

Contextual Financial Analysis for driving sustainable finance reforms for Micro and Small Enterprises in South Africa

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 - Overview the Green Economy Ecosystem Support for LGE`s
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Project Background

- ❑ Green Economy Coalition (GEC) network project “Civil society participation for sustainable finance reforms: global coverage” funded by the European Union (DCI/ENV/2020/417-985).
- ❑ The project aims to enhance finance and other support for Local Green Enterprises (LGEs).
- ❑ Intercontinental research (10 members in 7 countries) that enables sharing of experiences, lessons and recommendations on financing for LGEs and supporting ecosystem development:
 - Key signature issues facing LGEs revealed by Contextual Finance Analysis
 - Current experiences with finance and business support for LGEs – good practices, gaps and opportunities
 - Planned/current work to strengthen finance and business support for LGEs (under the project and other initiatives)

Research aim & objectives

Aim

To map the landscape of providers and seekers of funding available for Local Green Entrepreneurs in South Africa, and to identify access to finance challenges, gaps, opportunities and potential solutions in order to promote inclusive funding access in green industries.

Objectives

1. To provide an overview of LGE`s business challenges
2. The objective is to influence national policy makers and national sustainable finance stakeholders, including international donors to address a range of policy signature issues that will better support Local Green Entrepreneurs (LGEs) as a key stakeholder group to access inclusive finance.

Approach

- ☐ LGE survey – inclusive sample group
- ☐ 10 Interviews with key informants
- ☐ 4 sectoral focus groups with a broad range of stakeholders (energy, water, waste, agri)

Research approach

COMPLETION
31st August
2022



CFA STRUCTURE

PART I: ECONOMY

- Signature Issues
- Regulatory landscape
- Stakeholder landscape
- Macro indicators

PART II: FINANCE

- Signature Issues: access to finance, financial services, financial ecosystem challenges, financial products
- Mapping of the financial landscape
- Mapping of the stakeholder landscape

LGE – Green Industries

Local Green Entrepreneurs (LGEs) are from one or more of the following green economic sectors:

- ❑ Agriculture: Sustainable agriculture, food production and forestry;
- ❑ Biodiversity: Resource conservation and management;
- ❑ Construction: Green buildings and the built environment;
- ❑ Community Development: A range of community enhancement services;
- ❑ Education: Environment Energy: Clean energy (renewables) and energy efficiency;
- ❑ Manufacturing: Sustainable consumption and production
- ❑ Transport: Sustainable transport and infrastructure;
- ❑ Waste: Sustainable waste management practices and or
- ❑ Water: Responsible water management.

KEY FINDINGS

BUSINESS CHALLENGES

INTERNAL BARRIERS

- Demands for green and social goods
- Support required to become green
- Programmes for Financial Literacy
- Collateral requirement
- Access to financial services

EXTERNAL BARRIERS

- Financial Ecosystem Challenges
- Banking regulations
- The Regulatory Landscape
- The stakeholder landscape
- The impact of COVID-19

Funding for 'Green' SMMEs



There is a *green* finance gap for local *green* entrepreneurs



Female owned SMMEs in the energy sector...

participate in small embedded generation projects. They need access to land and also larger multi million rand funds



Agricultural SMMEs

experience a severe lack of support for innovation in a green technology space



Youth SMMEs in the Water sector...

are looking to participate in creating access to purified water, harvesting and transporting tanks. However, they require access to assets (trucks) and filter machinery equipment while facing barriers to access funding



SMME's in the waste sector...

require a bridge between the informal and formal sector along with ongoing support to create sustainability

Signature Issues: SMME Policy

- ❓ The Draft SMMEs and Co-operatives Funding Policy



SMMEs AND
CO-OPERATIVES
FUNDING POLICY
FOR SOUTH AFRICA



Silent on Green

**QUIET
PLEASE**



The SMMEs and Co-operatives Funding Policy: SMME challenges

- ❓ Mismatch between supply and demand of SMMEs financing;
- ❓ Limited effectiveness of government programmes designed to support SMMEs and Co-operatives development due to poor coordination among various stakeholders;
- ❓ Shortage of skills relating to entrepreneurial and business acumen;
- ❓ Lack of functional and accessible movable collateral registry;
- ❓ Limited effectiveness of public procurement contracting and payment certainty which also stifles the growth and funding prospects of SMMEs and Co-operatives;
- ❓ Cost of compliance – the lack of easy, fast, and cheap business registration process.
- ❓ Absence of tax regime that compensate small businesses for the burden of tax compliance;
- ❓ Limited awareness of available business support
- ❓ Low levels of financial literacy; and
- ❓ Lack of easy, fast and cheap business registration process.

Signature Issues: SMME Policy

- ❓ National Small Enterprise Act (102/1996) amended: National Integrated Small Enterprise Development Masterplans the National Small Business Support Strategy.

NO. 2070

10 May 2022

NATIONAL INTEGRATED SMALL ENTERPRISE DEVELOPMENT MASTERPLAN

DRAFT

DEPARTMENT OF SMALL BUSINESS DEVELOPMENT

NATIONAL INTEGRATED SMALL ENTERPRISE DEVELOPMENT MASTERPLAN AS THE
NATIONAL SMALL BUSINESS SUPPORT STRATEGY

DRAFT NATIONAL INTEGRATED SMALL ENTERPRISE DEVELOPMENT MASTERPLAN

RECOMMENDATIONS

- ❓ Green financing should be promoted by including it in the new SMME and Co-operative Funding Policy.
- ❓ To address policies for reporting on Environmental Goods, capacity building
- ❓ Develop policy that can guide green product standards and certifications – this can assist SMEs to navigate what is required
- ❓ Sector focused decarbonisation strategies to link with Green Economy Ecosystem support for SME`s in value chains
- ❓ A dedicated Green Recovery LGE Programme is required that facilitates access to finance and access to market
- ❓ DSBD, seda and sefa to link incubation models and BDS programmes to address the implications of international trade, impacts of the European Green Deal and American Green Deal– SME risks and opportunities, market expansions for future trade
- ❓ Net-zero 2050 Decarbonisation targets to be taken in consideration
- ❓ Climate adaptation and mitigation – SMME opportunities to be more visible

RECOMMENDATIONS

- ❑ There is a need for greater inclusion of female-owned and youth-owned enterprises and the financial sector needs to consider revising eligibility criteria to match financial products with market demand
 - Greater support to include Youth in the Green Economy – scale Youth programmes
 - Increased Gender inclusion support in the Green Economy, access to finance
- ❑ Financial products for early stage LGEs – product development (TRL 4-7)
- ❑ Capacity building to increased knowledge about the Green Economy – inclusive participation
- ❑ LGE`s needs increased business development support, financial literacy, technology development support and access to early stage finance and working capital
- ❑ Greater visibility for SMEs on green market opportunities

Next Steps – Stakeholder Engagement

A: Private sector: Finance Providers: DFIs, Banks, Impact Investors

B: Government: Department DMRE/SEDA/DSBD/sefa

C: SMEs: youth-owned, female-owned and black-owned
(document voices from different groups)

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