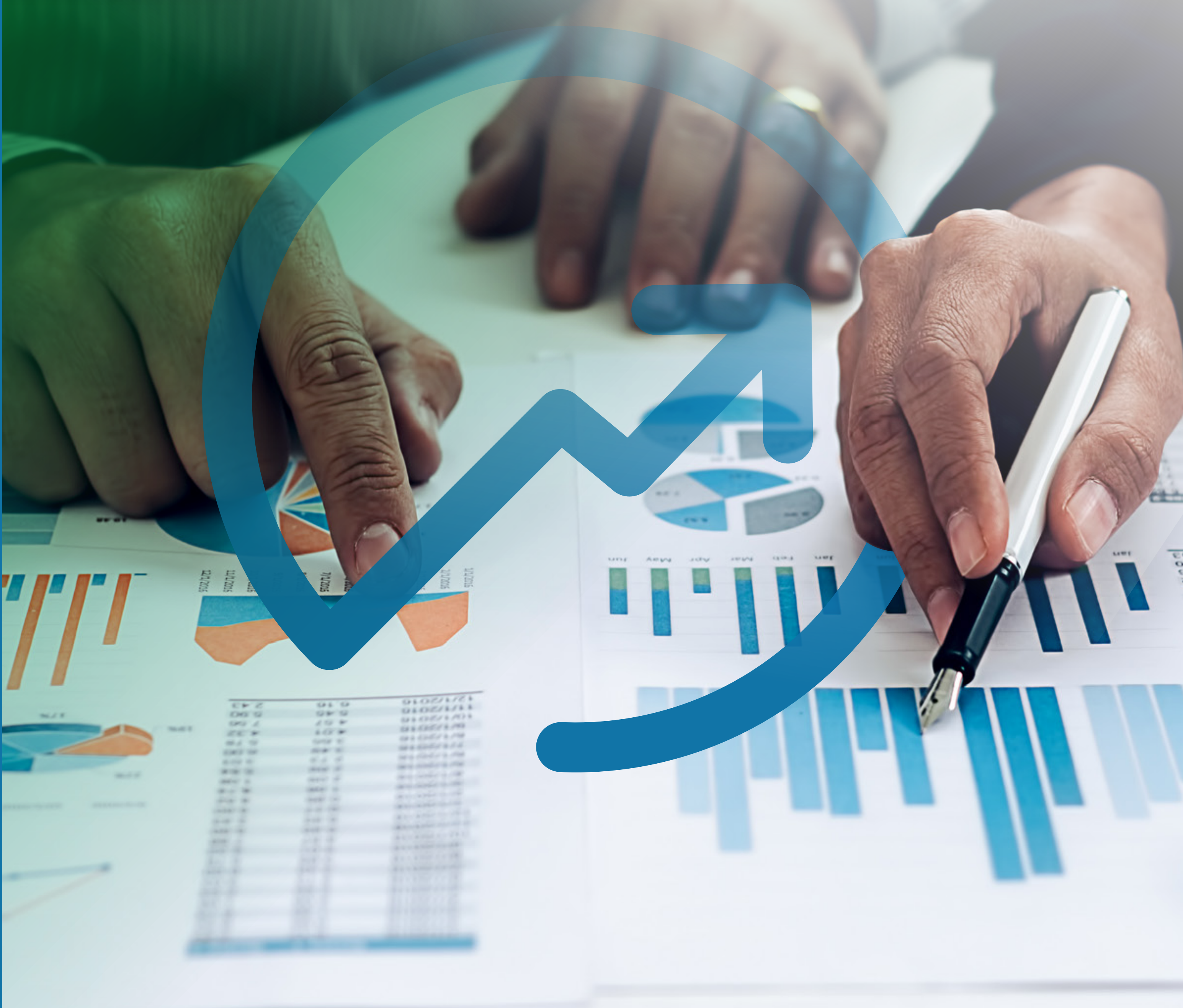
GreenCape

AngloAmerican Foundation

CASE STUDY



Scaling green SMMEs: Identifying and implementing post investment support

Context

The recently published 2023 South African Climate Landscape (**click**) highlights that climate finance needs to increase by at least three to fivefold from the current annual average of R131 billion in order for South Africa to meet its net zero goal by 2050. Practically, this highlights that once off investments are insufficient for scaling green small, medium and micro-sized enterprises (SMMEs) in the South African landscape. The Green Outcomes Fund (GOF) Catalytic Finance Partners (CFPs) highlight that the green SMMEs in their investment portfolio require significant post investment technical support to enable the businesses to reach full potential. In order to build and share knowledge on effective post investment support strategies, this case study aims to provide insights to the fund manager ecosystem on scalable growth and additional investments required by green SMMEs.

Green Outcomes Fund

GREEN OUTCOMES FUND

The GOF is a first of its kind structure which supports and incentivises local South African fund managers to increase investment in green SMMEs. The GOF aims to achieve clearly defined green outcomes, encourage greater capital allocation to green businesses by local fund managers, and catalyse higher quality, consistent reporting of green impacts.

The GOF also aims to incentivise local fund managers to use new approaches and financing models to target high potential and fast-growing SMMEs operating in South Africa's green economy. The funding enables lending and investment to SMMEs which would not be feasible without the GOF's support.

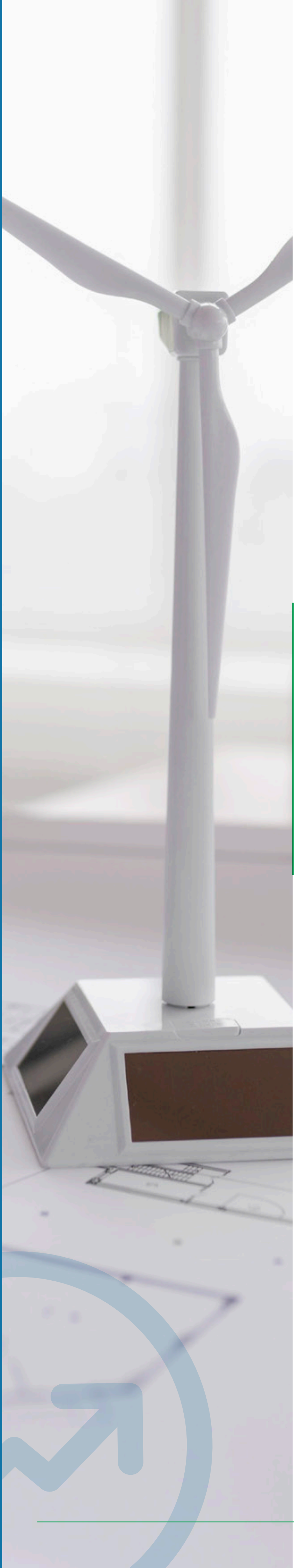
The GOF blends concessionary funding with private capital, thus enabling participating CFPs to develop and adapt their SMME investment criteria and support services in ways that were not previously possible – realising greater impact in terms of the types of SMMEs funded and green outcomes created.

Key insights

- Once off investments are insufficient for scaling SMMEs in South Africa, especially in light of the three to five-fold climate finance increase requirement identified in the 2023 South African Climate Finance Landscape publication.
- GOF CFPs highlight that the green SMMEs in their investment portfolio require significant post investment technical support to enable the businesses to reach full potential.
- The acquisition and retention of skilled employees in middle and upper tier management is a critical post-investment barrier to growth.
- Marketing, streamlining of management structures and research and development are additional post investment barriers to growth.

This case study is written for:

- The investment ecosystem to enable scalable growth and additional investments required by green SMMEs.
- Green SMMEs that want to articulate their post investment support needs to investors.



The challenge

Many green businesses going through an expansion phase post COVID-19 strongly require support in recruitment to ensure successful scaling. SMMEs need to access pipelines of high-quality candidates, which also meet budget criteria. This is often a tough balancing act. For those businesses that require additional funding to scale, many require assistance with refining pitch decks from a content (e.g. through articulating clear value propositions and performance metrics) and a graphics perspective.

Additionally, many SMMEs are struggling to operate in a post COVID-19 state with unpredented loadshedding, high inflation and iterest rates and increasing fuel prices. These SMMEs often require strategy workshops in order to pivot business models and/or implement cost reduction strategies to promote longer term sustainability.

Recruitment: Entrepreneurs often keep the number of employees streamlined in order to keep costs down. However, as SMMEs enter growth stages, they require recruitment for management positions to assist with operational strategy and continued growth.

Business development support: Entrepreneurs are often specialists in their field of work e.g. engineers and do not have the relevant business expertise to understand what investors are looking for.

Solution

The insights for this case study was gained through the implementation of a post investment support pilot project in collaboration with the GOF and Anglo American Foundation (AAF). The SMMEs were selected through an informed assessment of support required.

Approach

The GOF CFPs were fundamental to developing a funding support structure for SMMEs. Due to their exposure to South African SMMEs receiving investments, CFPs were well positioned to provide guidance as per the following approach. The CFPs:

- Identified green businesses in their investment portfolio that require additional assistance to be able to move into their next growth phase (to define the scope of support required from the SMME perspective).
- Selected SMMEs within the energy, water, circular economy and sustainable agriculture sectors for funding support. In addition to this, SMMEs were selected based on their business growth potential, as well as the potential for job creation (direct and indirect).
- Defined the scope of support required from a CFP perspective.
- Designed a set of interventions aligned to the defined support required to test the impact.
- Implemented one of the interventions to test the impact.

Strategies identified for green SMME post investment support pilot project funding

AAF funding supported the implementation of a 6-month pilot project

Three SMMEs participated in the pilot project that aimed to identify critical barriers to growth that post investment support funding could overcome.

The three SMMEs selected contribute to green impact in the circular economy sector:

- **SMME 1** provides a sharing economy model by providing rental-as-a-service.
- **SMME 2** remanufactures low value problematic waste streams into high-valued luxury products.
- **SMME 3** promotes cost effective recycling practices by facilitating the collection and aggregation of dry recyclables.

SMMEs identified the following barriers to growth:

01 • **Recruitment:** Acquiring critical **skills** for the organisation. This includes technical and data skills as well as middle management positions. There is a high cost associated with accessing good **recruitment agencies**.

02 • **Absenteeism** of employees is identified as a challenge to operational efficiency.

03 • **Job retention** of skilled employees.

04 • **Access to networks** which include introductions to senior debt providers (e.g. Development Finance Institutions (DFIs)).

05 • Developing **new products/services** to meet demands and trends.

06 • **Marketing** strategy for business development.

07 • Improving the **efficiency of the operation**.

The following post investment support strategies were deemed as critical for SMME growth and development, and were selected for funding as part of the project pilot. The SMMEs received funding to support the following priorities:

01 Embedding middle management and clarifying roles and responsibility, driving **professionalism**.

02 **Implementing strategy** to run a lean operation that will maximize value.

03 **Recruitment:** Diversity and inclusion (Board Chair, Chief Technology Officer, Chief Financial Officer (CFO)).

04 **Research and development:** Product development support to meet the demand and to keep up with trends.

05 **Marketing** strategies.

735 DIRECT JOBS AND 818 INDIRECT JOBS WERE CREATED DURING THE PROJECT PERIOD.

OF THE TOTAL DIRECT JOBS CREATED, **635 WERE SEASONAL/ FIXED TERM JOBS AND 100 WERE PERMANENT JOBS.**

Impact

The 6-month impact of implementing the above mentioned post investment support strategies are highlighted below.

Revenue generated: Each of the SMMEs showed an increase in revenue generated in the project period. This ranged between 10% to 114% higher than the baseline revenue.

Jobs created:

- 735 Direct jobs and 818 Indirect jobs were created during the project period.
- Of the total direct jobs created, 635 were seasonal/fixed term jobs and 100 were permanent jobs.

Training and development:

- Learnership and training programmes offered by SMMEs contributed to the skills development of 28 employees
- The learnership and training programmes were implemented as a skills development strategy for the two SMMEs. The organizations saw success in developing critical skills required for organizational growth as well as improving overall employee morale.
- Employee progression as a result of the development was also evident within the SMMEs.
- The learnership programme brought about a shift in the broad-based black economic empowerment (BBBEE) rating of the SMMEs, in line with the organization's strategy. This will allow them to qualify for further grants.

Number of new funders and clients reached

- SMMEs were able to reach over 1 200 customers with the aid of the marketing support strategies.
- SMMEs also reached seven new investors locally and internationally and were in the pre-screening investment phase. This was possible since SMMEs were able to demonstrate future growth plans to potential investors by recruiting critical skills and building their teams.

Green metrics

- Green metrics data is not an impact derived as a result of the post investment support project. This impact is supported through other funding obtained.
- In the project implementation phase, a total of 223 400.32 tonnes of waste was diverted from landfill.

Lesson learned and next steps

- Green SMMEs need access to specialised skills which can only be procured at a high cost. Some of the skills identified by SMMEs management roles which include CFO, Chief Operating Officer (COO) / Operations Manager and Human Resources Manager. The skills identified will aid internal governance and system implementation to improve the organisation's performance. SMMEs were open to seconding key skills for a season through investors.
- Academic institutions do not produce graduates with the specialised skills required by industry, leaving SMMEs with the load of training employees. There are a variety of COOs, CFOs and Operations Managers, however, there are not many that are equipped with the necessary experience required for the green SMME sector.
- One of the biggest costs for green SMMEs is to acquire and retain skills. In addition, as the green economy is actively growing trained individuals are often headhunted by larger institutions. The cost of retaining trained employees is significant since larger institutions have the ability to offer higher salaries than SMMEs.
- Professionalisation within the organisation increases efficiency. This is expected to increase job creation as a result of improved efficiency. Implementing a structured change management process is essential for operational efficiency.
- Green SMMEs value post-investment support, which includes access to strategic advice, guidance, and networks that can facilitate partnerships with the private sector unlocking opportunities for growth and expansion.
- Green SMMEs require access to capital to secure assets for project expansion. It was also highlighted that capital for research and development to design new products and to acquire updated programmes/software were critical to the growth of SMMEs.
- Some of the green SMMEs engaged with were willing to explore equity investments, while still being the majority shareholder. Equity investors would also need to be considered based on their knowledge and sector related experience.
- Post investment support could include supplying external bursaries for learnerships to attract graduates, tying them into a contract for recruitment, training and retention.
- SMMEs prefer to avoid programmes that require a shift in management focus.
- The 6-month project implementation period was well suited for strategies such as marketing, recruitment, research and development since the strategies could be accomplished in a short period. This would also be likely for SMMEs of a more mature culture where business development strategies were in place and only required adjustment. In cases where new strategies were implemented, a six-month implementation was too short a period to ascertain if the new strategy had the desired impact. SMMEs required more time for implementation. Unforeseen changes may also come about since there are many variables that needs to be considered. The strategy may then need to be reviewed and adjusted for the desired outcome to be achieved.
- Grant funders that SMMEs engage with often have onerous requirements including the completion of mentorship programs as part of ESD (Environmental Sustainable Development) programmes designed for startup businesses. SMMEs were often too mature for the training offered for startup businesses, which is a one-size-fits-all model and not customized to meet the needs of the SMME. This becomes time consuming and often cuts into the total grant budget provided.
- Revenue generated is a useful indicator to determine the growth of an organisation, however, it is difficult to isolate factors contributing to the revenue growth to determine the impact of individual events. It is difficult to determine the direct impact of post investment support funding on revenue generated since there are existing contracts and operations that also contribute to revenue.

Recommendations

The post investment support pilot project demonstrated that SMMEs made progress towards addressing critical barriers to organisational growth that were identified for funding support. The critical strategies implemented included: Strategies for running a lean operation, clarifying roles and responsibilities, skills development, recruitment, marketing and research & development.

The three SMMEs that participated established a positive growth curve when implementing the support strategies identified. This was evident through an increase job creation and revenue generated which is characteristic of growing SMMEs (South African Government, 1996).

In the absence of this support, SMMEs have indicated that it would have taken the organisation a longer period to gain traction and implementing the identified growth strategies. SMMEs demonstrated the value of skills development and the recruitment of critical skills to unlock further business opportunities. These support mechanisms streamlined and created lean and efficient structures for SMMEs, by reducing costs and providing key resources that are crucial for the next steps of the business. Through the grant funding provided, AAF support has assisted SMMEs to exit the project with a clear vision of their future development plans. The pilot project not only unlocked key resources to further the growth of SMMEs but also improved the employee morale of staff by promoting internal career progression and uplifting employees. This could lead to solving one of the earlier identified barriers of employee retention (Crail, 2023).

Testing the identified growth strategies allowed SMMEs a basis for future growth plans as seen in the case of learnerships and training that was originally planned for a small number of employees but extended to more/ all employees as a short term strategy by the end of the project period. Marketing, research and development support strategies also established great success through the development of new products and reached new clients by advertising on more social media platforms. These achievements will have a cumulative effect on the future growth of the organisation.

One of the gaps identified in the pilot project was that a broader scope of growth support strategies should be considered for funding in the next phase of the project. Initially, the support mechanisms identified were outlined by GOF CFPs. This provided limitations to the use of the grant funding for SMMEs. Funding support can also be considered in the form of cash flow, asset purchases, technology development as well as operating expenses. SMMEs will be required to demonstrate the impact of these support strategies on organisational growth and job creation. The SA SMME Fund (2021) has also identified the cash flow as one of the critical barriers to survival for SMMEs. A larger value of funding would also allow SMMEs to address a broader scope of barriers to growth, some of which were limited in the pilot project due to the availability of grant funding. This could improve the overall liquidity and resilience of SMMEs.

A minimum of one year is recommended for the project implementation period. This will allow SMMEs to review and adapt newly developed project plans mid- project. This will also include a broader scope of SMME to participate in the project since SMMEs in the energy sector were excluded on the onset of the project due to implementation strategies that extended beyond the six-month project period. This limited the project by only including SMMEs in the circular economy sector for the project. SMMEs that were selected for funding anticipate that more jobs will be created in the next six months post project implementation, therefore the full impact of the project was not evaluated in the first six months of the project. At the end of the implementation phase there were a number of future growth strategies that were enabled as a result of the project (e.g. extension of learnerships and review of structural efficiencies), the impact of which will not be accounted for in the short project implementation phase. This reiterates the learning from the GOF pilot project where there was a time lag between investments made and impact created (particularly with job creation).

A flexible grant towards mentorships/learnerships/training can also be considered in the next phase of the project. SMMEs extend their initial learnership/ training programs to a larger number of employees in the organisation due to the success of the skills development strategies. This could form part of the solution to address the challenge of the lack of critical skills which was identified as the largest cost to an organization and a critical barrier to growth.

An added benefit of the project was that it brought about a shift in the thought process of SMMEs. Through participation in the AAF post investment support project, SMMEs developed an understanding of the importance of quantifying the impact of their business through green outcomes and social impact metrics. This will allow SMMEs to better market the impact of their organisation to investors in future. SMMEs also found value in the structure of the project model which was used as a planning tool that measured against targets and evaluated performance using baseline benchmarks.

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