

# THE IMPACT OF FINANCIAL AND NON-FINANCIAL SUPPORT ON GAUTENG SMMEs

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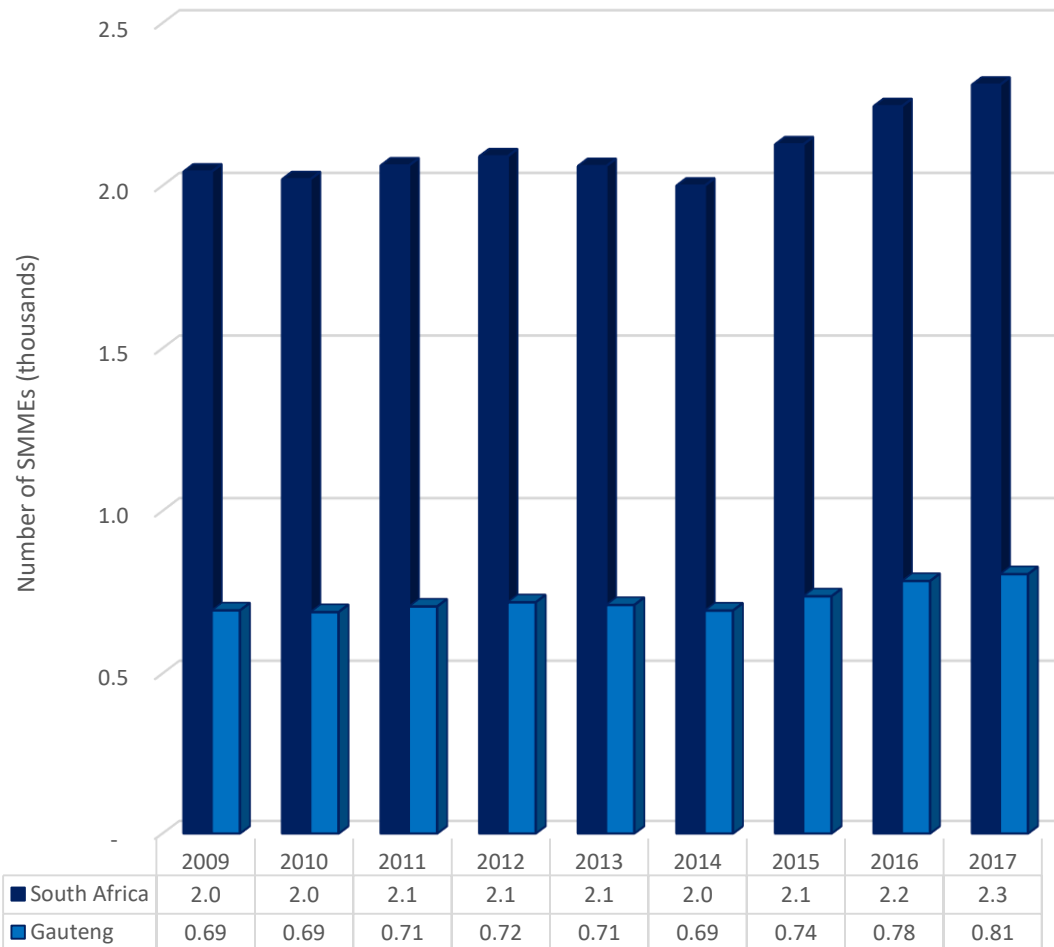
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# INTRODUCTION: PURPOSE OF THE STUDY

- ❑ The South African economy has an enormous task of addressing the triple challenges of high unemployment, poverty and inequality.
- ❑ There is a growing concern that sluggish economic performance and persistence of these challenges are putting the country's young democracy.
- ❑ SMMEs play a crucial role in economic growth and employment creation.
- ❑ However, early-stage entrepreneurial activity rates in SA is much lower than comparable developing countries (NDP, 2011), one of lowest in SSA for youth.
- ❑ Financial and non-financial support is crucial for the SMMEs survival and growth.
- ❑ This underscores the need for targeted interventions to ensure the success of SMMEs.
- ❑ The purpose of this study is to empirically determine the impact of financial and non-financial support on the growth of SMMEs in Gauteng.

## INTRODCUTION: NUMBER OF SMMEs OVERVIEW

Number of SMMEs (proxy)



- Proxy calculation: Use QLFS employer + own account worker = total number of SMMEs in SA. Take the GP GDP contribution to SA GDP. %GP GDP as a fraction of total number of SA SMMEs will give the number of SMMEs in Gauteng.
- Over the past ten years, the number of SMMEs in South Africa has increased at an average rate of 0.9 per cent.
- It is estimated that between 2012 and 2015, the number of SMMEs in Gauteng has increased by 18 thousand, or 3 per cent.

# PANEL DATA MODEL: DATASET

- The GEP dataset on SMMEs were used.
- The dataset is unbalanced. It follows that the financial dataset has 2 372 observations. The non-financial dataset has 2 906 observations.
- The time period covered stretches from 2012/13 to 2015/16.
- The data is split between large, single, small and very small SMMEs.
- The dataset has quantitative information on turnover, GEP financial and non-financial contribution and number of employees.
- Financial support: Refers to the Township Business Renewal and Cooperative Assistance Programme
- Non-financial support: Planning interventions, marketing interventions etc.

# PANEL DATA MODEL: MODEL AND DATA DESIGN

- The model and data design draws from the GEP impact assessment draft report of 2018.
- The model is designed so that before and after turnover of financial/non-financial intervention is calculated.
- The before and after financial/non-financial intervention number of employees are calculated.

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| <b>Turnover after</b>  | <b>Percentage used</b> |
|------------------------|------------------------|
| 0 - 200 000            | 6,0                    |
| 200 001 - 500 000      | 11,8                   |
| 500 001 - 1 000 000    | 3,0                    |
| 1 000 001 - 10 000 000 | 3,3                    |

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- The employees before intervention was calculated based on 8 per cent.

# PANEL DATA MODEL: MODEL DESIGN CONTINUE

*SMME model before financial support specification*

$$\text{Turnover before}_{it} = \mu_t + \beta_1 \text{employees before}_{it} + \beta_2 \text{employees before}_{it}^2 + \beta_3 \text{GEP financial contribution}_{it} + \alpha_i + \varepsilon_{it}$$

*SMME model after financial support specification*

$$\text{Turnover after}_{it} = \mu_t + \beta_1 \text{employees after}_{it} + \beta_2 \text{employees after}_{it}^2 + \beta_3 \text{GEP financial contribution}_{it} + \alpha_i + \varepsilon_{it}$$

*SMME model before non-financial support specification*

$$\begin{aligned} &\text{Turnover before}_{it} \\ &= \mu_t + \beta_1 \text{employees before}_{it} + \beta_2 \text{employees before}_{it}^2 + \beta_3 \text{GEP non - financial contribution}_{it} + \alpha_i \\ &+ \varepsilon_{it} \end{aligned}$$

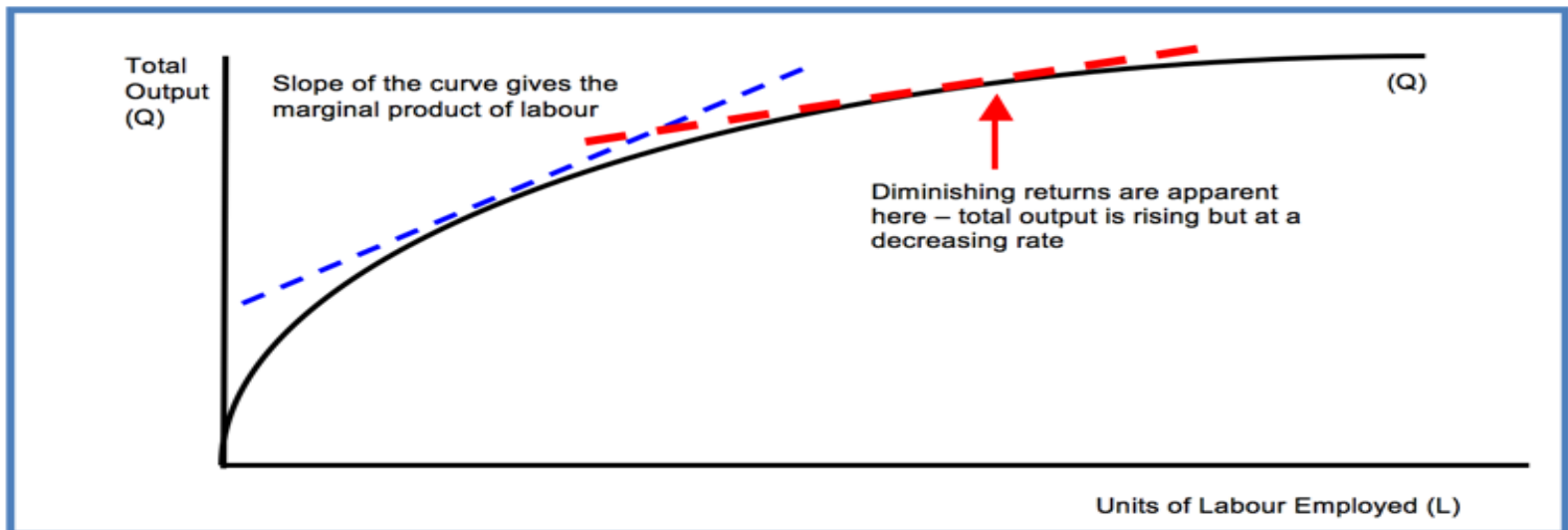
*SMME model after non-financial support*

$$\text{Turnover after}_{it} = \mu_t + \beta_1 \text{employees after}_{it} + \beta_2 \text{employees after}_{it}^2 + \beta_3 \text{GEP non - financial contribution}_{it} + \alpha_i + \varepsilon_{it}$$

## PANEL DATA MODEL: MODEL DESIGN CONTINUE

- ❑ The model is designed in such a way that the diminishing marginal return to labour is taken into account.
- ❑ This is explained by the graph below. The initial impact of labour on output is positive, but when incremental increases in labour take place, productivity starts to decline ( output increasing at a decreasing rate).
- ❑ This gives a lot of information as to what to expect from the models' economic signs.

**Diagram to show diminishing returns as extra labour is employed**





# PANEL DATA MODEL: METHOD

- Typically in a panel data set the fixed and random effect is used.
- You have to determine which is the best to use based on the dataset and for this the Hausman test is used. The fixed and random effect is based on the unobserved effect specification:

$$y_{it} = x_{it}\beta + c_i + \mu_{it}, \quad t = 1, \dots, T.$$

- In short: The fixed effect allows for the unobserved effect to be correlated with the explanatory variable (the identifier has its own coefficient and intercept). The random effect model does not allow for this correlation (common mean for the identifier).
- The financial model is based on the random effect model.
- The non-financial model is based on the fixed effect model.

# LIMITATIONS

- ❑ The main limitation and drawback of this model draws from the dataset:
  - Does not include all SMMEs in Gauteng, but focuses on GEP clients as a case study.
  - Unbalanced dataset.
  - Cannot determine the impact per SMME size, region etc.

# RESULTS

|                                                |                              | GEP financial/non-financial contribution | Number of employees | Number of employees^2 |
|------------------------------------------------|------------------------------|------------------------------------------|---------------------|-----------------------|
| Small, Medium and Micro enterprises in Gauteng | Before financial support     | 0.4095*                                  | 0.7903*             | -0.1423*              |
|                                                |                              | (0.0000)                                 | (0.0000)            | (0.0000)              |
|                                                |                              | [6.9141]                                 | [10.3890]           | [-21.8715]            |
|                                                | After financial support      | 0.4130*                                  | 0.8462*             | -0.1451*              |
|                                                |                              | (0,0000)                                 | (0.0000)            | (0.0000)              |
|                                                |                              | [7.0805]                                 | [11.3376]           | [-22.9124]            |
|                                                | Before non-financial support | 0.0849*                                  | 0.6840*             | -0.1536*              |
|                                                |                              | (0.1040)                                 | (0.0000)            | (0.0000)              |
|                                                |                              | [1.6270]                                 | [9.8498]            | [-11.4515]            |
|                                                | After non-financial support  | 0.0952*                                  | 0.7045*             | -0.1536*              |
|                                                |                              | (0.0879)                                 | (0.0000)            | (0.0000)              |
|                                                |                              | [1.7076]                                 | [8.1451]            | [-10.3791]            |

# CONCLUSIONS

- ❑ The purpose of the study was to determine the impact of financial and non-financial support on the turnover of SMMEs in Gauteng.
- ❑ Financial and non-financial support does have a positive impact on SMMEs turnover.
- ❑ The estimated impact of financial support seems to have a higher impact on SMMEs turnover than non-financial interventions.

# RECOMMENDATIONS/SHORTCOMMINGS

- Testing the full effect of non-financial support seems a very difficult task given that the extent of the impact on non-financial support on skills development is not known and non quantified. It would be beneficial if the years of working experience and years of training and education is added to surveys.
- GEP was the only source used in this analyses which covers a small number of SMMEs. It is proposed that SEDA data and other agency data is used in conjunction with the GEP data.
- Surveys should include cost of labour.

**End**

