

Climate change: What risk does it pose to SA small businesses?

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Countries all over the world are witnessing the measurable realities of climate change in the form of increased water scarcity, changing rainfall patterns, extreme droughts and intensified natural disasters such as floods. Great emphasis has been placed on the role of governments, policymakers and leaders of big business in driving the sustainability agenda. But there is much that can be done at a grassroots level, starting with small businesses as the building blocks of socioeconomic development.



David Morobe, executive general manager: impact investing at Business Partners Limited

This is the opinion of David Morobe, executive general manager: impact investing at small- to medium-sized enterprise (SME) financier, Business Partners Limited. As he argues: “Too often when it comes to addressing the need for climate action, we think in terms of the greater risk exposure of larger companies and their incumbent responsibility to turn the tide against climate change. But small businesses, as large-scale employers, drivers of the GDP and microcosms of society at large, play a vital role in affecting change on the ground.”

Climate-related risks on the rise

The higher incidence of natural disasters and climate change ranked among the top 10 most pressing concerns for companies across the globe, according to the most recent Allianz Risk Barometer. In South Africa, the ‘physical, operational, financial and reputational risks linked to global warming’ were ranked as the sixth greatest threat to business continuity in 2022 (an upward movement from seventh place in 2021).

The severe flooding caused by torrential rains in parts of KwaZulu-Natal last year are a prime example of the far-reaching effects of climate change. Labelled by one report as one of the ‘top 10 costliest extreme events caused by the climate crisis in 2022’, the floods caused unprecedented losses to many small businesses. The disruptive potential of events such as these are illustrative of the increased vulnerability of small businesses to the impact of climate change.

“As such, SMEs need to come to a more serious appreciation of the specific risks that threaten the continuity of their operations both now and in the future. The next step is to prioritise the formulation and implementation of risk mitigation strategies and measures. This will become increasingly vital given the uncertainties that lie ahead,” says Morobe.

Small business and the risky energy road ahead

Arguably, the most concerning risk facing South African small businesses is the ongoing energy crisis. A large part of the crisis has been attributed to infrastructural failures and widespread corruption. However, evidence indicates that any attempt to return to business as usual, simply by only rooting out these issues, will be thwarted by the fact that the non-renewable energy sector is currently the country's largest emitter of greenhouse gases.

Therefore, as Morobe explains, energy insecurity is as much about our own national challenges as it is about the global call for greener energy against the backdrop of climate change. This represents both an opportunity and a risk for small businesses, many of whom are now faced with the urgent need to raise capital or access finance for renewable energy systems.

Other major climate-related risks include mounting water insecurity. Although this phenomenon is prevalent at a global scale, it is reportedly more acute in developing nations like South Africa and its neighbouring countries due to infrastructural and maintenance challenges. For small businesses, whose operations involve water-intensive production and manufacturing processes, water scarcity and the inevitable rise in the cost of water represents a substantial threat to business continuity.



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Furthermore, with the increase in air and water pollution that accompanies climate change, the health and wellbeing of workers is at risk. In small businesses, where keeping the doors open relies heavily on human capital, any potential loss of productivity is a factor that warrants decisive tactics.

Towards a constructive plan of action

Going forward, combating the effects of climate change will be top of mind for the country's small business owners, who will need to find effective ways of managing new and emerging risks. As Morobe advises, these precautions may involve reviewing supply chain policies to include emergency alternatives in the case of disruption.

Further contingency plans could include minimising the storage and warehousing capacities of the business in the interests of mitigating the possibility of large-scale property damage or destruction.

In an environment where local small businesses are responsible for almost a third of the business sector's carbon emissions (according to the SME Climate Impact Report), small businesses also need to drastically reduce their carbon footprint.

This can be done in several ways, including minimising waste by inculcating a circular economy in your small business that relies on a philosophy of reusing, recycling and reducing. In addition, conducting a green audit of your business is a great place to start. By looking at how your business consumes energy at every level, from the energy used to run your office to the power you need to run your operations, you can pinpoint areas for improvement," says Morobe.

As he concludes: "In general, the rising awareness amongst SMEs that they too have a part to play in the call for climate action, is beginning to produce positive results. But with a concerted effort to hold our peers accountable and to implement industry standards that we can follow as guidelines, we can make the real progress that the sector needs to truly transform."

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