

## Briefing Note 2: SMMEs in the Just Transition

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Small, Medium, and Micro Enterprises (SMMEs) are widely acknowledged as vital drivers of economic growth and job creation globally. The National Integrated Small Enterprise Development Masterplan indicates that stimulation of the SMME sector can address unemployment – SMMEs are a source for job creation and economic growth and seen in South Africa as an integral part of achieving sustainable development. In addition, SMMEs account for 90% of businesses and provide over 50% of employment opportunities, contributing around 40% to the GDP in emerging economies. However, the potential of SMMEs to drive the Just Transition is underutilised, particularly for marginalised groups that face significant barriers to participation in the green economy.

This note draws on research for a forthcoming report on SMMEs and the Just Transition. It investigated how the Just Transition can be more effectively leveraged to provide the necessary support to SMMEs, particularly those owned by marginalised groups. The Local Green Entrepreneurs (LGEs) interviewed for this study were micro and very small entrepreneurs, in early stage business development cycles and they were found to be responding to emerging needs to resolve challenges in the socio-economic conditions that they find themselves in. Through interviews with several entrepreneurs in the water, waste and energy sectors, the research found that many LGEs continue to struggle to gain access to established markets and secure financing, and to compete with larger, more established businesses. The situation is exacerbated by a lack of information and the difficulty of prioritising long-term growth over short-term survival, particularly in competitive and rapidly evolving sectors. Furthermore, South Africa's historical legacy of apartheid has left deep-rooted inequalities and persistent unemployment, particularly among women and youth. This environment creates additional challenges for SMMEs, often deeply embedded in local communities.

Evidence from the research shows that there is a growing pipeline of local green entrepreneurs that are actively exploring opportunities in renewable energy, water, and waste sectors. However, they face significant barriers limiting their participation in these green industries. It found that the following barriers were hindering the growth and success of green businesses in South Africa:

1. **Financing:** Access to capital is a major hurdle for SMMEs investing in green technologies. Solutions include grants, subsidies, green loans, and public-private partnerships to ease financial constraints.
2. **Lack of (Green) Skills:** Many small businesses lack the technical expertise to implement and manage green technologies. Training programmes, technical assistance, and certification can help bridge this gap.
3. **Burdensome Regulations:** Complex regulatory frameworks deter SMMEs from adopting green technologies. Simplifying procedures, offering regulatory incentives, and establishing one-stop shops can reduce the administrative burden.

Addressing these barriers through targeted support and policies will enable small businesses to thrive in the green economy, drive sustainable economic growth, and create jobs, while also reducing carbon emissions and promoting cleaner production practices. It is further argued that supporting SMMEs in

a Just Transition can promote diversity and inclusion by ensuring that all sectors and communities can participate in and benefit from the transition to a low-carbon economy. It is, however, unclear how the current Just Transition Framework provides opportunities for youth-owned, female-owned and people with disabilities-owned enterprises to participate in green industries that can address social and environmental challenges in South Africa and build greater climate resilience through mitigation and adaptation.

A key aspect of the Just Transition is the incorporation of social inclusion, as evidence has pointed out that female-, black- and youth-owned enterprises have been active in addressing the challenges faced by their communities; however, issues around access to adequate finance have prevented them from growing and succeeding. There is thus a need for LGE finance to consider the issues around social inclusivity, especially when it comes to women in the waste, energy and water sectors.

Policy shifts are thus needed to create a supportive Green Economy ecosystem that fosters the development of marginalised SMMEs, promoting fair trade and inclusive participation in a low-carbon economy. By enabling SMMEs to participate, a diverse range of perspectives and experiences can help address the challenges of transitioning to a low-carbon economy. Streamlining regulations and reducing red tape could attract more SMMEs to engage in Just Transition opportunities. This would build resilience and adaptive capacity, enabling these enterprises to better cope with extreme weather events, regulatory changes, and market disruptions. Ultimately, this approach could strengthen the economy's overall resilience and contribute to a more just and sustainable future.