' ability to create jobs in South Africa will contribute to policy failure, as government continues to invest resources in the MSME sector while the MSMEs continue to post uninspiring job creation numbers. There is a need to investigate the reasons for the lack of job creation by the MSMEs in the manufacturing sector.

6.3 Income generation for employees

As highlighted above, MSMEs contribute significantly to income generation and poverty alleviation. This section considers MSMEs' income generation for employees as a third indicator, which measures the effect of the GEP's support on manufacturing MSMEs. Figure 4 shows employees' current salaries and their salaries before the GEP intervention. Numbers are allocated as proxy to represent salary categories as follows: < R1,000 = 5; R1,000 - R3,000 = 10; R3,000 - R5,000 = 15; R5,000 - R10,000 = 20; > R10,000 = 25. The salaries are stated as average salaries paid to employees.



Source: Collected through questionnaires

Figure 4. Current salaries and the salaries before the GEP support

Figure 4 shows that employees saw an increase in their salaries for all firms, except for firm 3 and firm 5, whose salaries remained the same. The reason for the stagnant salaries paid by firms 3 and 5 could be related to the fact that these firms already paid higher salaries to employees even before the GEP's support (compared to other firms), paying salaries between R3,000 and R5,000, and salaries more than R10,000, respectively. Most firms paid salaries below R1,000 before the GEP's support. Firm 7 saw the largest increase in salaries paid to employees; salaries increased from less than R1,000 before the GEP support, to the current salary of more than R10,000. It is important to highlight that firm 7 also saw the largest increase in turnover. The salary increase generally reflects the increase in annual turnover for these firms. This suggests that as firms' turnover increased, these firms preferred to increase employee's salaries while leaving the number of employees relatively the same. A salary increase encourages employees to work harder, inducing higher labour productivity. Strauss and Mohar (2004) found that increases in labour productivity in the United States were explained by the increase in wages between 1956 and 1996. This then means that the firms preferred higher productivity as opposed to increasing the number of employees. Increasing the number of employees would not necessarily lead to higher productivity due to the diminishing marginal returns.

Notwithstanding the expectation of MSMEs to create jobs, firms are typically concerned with higher productivity

as opposed to meeting government targets of employing a certain number of people. Firms can continue their operations with fewer employees as long as the productivity is high. With the advent of the 4th Industrial Revolution, firms are transitioning to efficient and digital methods of production, which will increase productivity. Efficiency is even more important for small businesses with limited financial resources and budget constraints. Continuous research on MSMEs is needed to inform policy direction and decisions, as economic conditions do not remain the same.

7. Conclusion and recommendations

Despite the opposing views that question MSMEs' ability to create jobs, empirical evidence suggests that they have played a key role in stimulating growth and generating employment, especially in developing economies. According to the infant industry protection theory, government should intervene in the economy by selecting key infant industries to protect against global competition. However, recent literature on industrial policy argues that, in line with the infant industry's protection, government should provide support to MSMEs to enable them to accumulate productive capabilities over time. In South Africa, particularly, the argument to protect and support MSMEs is relevant due to the country's political history, which created capital and economic concentration on large businesses while restricting small businesses from growing.

The justification for manufacturing to be selected as a focus industry of the research study was mainly based on the unique characteristics of manufacturing as an engine of growth, as well as its ability to create jobs. However, recent empirical literature shows that the services sector has become an important source of growth for many developing economies. Furthermore, with regards to the manufacturing sector's ability to create jobs, the analysis of the findings and empirical literature suggest the opposite, highlighting the manufacturing sector's failure in creating jobs in South Africa. The capital-intensive nature of South Africa's manufacturing sector makes it hard for the sector to absorb labour. With the increasing utilisation of ICT and machines in the production process, it is unlikely that the sector will, in the future, be a solution to South Africa's increasing rate of unemployment. In light of the rising services sector in developing economies, more research needs to be conducted to investigate whether manufacturing is still the engine of growth. Moreover, the employment intensity of the manufacturing sector should be investigated further. Research on these two areas will guide decision making and government policy.

The services sector had the most supported MSMEs in the province and employed the largest number of people compared to other sectors. The labour intensity of the textile sub-sector - which dominates manufacturing MSMEs supported by the GEP - drove the manufacturing sector to be the second largest employer in the province, while it had fewer MSMEs being supported. This suggests that government interventions should be targeted at sub-sector level, such as the textile sub-sector to increase employment.

The effect of the support provided by the GEP is, to some extent, influenced by the type of support it provides. If the support provided does not respond to the MSMEs' unique business needs, the effect of the support will be minimal. In this regard, it was found that the one-size-fits-all form of support provided by the GEP led to misalignment between the needs of the MSMEs and the support provided. It was determined that the support provided by the GEP does not respond to the needs of the MSMEs. This is exacerbated by the GEP's failure to source feedback from MSMEs. The GEP's reactive approach in providing support has hindered many MSMEs from getting the necessary intervention.

The support provided by the GEP had a positive effect on all the indicators, albeit the employment creation numbers were uninspiring. The increase in annual turnover as a result of the GEP's support was followed by an increase in salaries paid to employees and stagnant employment numbers. Although the MSMEs' important role in employment creation is supported by empirical literature, the findings of this study are contradictory, as MSMEs failed to be a primary source of employment creation. The increase in salaries while employment remained relatively stagnant means that businesses are more concerned with increasing productivity than increasing employment, and increasing salaries induces labour productivity. Research should be conducted to investigate why MSMEs in South Africa fail to create jobs.

Conflict of interest

The authors declare no conflict of interest.

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