

# A Strategy for SMME Participation in the RE Industry



TIPS FORUM 2022

TOWARDS A JUST TRANSITION - THE ROLE OF INDUSTRIAL POLICY

# Presentation outline

- Introduction and background
- Problem statement
- Research method
- Proposed interventions
- Conclusion

# Introduction and Background

- There has been an increase in the uptake of RE (mostly solar) in SA as result of the REIPPP
- 6.5 GW of RE, at a total investment of R209 billion has been procured from 112 IPPs in 7 bid windows (BW 1 – 4; SBW 1S2 & 1 2S2) in the first decade of REIPPP (2011-21), and more than 50 % are located in the Northern Cape Province
- However, the REIPPP has had minimal impact in terms of the inclusion of SMMEs into the core VC of the RE sector despite Enterprise development commitment by IPP estimated at R320m per year for BW 1-4 over the 20 years life of a typical IPP project– SMMEs often offer simple services to IPPs e.g. security, cleaning
- Alongside the REIPPP there has been growth in the small scale embedded generation (SSEG) as residential, commercial & industrial energy users search alternative of supply energy – encouraged by (i) rising Eskom electricity cost & insecurity of supply (ii) supportive energy policies (iii) availability of innovative RE finance products (iv) falling prices of RE technologies
- NC Provincial Renewable Energy Conference resolution (October 2018) – The inclusion of SMMEs in the RE industry be prioritised, and critical role of the Provincial Department of Economic Development and Tourism in strategy and implementation.

# Problem statement

- SMMEs participation in any industry contribute in economic growth and development. Some estimates suggests that in SA SSMEs constitute >90 % of formal business, provide employment to 50 – 60 % of the LF & contribute around 50 % to GDP (IFC, 2018)
- The main platform for RE in the Country is the REIPPP, however SMME participation is limited due to numerous challenges e.g. limited financial resources and lack technical & managerial capabilities (Mkhwebane, 2018)
- The bulk of the IPP projects are located in the NC province where radiation intensity in the country is highest – > 50% (59 out the 112)
- Recent research indicate that there are realistic opportunities for SMMEs in the SSEG segment of the RE industry, albeit with some notable challenges that require targeted interventions by the state (Mkhwebane and Ntuli, 2019)
- Against this background and with a focus on the NC Province, this study proposes a set of intervention to circumvent some of the challenges to unlock the opportunities for SMMEs in the SSEG market

# The Study approach

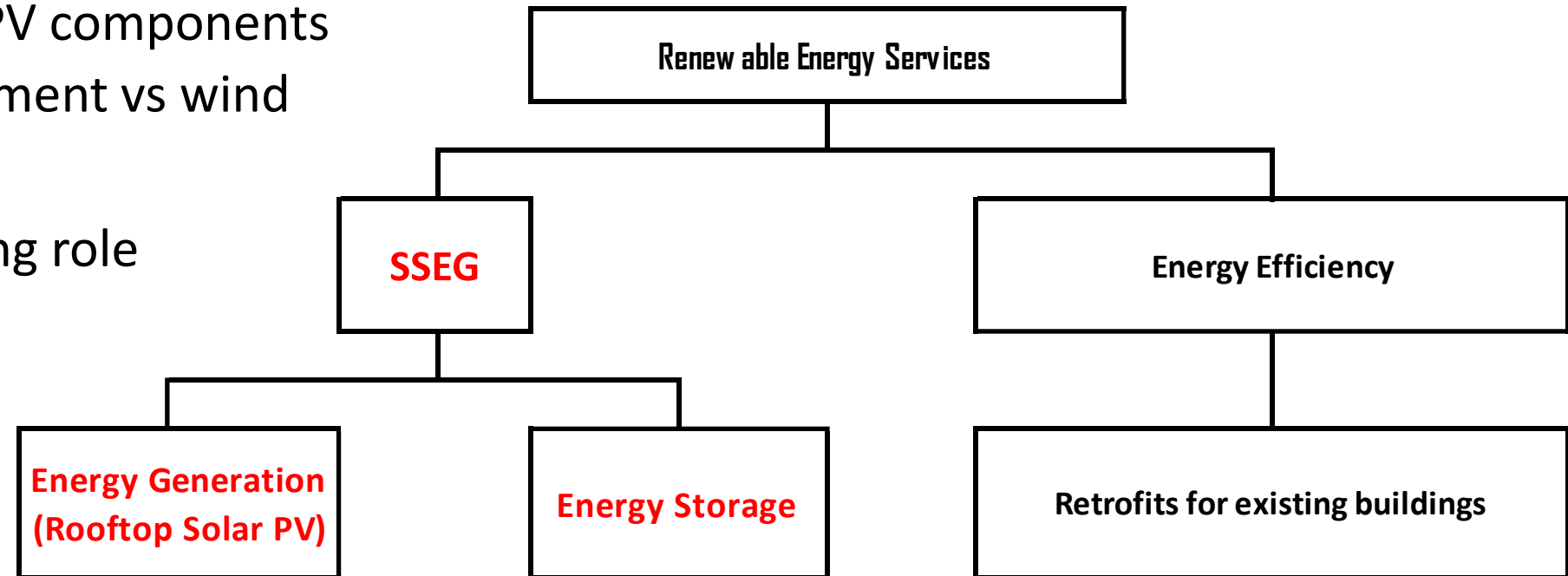
- Desktop review of strategic documents and relevant literature
  - Assessment of strategic and periodic publications by the relevant role players (SALGA, GREEN CAPE, CSIR, industry associations e.g. SAPVIA, NERSA)
  - Identifying the relevant stakeholders for dialogue
- Dialogue forums with relevant stakeholders:
  - Provincial departments – PT, R&PW
  - Government agencies – NC SMMEs Trust, SEDA, SAREBI, ICLEI Africa
  - Funding institutions – commercial banks
  - Local government
- Analysis
  - Feedback collated and analysed
  - Reporting

# What is SSEG?

- Part of the broader RES market
- Distributed generation – located at the sight of consumption i.e. residential & Candi
- Generation facilities >1MW
- Dominated by rooftop PV systems
  - Decreasing cost of PV components
  - Less costly to implement vs wind
  - Easy of scalability

- **LG Play a critical enabling role**

Currently 68 out of the 165 licensed municipal electricity distributors allow SSEG installations into their networks and 47 of these have an official application systems while 31 have NERSA approved SSEG tariffs



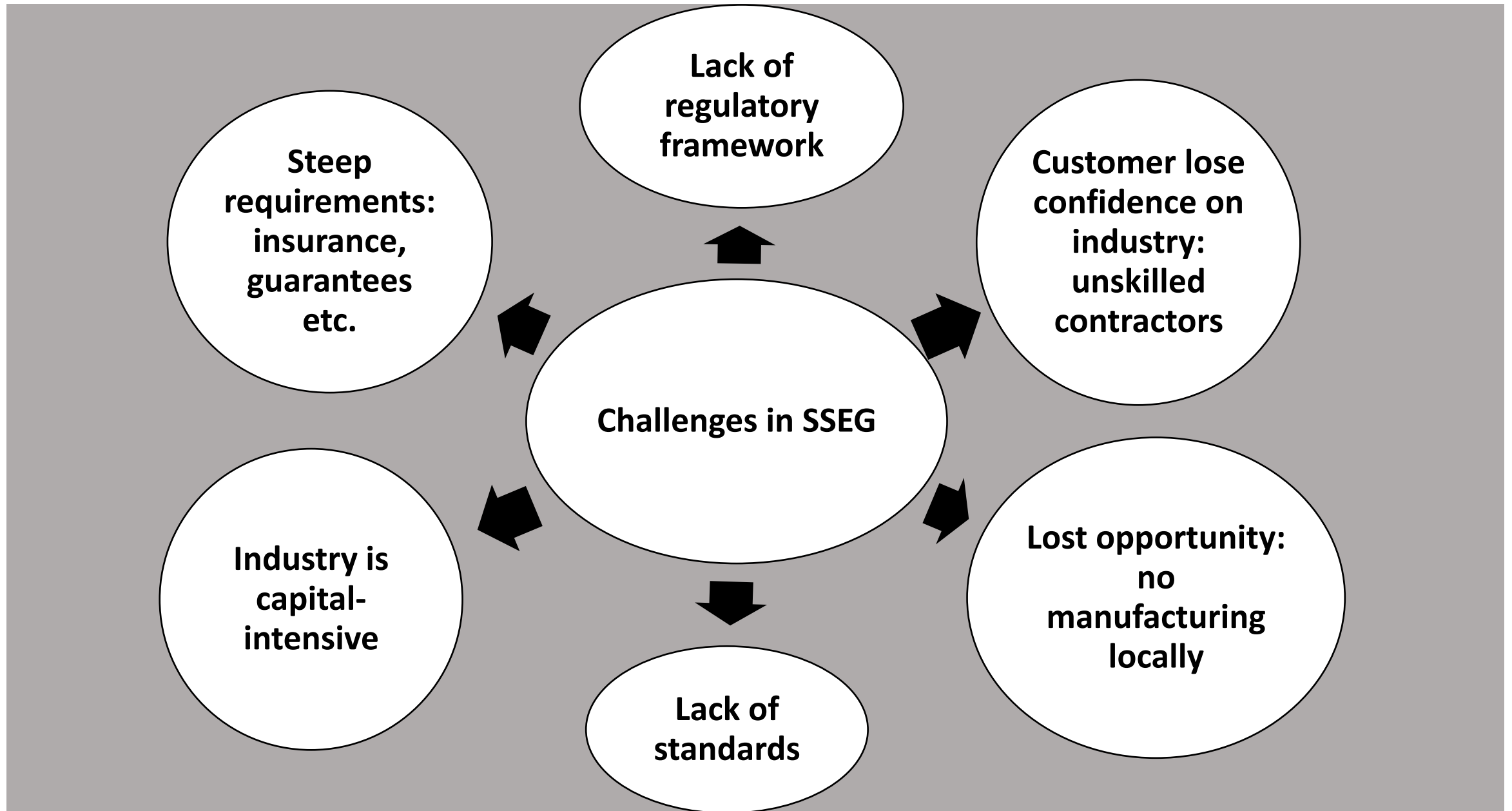
- Growing sector – projected total capacity of 7.5GW by 2035 with estimated market value of R75bn (Green Cape, 2022)

# Opportunities for SMMEs in SSEG (solar PV value chain)



- SMME can play a role in SSEG except R&D, raw material supply and manufacturing (Mkhwebane & Ntuli, 2019)
- Components are imported from China and Germany, assembled locally by the Investors, these are predominantly medium-sized enterprises and large companies due to the capital requirements to purchase and install the solar system.
- Opportunities available for SMMEs include:
  - Installation – either as the main contractor or under a sub-contract from an established firm
  - Operation & maintenance – as a service provider to the main contractor or directly to the customer

# Challenges for SMMEs in SSEG





## Proposed intervention for SMME participation in SSEG in the NC (1of 2)

- The NC Department of Economic Development & Tourism is well positioned to coordinate the proposed intervention – both the SMMEs sector and RE industry are priority focus areas of the Department.
- The intervention targets two types of renewable energy SMMEs at different stages of development:
  - Aspiring entrepreneurs with viable business concept
  - Entrepreneurs with trading businesses but facing growth and sustainability challenges.
- Installation, O&M of rooftop solar PV systems in all public buildings is a low-hanging opportunity with a high likelihood for immediate realisation.
- However, as mentioned earlier there are challenges facing emerging and aspiring SMMEs in the renewable energy sector to realise this opportunity.
- The challenges identified, indicate a multi-stakeholder approach, to resolve (including the Regulator, Municipalities, Funding Institutions, Government, SMMEs, Industry Associations)

## Proposed intervention for SMME participation in SSEG in the NC (2of 2)

The intervention is made up of 5 mutually supportive strategic interventions (SI)

**SI-1:** Support specialised training of emerging and aspiring SMMEs.

**SI-2:** Create an incentive fund & support package to stimulate entrepreneurship.

**SI-3:** Establish & formalise partnerships with industry stakeholders.

**SI-4:** Facilitate linkages between start-up/emerging SMMEs & established Escos

**SI-5:** Facilitate access to government building to create the initial market

Three intervention models (IM)

**IM-1:** Promote incubators

**IM-2:** Support a cluster approach

**IM-3:** Facilitate mentoring and coaching

# Key stakeholders and their roles

## Provincial Departments

Department of Economic Development and Tourism

Department of Roads and Public Works

Other Departments

## Other stakeholders

Financial institutions-commercial banks and DFIs

Industry associations-SAPVIA

Government agencies-SEDA and the SAREBI

SALGA

Northern Cape local municipalities Sol Plaatje Local Municipality

# Conclusion

- RE is a difficult industry for SMME to participate – high capital cost requirements and complex capabilities
- However, SSEG seems to be a platform that could be viable for SMME participation, to build skill and industry confidence through collaborations with medium-sized and larger companies
- Collaboration amongst the role players in the value chain, is key



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