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Reaping the Potential of Entrepreneurship for a Climate-Smart Inclusive Green Economy in South Africa

Policy Pathways for Eco-Inclusive Enterprise Support in South Africa

Input Paper for Policy Prototyping Lab South Africa, March 2019



Federal Ministry
for the Environment, Nature Conservation
and Nuclear Safety



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Executive Summary

The transition to a green, inclusive, and climate-smart South Africa requires collaborative efforts from the public sector, civil society, and private sector. As small and growing enterprises are an essential driver of growth, particularly in emerging economies, cross-sector partnerships to co-create an enabling environment for enterprises with inclusive and climate-smart business models are critical.

The development goals of South Africa, as outlined in the National Development Plan, include addressing high rates of unemployment (27.1%)¹ and inequality (Gini coefficient of .63)², as well as ensuring that economic growth is sustainable, inclusive, and integrates efforts to mitigate and adapt to climate change.³ Small and growing enterprises are expected to contribute to these goals, and are considered as essential to job creation, the inclusion of marginalised communities into the formal economy, and the generation of sustainable GDP growth.

With these ambitious expectations, it is fundamental that small and growing businesses are supported through coordinated and inclusive mechanisms that pave the path to build and scale their operations. To contribute significantly to national and international development goals, the Small, Medium and Micro-Sized Enterprises (SMME) sector needs to be thriving. In recent research by the Small Business Institute, however, the number of small and medium enterprises (SMEs) operating in South Africa is reported as much lower than previous estimates, revising an initial figure of around 5.6 million to around 250,000.⁴ The 2016-7 Global Entrepreneurship Monitoring Report further indicates that only 2.15% of South African adults were reported as established business owners, compared to a regional average of 11.92%. Total entrepreneurial activity shows that nascent entrepreneurs and early-stage business owners in South Africa account for just 10.96% of the population, as compared to a 13.68% regionally.⁵ This points to an

unfulfilled potential for SMEs to contribute to South Africa's ambitious sustainable development goals and climate change mitigation and adaptation efforts.

Several challenges have been identified in the South African policy landscape that hinder eco-inclusive small and growing enterprises to launch and scale. These include access to finance, access to information and markets, a lack of knowledge regarding business model development and scaling models, and regulatory hurdles, among others. Within these overarching challenges, specific solutions will be co-created through policy prototyping labs, including creating a more conducive labour environment for SMMEs as job creators; smoothing the gap in business support to commercialisation of market-ready services and products; access to markets through public and private procurement; and addressing environmental legislation requirements when converting biomass to energy.

The gap between expected SMME contribution to sustainable development and climate goals and the current challenges in the SMME ecosystem represents a significant opportunity for supporting the growth of small and growing eco-inclusive enterprises. Eco-inclusive, climate-smart enterprises have the potential to transform key economic sectors such as transport, agriculture, and energy sectors into green sectors through integrating sustainable practices and the creation of green jobs. These eco-inclusive enterprises can also make green fair, by including communities along their value chains as suppliers, distributors and customers, and by creating jobs and skills development for marginalised communities.⁶ Supporting eco-inclusive enterprises to build and scale their solutions drives the transition to a climate-smart, resilient, fair, and inclusive green economy in South Africa.

SEED's policy prototyping programme brings together policy practitioners and SME support organisations from the public sector, private sector, and civil society to address these challenges and co-create solutions that are relevant and implementable. Eco-inclusive small and growing enterprises will provide feedback, ensuring that the co-creation process is inclusive of the target audience, and that small and growing enterprises can showcase their contribution to ambitious development goals.

1 Statistics South Africa, 'Unemployment drops in fourth quarter of 2018.' Accessed 28 February 2019 from <http://www.statssa.gov.za/?cat=31>

2 World Bank, 'Gini Index (World Bank Estimate).' Accessed 1 March, 2019 from <https://data.worldbank.org/indicator/SI.POV.GINI?locations=ZA>

3 'South Africa's Intended Nationally Determined Contribution (INDC).' Accessed 15 March 2019 at <https://www4.unfccc.int/sites/ndcstaging/PublishedDocuments/South%20Africa%20First/South%20Africa.pdf>

4 Darroll, Chris, and Bernard Swanepoel, 'Business Day Small Business Policy is based on wrong assumptions study shows,' Small Business Institute. Accessed 5 March 2019 at <https://www.smallbusinessinstitute.co.za/2018/08/03/business-day-small-business-policy-is-based-on-wrong-assumptions-study-shows/>

5 Regional average refers to data collected from countries in the African region as a whole. Herrington, Mike, Penny Kew, and Alesimo mwanga, 'South Africa Report : Can Small Business Survive in South Africa ?' Global Entrepreneurship Monitor 2016-17. Accessed 15 March 2019 at <https://www.gemconsortium.org/country-profile/108>

6 Amis, AM, G Montmasson-Clair, E Benson, S Lugogo, 'The Green Economy Barometer 2018 South Africa.' 2018. Accessed 2 March, 2019 at <http://www.tips.org.za/research-archive/sustainable-growth/green-economy-coalition/item/3483-the-green-economy-barometer-2018-south-africa>

1 Introduction and Aims of Input Paper

Small and growing enterprises are essential to achieving South Africa's development and climate change goals. Significant challenges, however, hinder the ability of SMEs to develop sustainable and scalable business models, resulting in unfulfilled policy objectives. As South Africa becomes increasingly affected by climate change – resulting in climate events such as Cape Town's 2018 drought, and contributing to further marginalisation of communities who are unable to access vital resources – the role of SMEs in driving inclusive and climate smart growth is ever important.

This input paper provides a snapshot of the ecosystem in which eco-inclusive, climate-smart small and growing enterprises operate. By identifying areas where further support is needed, this paper serves as an input to the SEED Policy Prototyping Programme, in which stakeholders across sectors collaborate to co-create policy instruments designed to build a more enabling ecosystem for eco-inclusive entrepreneurs.

The aims of this paper are therefore:

- **To frame** the discussion within policy frameworks and to define eco-inclusive entrepreneurship in the South African context
- **To characterise** and map categories of actors ('ecosystem builders') within the entrepreneurial ecosystem of climate-smart small and growing enterprises
- **To outline** key challenges and barriers faced by eco-inclusive entrepreneurs when growing and scaling their enterprises
- **To lay** the foundation for the design of tailored support approaches for eco-inclusive climate smart enterprises, based on a collaborative ecosystem approach

2 The Future of Eco-Inclusive Entrepreneurship in South Africa: Driving Green and Inclusive Economies

2.1 Eco-inclusive entrepreneurship in national agendas and international frameworks

The term eco-inclusive enterprises refers to enterprises with business models that are from the outset *ecological* e.g. implementing sustainable production methods, contributing to efficient use of resource and waste reduction, biodiversity conservation or helping mitigate or adapt to climate change; and *inclusive* e.g. creating local jobs, in particular for often marginalised populations like youth, women and low-income households and through integrating these communities into local and global value chains of their enterprises by engaging them as suppliers, distributors or customers.

The policy landscape and opportunity for eco-inclusive enterprises therefore includes national and international agendas on entrepreneurship as a vehicle for inclusive economic growth and job creation as well as agendas for climate change adaptation, mitigation and the green economy.

Entrepreneurship is a core priority in South African national agendas, including the National Development Plan, New Growth Path, and the Medium Term Strategic Framework, among others. In the National Development Plan, which lays out a Vision 2030 for the country, the role of SMEs in creating inclusive growth and jobs is outlined:

“By 2030, the share of small and medium-sized firms in output will grow substantially. Regulatory reform and support will boost mass entrepreneurship. Export growth, with appropriate linkages to the domestic economy, will play a major role in boosting growth and employment, with small- and medium-sized firms being the main employment creators.”

South African Government, ‘National Development Plan 2030.’ p.119

Eco-inclusive and social enterprises have furthermore been recognised as an important contributor to the achievement of the UN Sustainable Development Goals, to which South Africa is

committed.¹ A recent report by the SDG Hub of South Africa highlights that “the SDG agenda involves a deliberate commitment to and focus on inclusive and sustainable development, presenting an opportunity to improve coherence across (science, technology, and innovation activities), economic development, and sustainable environmental management strategies.”²

Eco-inclusive enterprises have the potential to play a significant role in achieving South African national agendas on climate change and the green economy, such as the 2011 Green Economy Accord, the draft National Climate Change Bill and the National Adaptation Plan. Small and growing enterprises do not feature strongly – if at all – in these agendas, leaving a significant opportunity for their potential to be further leveraged, such as in the areas of climate change mitigation and adaptation. Climate-change adaptation, for example, plays a central role in South Africa’s national agenda, and is emphasised in South Africa’s Intended Nationally Determined Contribution (INDC) to the UNFCCC Secretariat³, and reflected in the National Development Plan⁴.

Currently, South Africa contributes significantly to global greenhouse gas emissions, as the 14th largest global emitter of GHGs due to a heavy reliance on coal.⁵ Having committed to a peak plateau and decline trajectory of GHG emissions in its INDC, the transition to a greener energy sector is on the horizon.⁶ South Africa’s NDC is comparatively weak in relation to the goals set by the Paris Agreement, as GHG emissions are set to increase to 90% over 1990 levels, excluding land-use and forestry, according to the Climate Action Tracker.⁷ South Africa’s commitment to climate change adaptation and mitigation contributions are areas in which eco-inclusive enterprises can drive impact and support the achievement of South Africa’s commitment in the NDC.

1 Social Enterprise UK, ‘Think Global Trade Social.’ 2015. Accessed 13 March, 2019 at https://www.britishcouncil.org/sites/default/files/seuk_british_council_think_global_report.pdf

2 SDG Hub South Africa. ‘Implementing SDGs in South Africa : Challenges and Opportunities’ . 2018. Accessed 13 March, 2019 at <https://drive.google.com/file/d/14t3Nsw0ixc4YfrXm8qAKBuXZD1fHu-7o/view>, p.20

3 ‘South Africa’s Intended Nationally Determined Contribution (INDC).’

4 National Development Plan 2030, p. 209

5 McSweeney, Robert, and Jocelyn Timperley, ‘South Africa at the climate crossroads.’ 2018. Accessed 16 March, 2019 at <https://www.greeneconomycoalition.org/news-analysis/south-africa-at-the-climate-crossroads>

6 ‘South Africa’s Intended Nationally Determined Contribution (INDC).’

7 ‘South Africa at the climate crossroads.’

There is therefore a significant opportunity for eco-inclusive enterprises to address development goals of social inclusion and economic growth, while ensuring that the growth is sustainable, green, and contributes to South Africa's climate change targets. By integrating social inclusion and ecological considerations into the business model, providing the environment in which enterprises can scale their reach and impact is a priority in the South African context.

2.2 Sectoral contributions of eco-inclusive small and growing enterprises

According to Statistics South Africa's Annual Financial Statistics survey in 2017, small businesses contribute an estimated 25% to South Africa's economy, based on total value added.⁸ Nearly 50% of formal small businesses operate in the business, financial services and trade sectors, with another 14% in community and personal services and 14% in construction. Informal small businesses operate primarily in the trade sector (49%).⁹ The sectors of mining, utilities and forestry are almost exclusively operated by large businesses. The latter are core contributors of South Africa's GHG emission¹⁰, leaving an opportunity for eco-inclusive small and growing businesses to drive the transition to a green economy in these sectors.



Currently, green economy initiatives in South Africa are prevalent in the following eight focus sectors: energy (including bio-energy, education, energy efficiency, waste, and renewable energies), transport, agriculture (including farming, fisheries, forestry), resource conservation and management, the built environment, sustainable consumption and production, waste, and water.¹¹ Small and growing enterprises have a key role in the development of green practices and jobs within these sec-

tors. Untapped potential in this regard is significant, as 80% of the initiatives identified in these sectors are funded by domestic public finance, and 50% are funded by national government departments.¹² Small and growing enterprises are well placed to seize the opportunity of an increased private sector presence in the green economy and to drive green growth from within traditionally large-business sectors.

2.3 Profile of an SME in South Africa

While the potential for SMMEs to drive green growth is huge, the current average profile of an SMME in South Africa remains small. The below profile is the average profile of an SME in South Africa, based on data collected by SME South Africa¹³:

Annual Turnover	Number of Employees
Less than R200,000 (71% of SMEs)	2-5 employees (47% of SMEs)
Geographic Location	Funding
Gauteng (56% of SMEs)	Funding from private sources, such as personal, family (50% of SMEs)
Registered (formal sector)	Sectoral Breakdown
89% of SMEs	19% Consulting 14% Construction 13% Food & Beverages 12% Manufacturing

2.4 Examples of eco-inclusive excellence

⁸ TIPS. 'The Real Economy Bulletin : Special Edition The State of Small Business in South Africa.' 2019. Accessed 15 Feb 2019 at <http://www.tips.org.za/manufacturing-data/the-real-economy-bulletin/the-state-of-small-business-in-south-africa/item/3557-reb-special-edition-the-state-of-small-business-in-south-africa-2017>, p.7

⁹ TIPS Real Economy p. 7

¹⁰ Ibid

¹¹ Page, 'Green Economy Inventory for South Africa : An Overview.' 2017. Accessed 16 February 2019 at http://www.un-page.org/files/public/green_economy_inventory_for_south_africa.pdf, p.14-15



Solar Turtle

Eco-inclusive entrepreneurship in climate change mitigation

Business models addressing climate change mitigation in the energy sector are one example of eco-inclusive entrepreneurship. Given issues accessing electricity, the high reliance on coal as an energy source, and the potential for solar energy in South Africa, enterprises offering access to renewable energy to communities that are currently not connected to the grid addresses both climate change mitigation and inclusivity, and reduce reliance on coal. Solar Turtle is an example of a business which is effectively addressing this gap by developing small mobile solar charging kiosks for use in communities that do not have access to electricity, and specifically aiming at equipping youth with entrepreneurship skills. Using a franchise model, Solar Turtle trains youth to use the solar kiosks, replaces the primary use of paraffin and kerosene in the communities with a source of clean energy, which in turn promotes health conditions, enhances security, and provides electricity to schools.

As a SEED 2016 Award Winner, Solar Turtle works with multiple partners to achieve its impact, including Greater Capital, an NGO that manages grant funding and social impact, Ugesi Gold, which manages the franchise model, and Stellenbosch University as well as SEED, which incubated the enterprise and provides networking support. Currently, challenges facing Solar Turtle include regulatory hurdles for exporting its products, piloting different business models in communities, and building capacity to scale its solution to additional communities.



EcoBrick Exchange

Eco-inclusive enterprises in waste upcycling

Eco-inclusive enterprises can also address waste management and upcycling. EcoBrick Exchange, for example, built a waste upcycling business that teaches local communities to build early childhood education centres and other schools out of bricks made of used plastic bottles. This type of green construction helps clean up the communities and provides environmental education to participants, and is also at least 20% cheaper than traditional construction methods.

To achieve its environmental, social, and financial impact, EcoBrick Exchange partners with organisations such as Wildlands, which manages the quality of the bricks, collection, and training, Greencycle, which collects and transports the bricks, and Masi-funde, which provides EcoBrick Exchange with a platform to test ideas. EcoBrick Exchange won a Social Innovation Award and advice from the SAB Foundation, as well as a SEED Award in 2015, together with tailored expert advisory services and capacity building for business and financial planning.

Further efforts to scale the business include identifying and accessing additional target markets, such as expanding within the construction sector, as well as further equipping NGOs and communities with the tools and capacity to conduct construction and fundraising efforts.



Food and Trees for Africa

Eco-inclusive enterprises in food security and climate change adaptation

Through a variety of programmes centred around sustainable agriculture and food production, Food and Trees for Africa provides trees, training and employment for disadvantaged communities. By matching sponsors with communities in need of healthier and renewed environments, FTFA supports an increase in biodiversity, climate change mitigation and adaptation, and environmental awareness of the communities by planting trees.

Challenges faced by FTFA include high administration costs and financial insecurity from relying on sponsorship, as well as complex legislation on compliance, which can be unclear to sponsors. To achieve its significant impact and address these challenges, FTFA works with many partners, ranging from international donors and national government agencies to national corporates and local communities. With Woolworths, a national retail chain store, sponsorship of FTFA Eduplant programmes are integrated into the business model, which reduces the financial insecurity that comes with a sponsorship model. By partnering with the African Climate Reality Project, FTFA contributes to the policy conversation on the Carbon Protocol, and therefore addresses the complexity of legislation on compliance and supports climate leaders.

3 Analysis of Business Conditions for Eco-Inclusive Enterprises: An Ecosystem Framework Approach

Key Ecosystem stakeholders in eco-inclusive entrepreneurship

The ecosystem for eco-inclusive enterprises in South Africa includes multiple stakeholders categories and activities, many of which overlap, complement, or contradict one another. The complexity of the ecosystem can be understood by looking at different categories of players, the roles they play and types of support they offer enterprises (from indirect to direct support), and the key policy frameworks that guide activity in the ecosystem.

3.1 Towards a categorisation of ecosystem stakeholders

Government entities and agencies	
Description	National, provincial, and local government entities and agencies
Role	Setting the agenda and national priorities within which (most) ecosystem activities align and take place
Activities	Funding streams, green economy initiatives, agenda setting and narrative through conferences, national discussions and policy development processes, among others
Examples	<ul style="list-style-type: none"> > National level includes departments (Department for Small Business Development with SEFA and SEDA), DST (with Technology Innovation Agency, CSIR; National Cleaner Production Centre), Department for Trade and Industry (with NEF, IDC), Department of Social Development, Economic Development Department as well as National Planning Commission (NPC) and the National Youth Development Agency (NYDA) > In addition, of particular relevance for the green economy are the Department for Environmental Affairs (DEA), Department for Water Affairs (DWA), Department of Energy, etc., depending on sector > Provincial governments and their associated agencies and Economic Development Agencies (EDAs) and implementation of SEDA and SEFA, etc.

Organised Labour	
Description	Unions, federations, and labour associations
Role	Advocators and agenda setters, connection with private sector and government authorities, coordinating role among ecosystem stakeholders
Activities	Advocacy work, shaping national agendas and policies
Examples	NEDLACI, COSATU, NACTU, etc.

Direct Enterprise Support Organisations	
Description	Enterprise support organisations (either run as businesses or NGOs), business associations, banks and funders, coworking spaces and innovation hubs
Role	Implementation of national agendas and development goals, support providers for small and medium enterprises, and ecosystem support activities, provide platforms for connection and linkages, etc.
Activities	Funding, awards systems, incubation and acceleration of enterprises, coaching and trainings for skills development, market linkages, information sharing, measurement and reporting of impact, etc
Examples	BUSA, BBC, and SME support organisations (either run as businesses or NGOs), banks and funders set up as businesses, coworking spaces and innovation hubs, such as Indalo Inclusive, SEED, mLab Southern Africa, sarebi, etc.

Private Sector / Corporations	
Description	Corporate foundations and CSR initiatives, corporate incubators, banks and funders
Role	Incubation and linkages for small and medium enterprises, funding opportunities
Activities	Funding, market linkages, information sharing, incubation and acceleration of enterprises, etc
Examples	SAB Foundation, Ford Foundation, Business Partners Ltd, Raizcorp, etc.

Civil Society	
Description	NGOs, advocacy networks
Role	Support ecosystem building activities, support of SMEs and linkages
Activities	Funding, awards systems, coaching and trainings for skills development, market linkages, information sharing, measurement and reporting of impact, etc.
Examples	The Adaptation Network, Anzisha prize, Aspen Network of Development Entrepreneurs, etc.

Donors	
Description	International donors and foundations
Role	Support in agenda setting and international information sharing, funding
Activities	Funding, dialogues with government agencies, connections to international stakeholders, narrative and support in agenda setting
Examples	EU, GIZ, AFD, Government of Flanders, German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety etc.

From this framework for the eco-inclusive entrepreneurial ecosystem, a clear challenge is the high number of stakeholders and different and overlapping initiatives, leading to an issue of coordination between the stakeholders and policy initiatives.

3.2 Existing policy initiatives and instruments

1996 Constitution

- The 1996 Constitution lays the foundation of South Africa's policy landscape, and commitment to sustainable development and an inclusive society. This guides the development of further plans and agendas, and the basis for social action.
- The foundation also highlights the need to "secure ecologically sustainable development and use of natural resources while promoting justifiable economic and social development"¹

National Development Plan Vision 2030

- The long-term vision for South Africa sets out the framework for sustainable, climate-smart and inclusive development by eliminating poverty and reducing inequality. This sets the goals for sustainable development, which translate into policy objectives through further frameworks, guiding the direction and priorities of the sector.

- The vision identifies a particular national vulnerability to climate change: "South Africa is not only a contributor to greenhouse gas emissions – it is also particularly vulnerable to the effects of climate change on health, livelihoods, water and food, with a disproportionate impact on the poor, especially women and children"², thereby prioritizing resilience to climate change as a key aspect of development.
- Vision 2030 also specifies the role of SMEs in addressing unemployment, indicating that by 2030, 90% of jobs "will be created in small and expanding firms," and that "regulatory reform and support will boost mass entrepreneurship." The regulatory reform and support should address the "supporting environment for SMEs to be built and scaled...including in environmental sectors such as renewable energy."³
- Climate change adaptation strategies also play a prominent role, with the Vision that in 2030, "Adaptation strategies in conjunction with national development strategies are implemented, including disaster preparedness, investment in more sustainable technologies and programmes to conserve and rehabilitate ecosystems and biodiversity assets."⁴
- This framework therefore outlines the potential for small and growing enterprises to contribute to development goals of job creation and to address the vulnerability of South Africa to climate change. Furthermore, it sets the stage for regulatory reform and a supporting environment to be developed.

Medium-term Strategic Framework 2014-2019

- The MTSF 2014-2019 sets out the building blocks for how the National Development Plan will be implemented, with a focus on radical economic growth and transformation, job creation, rural development, access to education and training, and social cohesion. This affects climate-smart eco-inclusive small and growing enterprises as it sets out specific priorities for the years and frames how current action will lead into the National Development Goals.

Nine Point Plan 2015

- The Nine Point Plan is implemented in conjunction with the MTSF to encourage economic growth. Within this plan

¹ South African Government. Constitution. 1996, §24-25

² National Development Plan p. 33

³ Ibid, p.119 and 198

⁴ Ibid, p.199

is the focus on unlocking the potential of SMMEs, cooperatives, township and rural enterprises as well as growing the oceans economy, and solving the energy challenge.

- This Plan is important for small and growing enterprises as it both addresses SMME potential and the challenges of the oceans economy and the energy sector.

National Climate Change Response Policy 2004

- Within the National Climate Change Response Policy, the following sectors are identified as highly vulnerable to climate change, and therefore a focus of adaptation activities: health sector, maize production, plant and animal biodiversity, water resources, and rangelands. This gives eco-inclusive enterprises an idea of where efforts could be directed and how their activities can be linked to the climate goals of South Africa.

National Adaptation Strategy 2017

- The NAS outlines a common vision for South Africa's climate change adaptation efforts, as well as the role of eco-system stakeholders in contributing to the strategic outcomes.
- The strategy highlights the aspiration to 'build resilience and enhance adaptive capacity to respond to climate change risks and vulnerabilities; whilst providing guidance on the integration of climate change responses into current and future development objectives through optimising coherence between policy, planning, and implementation of adaptation actions.'⁵

South Africa's Intended Nationally Determined Contribution

- South Africa's Intended NDC is focused on both adaptation and mitigation strategies, and includes the development of a National Adaptation Strategy, accounting for climate considerations in national development and sector policy frameworks, building institutional capacity for climate change response planning and implementation, among others.
- This framework sets the stage for how small and growing eco-inclusive enterprises could contribute to international frameworks for climate action, and can support South Africa in meeting or exceeding its commitments in this area.

Green Economy Accord 2011

- The Green Economy Accord of 2011 showcases commitments to action in increasing investment in the green

economy; solar water heaters; renewable energy; energy efficiency; waste recycling, reuse and recovery; biofuels; clean-coal initiatives; retrofitting; reducing carbon emissions on the roads; electrification of poor communities; economic development in the green economy; and cooperation around the UN COP17.

- Within this Accord, it is recognized that small enterprises and social enterprises are important to the development of the green economy, but that certain challenges hinder their participation.⁶

Local Procurement Accord 2011

- The Local Procurement Accord is designed to drive public and private procurement opportunities for domestic enterprises, to increase inclusion and domestic economic growth. The accord's twelfth commitment focuses on supplier development opportunities for cooperatives and social economy enterprises, and indicates that "consideration will be given to a set-aside for smaller businesses and enterprises in the social economy."⁷
- This accord directly affects small and growing enterprise access to markets and to public and private procurement opportunities, and helps to frame the specific challenges facing SMMEs in this topic.

Youth Enterprise Development Strategy 2013

- The YEDS strategy focuses on increasing access to skills for youth in developing enterprises, and in creating a more enabling environment for youth to set up an enterprise.
- This strategy is designed to spur job creation and address youth unemployment through small and growing enterprises.

New Growth Path 2010

- The New Growth Path is focused on job creation and economic growth through reducing inequality and poverty. With a vision to create 5 million jobs by 2020 and spurring economic growth, SME's role in job creation is a central aspect of this plan.
- This plan directly ties SMME growth to job creation, a central tenet in the role of SMMEs in South Africa's development agenda, and introduces the importance of creating inclusive jobs through doing so.

⁵ South African Government, National Adaptation Strategy, 2017, p. 19

⁶ South African Government, Green Economy Accord, 2011, p.17

⁷ South African Government, Local Procurement Accord, 2011, p. 20

National Industrial Policy Framework and Action Plans 2007

- The NIPF and associated IPAPs constitute the main industrial policy of South Africa, and focus on ways to improve and deepen the manufacturing sector, including a focus on public procurement, regulatory frameworks and skill development, among others.
- This policy framework and action plans highlight the potential for SMMEs in the manufacturing sector, and set the framework for activities and focus areas within the sector. This is important for SMMEs to access market opportunities, and to comply with regulatory frameworks.

3.3 Shortcomings of Existing Initiatives

The South African policy landscape for climate-smart and eco-inclusive entrepreneurship is vast, with multiple stakeholders and policies involved. The eco-inclusive enterprise must navigate the policy landscape to access opportunities to scale the business, through access to public and private procurement, for example, as well as which geographies to focus on (for example, those highly vulnerable to climate change). A significant concern therefore, is the coordination of stakeholders regarding the implementation of the policies, as well as integration of the policies to ensure a smooth and coordinated journey through the policy environment.

The Green Economy Barometer of South Africa, 2018, highlights some of the hurdles in policy landscape for the launch and scale of eco-inclusive small and growing enterprises. These include a heavy reliance on brown energy systems, mostly operated by large businesses, as well as a “lack of leadership at all levels, policy incoherence, poor implementation capacity and poor planning.”⁸ While the National Development Plan sets out ambitious goals for sustainable growth and inclusion, implementation has not brought significant results. Informal sector entrepreneurial activity has, for example not been sufficiently supported to improve job creation and sustainable livelihoods, which disproportionately affects the poor.⁹

In many national policies, small and growing businesses are considered a vehicle to job creation and addressing unemployment (up to 90% of jobs, according to FinFind and as quoted in the National Development Plan). According to the National Development Plan and New Growth Plan, a greater focus on entrepreneurial skill development will augment SME creation and

capacity to scale.¹⁰ A focus on how SMEs can contribute both to job creation and to national agendas and international frameworks on climate change adaptation and mitigation activities, is not very present in the current policy environment, and is an opportunity to bridge policies between SME development, unemployment, and the green economy.

Questions then arise of what role small and growing enterprises can take in the climate change adaptation strategies, what kind of environment they need to build and grow their businesses, and which business models are viable and could lead to job growth. For example, an enterprise with a focus on renewable energy products for marginalized communities needs to understand what kind of business model is viable and scalable, and how to access support opportunities, including access to information, capacity building as well as financial support to contribute to climate change goals. This enterprise is also a key stakeholder in forming these policies, and providing input to policy practitioners to identify areas where further support is needed, and how small and growing enterprises fit into the green economy landscape.

⁸ 'The Green Economy Barometer 2018 South Africa.', p. 9
⁹ Ibid, p. 14

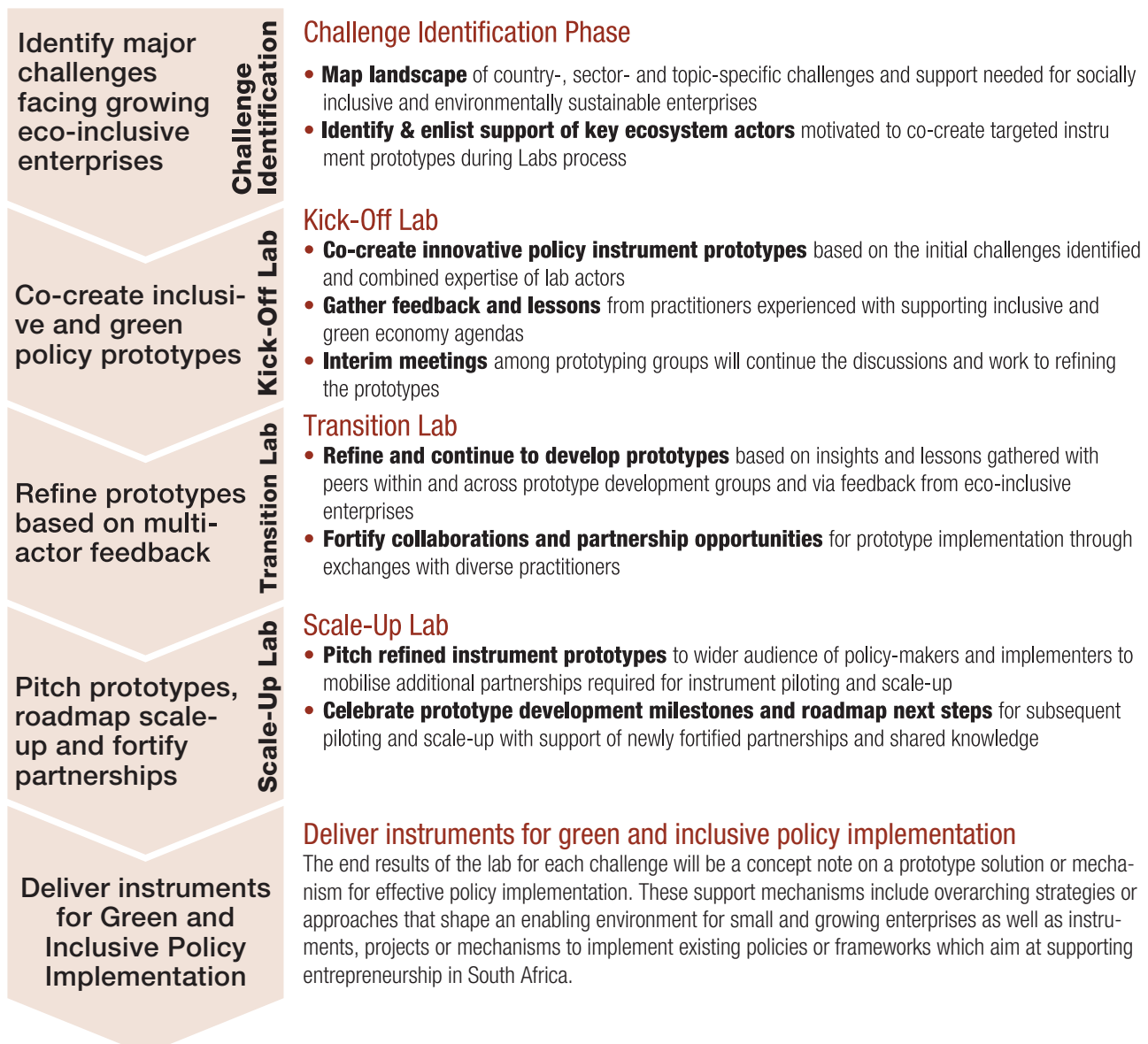
¹⁰ South African Government, New Growth Plan, 2010, p. 48

4 Points of intervention through the policy prototyping programme

The Policy Prototyping Process

The policy prototyping process offers an opportunity for key ecosystem stakeholders to address gaps in the implementation, relevance, awareness of, and integration of the South African policy landscape as it relates to the growth of eco-inclusive SMEs. By collaborating to develop prototypes that bring in relevant stakeholders and source feedback from SMEs and SME support organisations, as well as policy practitioners, Lab participants play a key role in shaping the policy landscape of South Africa and creating a more enabling environment for SMEs to survive and thrive.

The Labs process takes place over several months, and consists of the following steps:



5 Framing the challenges: Scaling Up Eco-Inclusive Innovation

Despite the efforts of ecosystem builders to create an enabling environment, small and growing enterprises still face major challenges to build and scale their solutions. These range from a lack of access to adequate and appropriate financing for their business, difficulty accessing markets, and regulatory and administrative burdens that impose additional costs on the enterprise. Small and growing businesses must also build technical and entrepreneurial skills, and engage with often rigid labour markets to access the human resources needed to scale their enterprise. These challenges are cross-cutting, and affect small and growing businesses in different ways, depending on the sector, geography and scale of the enterprise, as well as other factors. This leads to a complex set of challenges that need to be overcome by small and growing enterprises. Within these overarching challenges, eco-inclusive small and growing enterprise will face specific challenges, some of which are addressed below. The framing of these challenges is a result of conversations with the challenge hosts as well as desk research, and act as a starting point for conversations in the Kick-Off Lab.

5.1 SME access to public and private procurement opportunities, hosted by the Department of Small Business Development and the EU



Existing Policy Frameworks 	Relevant Stakeholders 
<ul style="list-style-type: none"> • National Development Plan • Local Procurement Accord 2011 • Section 217 Constitution • Public Finance Management Act • Municipal Finance Management Act • Cabinet Mandate Paper led by DPME • Treasury Regulation 8.2.3 • Industrial Development Policies and Action Plans • Preferential Procurement Policy Framework Act • Regulatory Framework for Supply Chain Management 	<ul style="list-style-type: none"> • Department of Planning, Monitoring and Evaluation • Economic Development Department • Academia • State-owned Enterprises • Department of Small Business Development • National Treasury • Forum of South African Directors-General (FOSAD) • IISD • Construction Industry Development Boards

To develop a more enabling support ecosystem for SMME development in South Africa, a more coordinated and strengthened ecosystem is required. The Department of Small Business Development is mandated with developing a National SME Accord, which translates the overarching framework of the National Development Plan into coherent and coordinated SMME support across the three levels of government (local, provincial, and national). The National SME Accord process focusses on five strategic areas for action: public and private procurement (including the 30 day payment), simplification of the regulatory environment, access to debt and equity finance, coordination of

small business support services, and addressing the skills gap.

Through the policy prototyping programme, the challenge hosted by the DSBD with the EU will focus on SMME and cooperative access to public and private procurement opportunities. This fits within the overarching challenge of accessing markets for climate-smart products and services. In OECD countries, public procurement accounts for around 9-13% of GDP of government expenditures in the Middle East and Africa, representing a significant market for small and growing businesses and their inclusive and climate-smart products and services.¹ In

¹ Department of Small Business Development. "Amended Concept Note on National Accord" 2018. p. 1

2014, public procurement spending in South Africa represented 29% of South Africa's GDP.² Regulations around procurement procedures, however, as well as the quantity required and slow procedures (such as the time taken to pay for the products or services procured) can limit SMME access to these markets.

5.1.1 Existing policy frameworks and stakeholders

SMME and cooperative access to procurement is already present in the policy landscape of South Africa in both the National Development Plan and the 2011 Local Procurement Accord. Furthermore, social goals of inclusivity and advancing historically disadvantaged communities are furthered through procurement opportunities. Despite the Local Procurement Accord, which ensures that 65% of local content requirements are incorporated within state-owned enterprises, there is no specific focus on SMMEs or coopeatives as the beneficiaries of this regulations. Furthermore, the Cabinet Mandate paper prepared by the Department of Planning, Monitoring and Evaluation, shows that public spending continues to be biased towards large corporate, perhaps due to challenges in the high monetary value of tenders, or perceived complexity of working with small businesses.³

Existing legislation further requires Government Departments to pay suppliers within 30 days of receiving the invoice. Research has shown an increasing compliance to the 30-day rule, but some implementation issues still remain. This has a significant effect on small and growing enterprises, which have to borrow money to pay for the inputs and need to pay back their debt.

In addition to opening access to public and private procurement opportunities to SMMEs and cooperatives, there has also been research into sustainable public procurement in South Africa. Alongside preferential procurement points to B-BBEE criteria, entities can also integrate preferential points to further other goals, such as the promotion of SMMEs, the creation of jobs, and, potentially, sustainable enterprises and the green economy.⁴ Further research by Godwell Nhamo and Nana Agyepong stresses the role of municipalities in practising green procurement, and highlights that metropolitan areas established earlier, such as the City of Cape Town and the Nelson Mandela Bay Metropolitan have integrated green procurement.⁵

5.1.2 The Opportunity

The prototype group working on this challenge will look at the opportunity of addressing these challenges and how to streamline procurement procedures through leveraging existing policy frameworks to “improve buyer-supplier relations, and deepen localisation as well as implement commitments for the 30-day payments to smaller suppliers.”⁶

While the National SME Accord does not focus particularly on climate-adaptation focussed or eco-inclusive enterprises, procurement is already being used as a vehicle to address deep-rooted inequalities in South Africa. The prototype group will have the opportunity to look at how addressing the challenges outlined above can open access to markets also for eco-inclusive entrepreneurs, who can bring climate-smart products and services into the markets, transitioning in particular historically “brown” sectors into green and inclusive economies.

2 Turley, Laura , and Oshani Perera, 'Implementing Sustainable Public Procurement in South Africa : Where to start,' International Institute for Sustainable Development, 2014, p. 1

3 'Amended Concept Note on National Accord' p.17



4 'Implementing Sustainable Public Procurement in South Africa : Where to start,' p. 16

5 Nhamo, Godwell, and Nana Ayepong, 'An Assessment of Green Procurement Practices in South African Metropolitan Municipalities,' Journal of Public Administration, 50 :1, 2015 p. 50

6 Amended Concept Note National Accord, DSBD p.17

5.2 Building a more conducive labour environment for SMMEs as job creators, hosted by Sarebi



Existing Policy Frameworks 	Relevant Stakeholders 
<ul style="list-style-type: none"> • Labour Relations Act (amended 2002) • Basic Conditions of Employment Act (amended 2002) • Employment Equity Act 1998 • Skills Development Act 1998 • Unemployment Insurance Act 2001 	<ul style="list-style-type: none"> • Department of Labour • Department of Trade and Industry • National Youth Development Agency • NEDLAC • CCMA • Trade unions • Economic Development Department • SME support organisations such as Sarebi • SETA

SMMEs have a designated role as job creators in South Africa. With the unemployment rate at 27%, SMMEs are defined as a vehicle for job creation, particularly for marginalised communities such as women, youth, and the poor. The National Development Plan envisions a 2030 where 90% of jobs are created by SMMEs. As a result of this expectation, the Government is investing heavily into supporting the creation of SMMEs in order to tackle the high unemployment rate.

The expectation of SMMEs in job creation, however, has not translated into reality. Red tape, restrictive and prohibitive legislation, a lack of understanding of the profile of job-creating SMMEs, and confusing language will render all of this investment redundant. Instead, more effort should be focussed on acknowledging that only some enterprises in specific sectors may create jobs, and to build support mechanisms that enable these businesses to build and grow their operations, creating jobs on the way.

Alongside identifying which sectors and SMME profiles hold the most promise in creating jobs, attention also needs to be paid to the labour environment in which SMMEs operate. In rigid labour conditions, hiring employees can be risky for entrepreneurs, who face challenges in adapting their human resources to business cycles and downturns in the economy, risking bankruptcy or an inability to scale. In an SME Landscape survey, 32% of business owners reported that labour law inhibits SME growth, with 37% of these owners pointing to dismissal procedures and 47% highlighting compliance with regulatory bodies as inhibitors.¹ Exclusions to labour regulations such as layoff training schemes can be expensive and inaccessible to small businesses. In a study by Cecile Nieuwenhuizen, interviews with SMMEs highlighted that compliance with skills de-

velopment was the “most time consuming HR issues, followed by BEE and employment equity.”² Labour laws are considered a source of problems for SMMEs, and compliance with laws as costly and time consuming.

5.2.1 Existing policy frameworks and stakeholders

Existing policy frameworks and stakeholders related to this challenge include government departments such as the Department of Labour and the Department of Trade and Industry, as well as trade unions and skills development organisations that provide training for the workforce. Alongside the Basic Conditions of Employment Act, which was amended in 2002, are the National Skills Accord of 2011. The National Skills Accord outlines guidelines for training within existing facilities and companies, as well as the coordination and improvement of services offered by SETA.

5.2.2 The Opportunity

The prototype group engaging with this challenge will have the opportunity to address challenges both in job creation in the SMME and green economy sector, as well as to look at skills development and the kinds of jobs that are created. There is a strong opportunity to look at climate change mitigation and adaptation sectors to address skills shortages and labour conditions, as well as to identify sectors that can be a focus of investment in order to catalyse green and inclusive job growth.

¹ 'An Assessment of South Africa's SME Landscape,' p. 11

² Nieuwenhuizen, Cecilia, 'The effects of regulations and legislation on small, micro and medium enterprises in South Africa.' Development Southern Africa. (2019), p.10

5.3 Addressing the impact of environmental regulation on SMMEs during biomass conversion, hosted by DEA

Existing Policy Frameworks 	Relevant Stakeholders 
<ul style="list-style-type: none"> • National Environmental Management Act • Air Quality Act • Environmental Impact Assessment Regulations • Air Quality Regulations 	<ul style="list-style-type: none"> • Department of Environmental Affairs • Eco-inclusive enterprises • Academia • Environmental assessment practitioners (EAPASA) • SME support organisations, such as Indalo Inclusive

One form of eco-inclusive enterprise is a business that converts biomass to energy, thereby creating clean energy for off-grid communities and addressing South Africa's over reliance on coal as a source of energy. Eco-inclusive enterprises in this sector can drive the transition to a green and inclusive economy in GHG-emission heavy sectors traditionally dominated by large corporations.

Enterprises in this sector have the potential to create significant social and environmental impact when converting biomass waste to energy. These impacts include reduce biomass waste streams through ensuring effective collection and harvesting processes, converting biomass waste into usable clean fuel, and creating jobs in waste collection, benefaction, and distribution of the energy.

The combustion of biomass to produce clean energy, however, causes a degree of air pollution as the biomass is burnt. This triggers environmental legislation and regulatory frameworks to which businesses must comply, such as environmental impact assessments and air quality licenses. These regulatory requirements are costly in terms of both time and resources to small and growing enterprises, which create a burden to their growth.

5.3.1 Existing Policy Frameworks and Stakeholders

Environmental legislation that comes into effect when combustion of biomass to create clean energy is undertaken include environmental impact assessments and air quality licenses. Stakeholders such as the Environmental Assessment Practitioners Association of South Africa (EAPASA) are then involved in the compliance of small and growing businesses to these regulations.

SMME support organisations are also key stakeholders, as they can support eco-inclusive enterprises to comply to regulations and to have the correct skills and training on environmental practices and put into place Environmental Management Plans.

5.3.2 The Opportunity

As environmental legislation is designed to limit adverse environmental effects from industrial production, particularly in the energy sector, there is also an opportunity to assess how this affects small and growing business and their ability to drive the transition to green growth in this sector. This may also be important to address in the upcoming Carbon Tax Act, which also creates regulatory frameworks around emissions.



5.4 Overcoming the “valley of death” through increased support for commercialisation of innovations and new technologies, hosted by TIPS

Existing Policy Frameworks 	Relevant Stakeholders 
<ul style="list-style-type: none"> • Initiatives by the Technology Innovation Agency • WADER programme • SASTEP programme 	<ul style="list-style-type: none"> • Technology Innovation Agency • Department of Science and Technology • Department of Trade and Industry • Sefa • Seda • IDC • DBSA • DSBD • WRC • NBI • Venture Capital Funds

Existing support for small and growing enterprises focuses mostly on early stage enterprises or more established businesses. Early stage enterprise support includes seed funds, research and development for technologies and innovations, and incubation programmes. Support for more established enterprises includes acceleration programmes and financing from development banks and corporates. A lack of support for the enterprises between these two stages creates the notorious valley of death, in which enterprises are unable to access support and are unable to scale their solutions into commercial, market-ready products or services.

A recent survey of the South African SME landscape shows that the majority (59%) of SMEs have been in operation for less than 3 years, and 26% between 3-5 years.¹ This points to significant barriers to scale operations, and to achieve a higher annual turnover and create employment.

5.4.1 Existing Policy Frameworks and Stakeholders

There are existing stakeholders and initiatives that are addressing this challenge, including the Technology Innovation Agency, which is an important player in this space. SPII of the Department of Trade and Industry also used to be active in this space. In certain sectors, such as water and sanitation, programmes such as WADER and SASTEP have been active in addressing this gap in support and further creating an enabling environment for small and growing enterprises to overcome the valley of death and commercialise their products and services.

One issue that needs to be addressed respective to existing initiatives is that of coordination. There is an opportunity to create smoother linkages between support programmes and to make sure that enough overlaps between initiatives are present that gaps in support are covered.

5.4.2 The Opportunity

Addressing this challenge helps to unlock the path of growth for small and growing enterprises, so that the commercialisation of the product or service can lead to increased annual turnover, geographic reach, and job creation for the enterprises. For eco-inclusive enterprises, support to commercialise new climate-smart technologies and innovations will further help to mainstream green solutions in sustainable growth and contribute to South Africa’s development and climate goals.

¹ An Assessment of South Africa’s SME Landscape, p.5

6 A call to action: co-creating a more enabling ecosystem

Eco-inclusive enterprises are at the centre of global sustainable development initiatives through their resource efficient and socially inclusive value chains and low-carbon products and services, which help communities to adapt to and mitigate the impacts of climate change. In coordination, ecosystem builders – key stakeholders from the private, public, and social sectors – possess tremendous potential to ensure that eco-inclusive enterprises receive the necessary support to realise their social, economic and environmental objectives and drive the global transition to an inclusive, green economy. Collaborative action is required to overcome challenges facing eco-inclusive SMEs in South Africa.

The policy prototyping labs are a way through which to enact this action through:

- Creating a community of both green economy practitioners and SME policy practitioners to ensure integration of small and growing enterprises in green economy policies (such as NDC and climate strategies) as well as the opportunity for growth in the green economy in SME-focused policies (such as the upcoming National SME Accord).
- Driving private sector cooperation in climate change adaptation strategies and activities beyond big business to include the small and growing enterprise community
- Clarifying expectations around job creation and the profile of SMEs in national growth plans and the role of SMEs in contributing to climate-smart and inclusive growth
- Assessing coordination mechanisms between policy implementers and address paths for a smoother journey for the nascent eco-inclusive enterprise

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SEED is a global partnership for action on sustainable development and the green economy. Founded by the United Nations Environment Programme (UNEP), the United Nations Development Programme (UNDP) and IUCN (International Union for Conservation of Nature) at the 2002 World Summit on Sustainable Development in Johannesburg, SEED supports innovative small scale and locally driven enterprises around the globe which integrate social and environmental benefits into their business model. SEED is hosted by adelphi research gGmbH, based in Berlin, Germany. adelphi research is a leading think tank for policy analysis and strategy consulting. The institution offers creative solutions and services regarding global environment and development challenges for policy, business, and civil society communities.



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