



Growing small businesses from just Energy Transition Initiatives

– BRICS country successes and lessons





SA BRICS Business Council Energy and Green Economy Group Roundtable
Gauteng, South Africa, 19 August 2023



The South African BRICS Business Council presented the 2023 BRICS Energy Cooperation Forum at Gallagher Convention Centre in Midrand, Gauteng, on Saturday, 19 August 2023.

As part of the proceedings, Naspers and the National Business Initiative of South Africa (NBI) hosted a roundtable discussion with a diverse group of private and public sector industry leaders on the topic of growing small, medium, and microenterprises (SMMEs) from just energy transition initiatives.

We know that SMMEs are the backbone of many economies, driving the demand for goods, services, investments, innovation, technology, and trade. This discussion aimed to reveal how just energy transition initiatives can help unlock SMME potential and, in so doing, help fuel sustainable, inclusive growth among the BRICS countries. We delved into the successes, challenges, and lessons learnt.

As an outcome of the roundtable, we seek to foster further collaboration while holding industry stakeholders to account for their comments and follow-up actions to create a real and lasting impact. This is just the beginning of a conversation that needs to be had on a regular basis.

Naspers and NBI welcome input in the hope that many fruitful follow-up conversations will take place.

Panellists

Shameela Soobramoney (moderator)

CEO and Chief Sustainability Officer at National Business Initiative (NBI)

Bongani Sithole

CEO of Rand Investment Capital

Tshepo Ntsane

Sustainability Finance and ESG Advisory of Rand Merchant Bank (RMB)

George Mienie

CEO of AutoTrader

Igor Latic

Managing Director and Partner for Climate and Sustainability at Boston Consulting Group (BCG)

Deerosh Maharaj

Head of Power and Sustainable Solutions at Standard Bank

Consolate Rusagara

Practice Manager of Finance and Innovation at World Bank

Bavumile Skhosana

CEO Officer at Mabasa Energy

Avuyile Xabadiya

Chief Economist of the Department of Mineral Resources and Energy

Sisa Njikelana

Member of the BRICS Energy and Green Economy Working Group (SA Chapter), MD at Sinakoyoli International

Six key insights from the discussion

1

The economic stakes of not decarbonising our economy calls for urgent action

The panellists agreed that there is an urgent need to shift towards sustainable practices and decarbonisation of various industries to preserve GDP growth and protect jobs. As the Global North shifts to lower-carbon economies, the Global South will be forced to comply, simply to keep up with international trade and investment opportunities. Countries that are seen to not be addressing climate risks and providing lower carbon alternatives will lose market share. The heavy metals mining industry, for example, employs many people; failure to decarbonise this sector would have a negative effect on trade and employment rates.

In South Africa, we need to balance the need for immediate energy interventions (necessitated, for example, by the energy crisis) with long-term decarbonisation.

Georgie Mienie from AutoTrader expressed how these concerns over decarbonisation extend to the automotive industry. Around 64% of vehicles manufactured in South Africa are exported. Growing global demand for electric vehicles (EVs) is bound to affect this in the future, and

should we fail to transition to low-carbon alternatives to conventional motor vehicles, we stand to lose a substantial share of this market. There are many untapped opportunities for SMMES that lie within the EV market. These include encouraging the uptake of EVs or hybrids for car sharing and e-hailing platform drivers, and involving SMMES in providing charging infrastructure, recycling auto parts, and second-life batteries. The South African EV industry is currently hampered by high import duties and a lack of government policy and support. A shift in these areas could encourage faster and smoother uptake.

While EVs are just one green economy industry, the kind of challenges faced in this sector echo the sentiment of many SMMES in other green economy sectors: they are plagued by expensive red tape, a lack of infrastructure, and a general resistance to move forward. Enabling green financing options and supportive government policies are essential for SMMES in these sectors to gain traction.

2

Collaboration and partnerships are key for sustainable growth and support of SMMES

As the backbone of our economies, SMMES must be supported to ensure overall prosperity. Several panellists emphasised the need for enhanced collaboration between all stakeholders along the value chain. This is key to giving SMMES the step up they so desperately need.

Sustainable growth requires cooperation between various entities, including government, financial institutions, and the private sector. Collaborative efforts are vital for driving sustainable development, creating an enabling environment, and fostering mutual support. The exchange

of ideas and leveraging platforms are critical for collective benefit, and exchanges between public and private sectors must be well coordinated.

Igor Lavic from BCG (Boston Consulting Group) mentioned that a big challenge for early-stage start-ups is scaling up from the 'small' to the 'medium' so they can become sustainable businesses and legitimate competitors in the green economy. This is a key area in which support is needed and is part of creating inclusivity for all in the just transition to a low-carbon economy.

3

We need to create enablers to empower SMMEs to shift beyond survival mode and become sustainable enterprises

It was questioned whether we can expect SMMEs to achieve growth that is both sustainable and inclusive (the 'just' part of the transition to a low-carbon economy) when they are primarily focused on survival, particularly in the early stages of business. This led to discussion about how SMMEs can be better supported to alleviate some of the financial and regulatory pressures they face.

Avuyile Xabadiya, Chief Economist of the South Africa Department of Mineral Resources and Energy (DMRE), mentioned that developing countries and SMMEs have found themselves unprepared and without access to the necessary capital to transition as quickly as the rest of the world. How can stakeholders facilitate this change? Green financing options are needed, as well as enabling policies from government.

Government, big businesses, and financial institutions can become enablers that help SMMEs enter the playing field and become sustainable businesses that help the economy to flourish.

Typically, three main types of support mentioned were:

- Management support for small businesses including mentorship, networking, skills development, and capacity building
- Clear and actionable government policies and support schemes
- Financial/funding tools and products that are accessible to SMMEs

Management support and mentorship

Bongani Sithole, CEO of Rand Investment Capital, shared how the mentorship and financial support he received from Naspers was a game-changer in shifting his business from a start-up to a sustainable venture.

Tshepo Ntsane from RMB (Rand Merchant Bank) explained that support for SMMEs is often so much more than just financing.

It often includes tech and management support, help with gaining access to the market, and support with scaling up. RMB has seen success using an incubator model that uses a large corporate as an umbrella for an SMME, and in so doing gives the SMME access to better funding options. He emphasises that it's essential to look up and down the value chain, and not only

at the SMME themselves. Bringing bigger players alongside SMMEs provides more security for financial institutions involved in lending.

Enabling government policy

Member of the BRICS Energy and Green Economy Working Group (SA Chapter), Sisa Njikelana from Sinakoyoli International, said that the green economy, including clean energy, is a relatively new sector, particularly in developing economies. Historically, any technology that's new is generally more expensive until it proliferates, eventually bringing prices down. While we have seen prices drop dramatically in sectors such as solar power as uptake has increased, there are still many parts of the green economy that are in the relatively early stages and entry into those markets requires significant capital.

The green economy is integral to clean energy and ensuring sustainability, emphasised Njikelana. Furthermore, resource efficiency and energy efficiency are also embedded in operations within the green economy. In advancing the just energy transition, a high-level synergy between the green and circular economies needs to be considered and factored in. It's essential that government provides support mechanisms in the form of pilot projects, financial rebates and support schemes, as well as a robust policy that ensures accessibility.

Licensing can also be a challenge for SMMEs, usually due to the high costs involved in ensuring compliance. It's possible for government to provide support specifically to SMMEs in this area, to quicken their ability to enter and compete in the market.

Innovative financial mechanisms

Consolate Rusagara, manager of Finance and Innovation at World Bank, emphasised the need to recognise that SMMEs are not homogenous. SMMEs, specifically in the green economy, will transition differently to SMMEs in other industries (such as textiles, manufacturing, and even real estate). While those in the green economy might be concerned with harnessing funding for research and development of innovative technologies, other industries might be concerned with transitioning their operations to low-carbon alternatives. It's important that financial support instruments recognise the diversity of SMMEs and are agile enough to adapt to their specific needs.

CEO of Mabasa Energy, Bavumile Skhosana, detailed the difficulties in securing early-stage funding due to high compliance costs and a local unwillingness from financial institutions to take on risk. Forced to look beyond South Africa's borders, they found a mature partner willing to invest and grow their reach globally. This highlighted the contentious issue of risk perception between financial institutions and SMMEs.

The financial sector's willingness to adapt and channel funds towards sustainability-related goals is seen as critical to SMME success. Panellists generally agreed that financial institutions in developing economies need to 'push the envelope' with funding models. Deerosh Maharaj, Head

of Power and Sustainable Solutions at Standard Bank, explained that the challenge for financial institutions is finding the balance between being responsible with investors' funds, while also recognising that they have influence to support and grow SMMEs by helping them to enter the market. Gaining a holistic understanding of an SMME's journey and looking at alternative funding models, such as equity funding, for example, is essential in driving a just transition. Maharaj emphasised that it's important for SMMEs to play their part by bringing a well-thought-out plan to the table.

Tshepo Ntsane mentioned invoice financing as a possible funding method for SMMEs in the green economy. Invoice financing

is a method of short-term lending that allows businesses to borrow money against their unpaid invoices. Many green economy business models (particularly in waste, water, and energy) have quite predictable revenue, so it is easier to forecast cash flow. Therefore, invoice financing could offer a viable funding solution.

Other financial instruments could include grant funding, potential tax rebates, development finance, and venture capital. In essence, however, banks need to be willing to take on more risk.

4

Government needs to accelerate regulation and policy creation to support SMMEs

Most agreed that a lack of cohesive public policy is hindering SMMEs from effective participation in the green economy market. There was a call for government to work faster in moving policies from 'green paper' proposals to actionable 'white paper' plans. Transparency in policy-making, especially with banks and government, is essential for trust and effective governance.

There was a desire to see a clear action plan from government that not only outlines the path forward but

also ensures accountability and measurable progress. Government needs to be responsive and adaptable to the evolving sustainability landscape, with particular attention to supporting SMMEs and not closing them out.

Collaboration between public and private sectors is also vital, fostering a unified approach that benefits all parties.

5

Intentional inclusion, skills development, and community engagement will assist with breaking down barriers

A focus on SMME inclusion and empowerment is key to economic development. Igor Lavic emphasised the importance of being 'intentionally inclusive' as an approach that will nurture marginalised communities such as women, people with disabilities, and the youth. Empowerment of these groups requires upskilling and reskilling, but with an equity lens.

An example mentioned by Bongani Sithole is Solar Sister, an NPO that promotes gender equity by intentionally supporting women entrepreneurs in the clean energy

space. Solar Sister's research shows that while climate change impacts everyone, women and girls are hit the hardest. So far, they have over 9 000 Sister partners who have reached over four million people in Africa.

The intersectionality of challenges experienced by SMMEs requires innovative strategies. Sithole also suggested a community-centric approach, such as building pocket energy grids in townships to give more sustainable power to those areas, but also to create opportunities for local SMMEs.

6

Encouraging technological innovation and local solutions to help SMMEs enter the playing field

As much as SMMEs are diverse and multi-faceted, so are the contexts they operate in. Global issues have local implications, requiring tailored innovative solutions.

The purpose of the event was reiterated with the reminder that as BRICS countries we are here to support each other across borders. Collaboration among BRICS countries enables sharing of knowledge, technology, and financial

resources. An illustration of this cooperation is the BRICS Innovation Base in China, established after a previous summit. This centre emphasises technological progress in the new industrial revolution and energy transition, providing an ideal platform for SMMEs to acquire the necessary training and skills development.