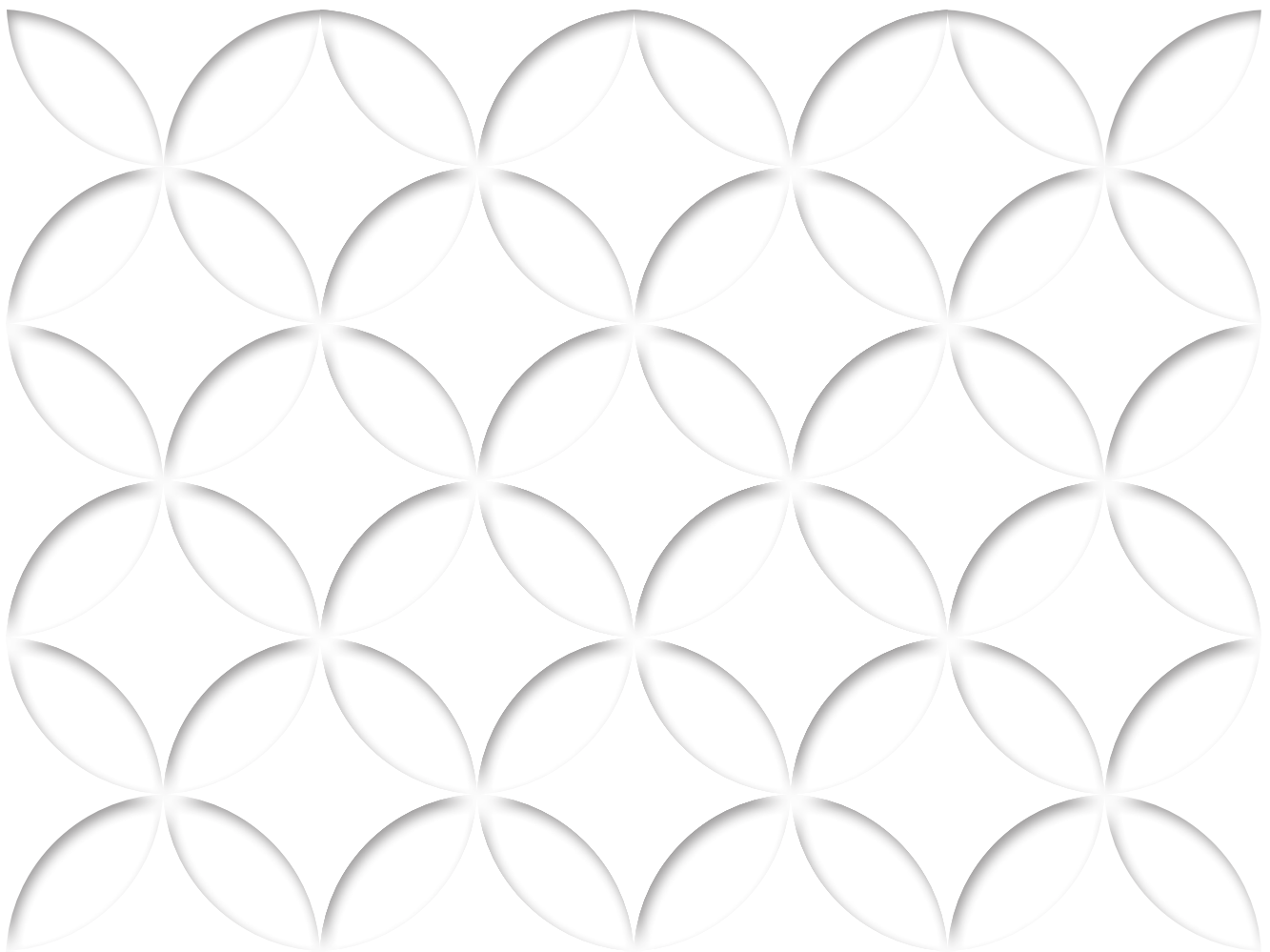


TRANSFORMATION FUND

FRAMEWORK



**Funding Transformation: Engineering an inclusive
microeconomic foundation for macroeconomic
growth and social stability**

Table of Contents

1. Executive summary	2
2. Introduction	7
3. Policy mandate for a Transformation Fund	11
4. Engineering inclusive growth: rethinking ESD and transformation in South Africa	13
5. Solution objectives & theory of change	16
6. Single operating model & pillars	19
7. Resource mobilisation and capitalisation	23
8. Investment approach	27
9. Investment products and target market	34
10. Governance and accountability	41
11. Risk, safeguards and compliance	44
12. Execution strategy and phasing	47
13. Conclusion	50
References	51
List of abbreviations	53
Glossary	54



1. Executive summary

South Africa's economic future depends on a bold shift towards inclusive growth that enables the substantive participation of the majority of South Africans, who are predominantly black. Decades after apartheid, the country still grapples with structural inequalities: a concentration of wealth and productive assets in a few hands, the slow pace of transformation, stubbornly high unemployment, and a gap between policy intent and on-the-ground outcomes. Traditional transformation tools that focus on top-down ownership transactions or fragmented micro-, small and medium enterprises (MSMEs)-focused grant, training, support or development programmes have yielded only incremental progress. Amid the growing scale and complexity of South Africa's socio-economic challenges, it has become starkly clear that different, new and/or enhanced instruments are required to ignite broad-based economic empowerment - and its natural corollary, broader participation in the productive economy - at scale.

The 7th Administration has committed, as one of its core principles, to focus on rapid, inclusive and sustainable economic growth; the promotion of fixed capital investment and industrialisation; job creation; transformation; livelihood support; land reform; infrastructure development; structural reforms and transformational change; fiscal sustainability; and the sustainable use of our national resources and endowments.

The Department of Trade, Industry and Competition (**the dtic**), in collaboration with the Department of Small Business Development (DSBD), has launched the Transformation Fund (the Fund) as the framework instrument to refocus, re engineer and redirect the implementation of the empowerment objectives of broad-based black economic empowerment (B BBEE). The Fund is an integrated national platform for inclusive economic transformation that tackles the problem at its roots and drives macroeconomic growth deliberately by increasing productivity and investment in key focus areas: engineering an inclusive microeconomic foundation for macroeconomic growth and social stability.

The basis for the Fund is Section 7(2) of the Constitution [EP1.1] of the Republic of South Africa, 1996, which mandates that the state must respect, protect, promote and fulfil the rights in the Bill of Rights. In addition, Section 9(2) of the Constitution, in recognition of the injustices of the past against persons disadvantaged by unfair discrimination, makes provision for the adoption of legislative and other measures to promote equality, including initiatives aimed at advancing persons or categories of persons disadvantaged by unfair discrimination - who, it is common cause, are black people. In terms of Section 11(2)(b) of the Broad-Based Black Economic Empowerment Act 53 of 2003 (as amended by Act 46 of 2013) (B-BBEE Act), a plan must be developed for the financing of B BBEE, including the creation of incentive schemes to support effective black owned and -managed enterprises.

The objective

The objectives of the Fund are to:

- Promote economic transformation to enable meaningful participation of black people in a productive economy;
- Improve access to funding for majority black-owned and controlled enterprises;
- Empower and support majority black-owned and controlled enterprises to participate in value chains across key sectors of the economy; and
- Mobilise financial resources from the private and public sectors using B-BBEE legislation.

The focus

The evolution of B-BBEE through its codification - where B-BBEE contribution has been disaggregated to five elements namely ownership, management control, skills development, enterprise and supplier development (ESD), and socio-economic development (SED) - has enabled measurement of contribution to B-BBEE by economic actors. To this effect, our primary consideration is whether these tools of economic transformation are impactful. In this setting, ESD is one critical tool available to practically effect increased participation of majority black-owned enterprises in sectors and value chains of industries.

In 2022, the B-BBEE Commission conducted a study which highlighted a low level of compliance on ESD spending by measured entities. According to the B-BBEE Commission, only 61% of the set targets were achieved for ESD in 2021, continuing a trend over the past five years (2017: 44%; 2018: 60%; 2019: 51%; 2020: 61%)¹. The challenge with ESD and its utilisation transcends the legislative compliance required of all economic actors; it lies in harnessing its full potential to drive economic inclusion and participation, thereby creating the sustainable leverage needed for economic growth. As matters stand, it is important to acknowledge that the funds raised through ESD contributions have not had any meaningful impact on the structural economic status of marginalised groups, as envisaged in various laws, including the B-BBEE legislation.

The opportunity

South Africa's entrepreneurship engine is large but underpowered: millions of MSMEs enter, too few survive or graduate, and a decentralised, check box support model leaves policymakers blind to progression. The binding constraint is not only money but capability: most MSMEs lack the artefacts lenders and buyers require, making them unscorable to banks and uncontractable to anchors. The opportunity lies in entrenching entrepreneurship by treating these capabilities as shared infrastructure, linking blended milestone tranching finance to verified adoption, while

establishing low friction marketplaces and export corridors with upfront onboarding criteria.

Sector programmes run by businesses, alongside master plans coordinated with government and social partners, already provide the scaffolding - coupling anchored demand with supplier upgrading, fit for purpose finance and competition and trade remedies - all to integrate inclusion into production technology rather than treating it as an afterthought.

The method

The Fund's point of departure from the norm is clear: rather than relying on trickle down expectations or isolated projects that lack scale, durability or impact, it will systematically, measurably and transparently empower thousands of firms and entrepreneurs with the capital, capabilities and market access required to become self sufficient, expand into domestic and international markets, and contribute to jobs, rising household incomes and sustained gross domestic product (GDP) growth.

In its final form, the Fund framework reframes South Africa's ambition by complementing top down macro interventions with a deliberate focus on grassroots productive microeconomy which, in aggregate, drives national development and fulfils the constitutional promise of the new democracy for all.

The architecture

The Fund's architecture rests on five interlocking pillars, i.e. capital, capability, markets, telemetry (real-time data and performance measurement) and governance - designed to work in concert while each is managed to a high professional standard, all in pursuit of a single objective: engineering an inclusive microeconomic foundation.

Capital: The Fund will mobilise and pool patient transformative capital from a variety of voluntary sources, creating a large-scale financial vehicle dedicated to expanding black-owned and -community-based enterprises. Structured as a special purpose vehicle (SPV) or fund-of-funds, it will ring-fence this capital and manage it professionally under a singular objective: investing in productive enterprises, entrepreneurial projects and firms that deliver inclusive economic outcomes. This capital pillar addresses the structural underinvestment in emerging businesses - a gap estimated in the hundreds of billions of rands - by providing innovative financing where commercial markets often shy away.

Capability: Financial support alone is not enough; many small businesses fail due to weak managerial, technical or digital capabilities. The Fund therefore equally prioritises access to capability (ATC), a robust digital-first technical

¹. Broad-Based Black Economic Empowerment Commission 2022, *Determining the effective implementation of Enterprise and Supplier Development (ESD) funds: Final report*, Department of Trade, Industry and Competition, Pretoria (Aug).



assistance platform that provides enterprises with the skills, tools and systems needed to absorb capital effectively and meet market standards. This pillar draws on extensive literature showing that bridging capability, skills and information gaps greatly increases MSME success rates. Through a platform-delivered capability stack - including, but not limited to, basic accounting systems, logistics and production management tools, training modules and distributed mentorship networks - the Fund will reduce information asymmetries and improve firms' productivity, creditworthiness and operational credibility.

Markets: Even well-capacitated, well-financed firms cannot grow without buyers for their products. The Fund enables lower-friction, digitally-driven market access through digital buyer consortia, offtake agreements supported by digitally managed supply aggregation and integration into corporate and public supply chains and export channels. By coordinating with large private and public buyers to form digitally managed marketplaces ("buyer councils") and using instruments such as quality-assured offtakes, framework agreements and forward contracts, the Fund creates an environment of predictable demand that lets beneficiaries scale sustainably. Buyers, in turn, gain assured standards

compliance, value for money and access to a larger, more diverse pool of qualified suppliers competing for their business. This system also removes the network and scale frictions that often marginalise emerging firms.

Telemetry: In an innovative departure from past programmes, the Fund is built as a digital-first, data-driven platform. It employs a comprehensive telemetry system to continuously monitor performance and outcomes across all investments and support activities. This means real-time data on production volumes, financial health, delivery times, quality metrics, jobs created and others, are captured and fed into a transformation index, a composite index tracking how firms progress in capability, profitability and impact. The telemetry pillar serves multiple purposes: it reduces information gaps between enterprises and financiers, for example, by providing alternative data for credit scoring and as a result, addressing the very gap that traditional collateral and credit scores miss; it creates feedback loops to adjust support in real time, and it enforces an outcomes-based discipline where funding is tied to results and support can be tailored based on what the data shows.

Governance: Underpinning all the above is a strong governance framework to maintain integrity, transparency and strategic alignment. The Fund will be governed by an independent board and management team insulated from undue private and political influence but accountable for national objectives. One important governance innovation is the introduction of digitally-integrated, low-friction public reporting dashboards, where - subject to agreements, laws and regulations related to privacy - aggregate data and results will be published openly. Additionally, a multi-stakeholder oversight council that includes government, the private sector and labour/civil society, will provide high-level guidance and ensure that the initiative remains true to its intent and execution. This pillar directly addresses past governance failures in development initiatives by instituting strong checks and balances upfront, and additionally aligns the Fund with global best practice for transparency and accountability.

The platform

At its core, the Fund introduces a platform model to South Africa's development landscape: a unified, digitally-enabled ecosystem that brings together capital, capacity-building and market linkages. This platform approach is what differentiates the Fund from siloed past efforts. It harnesses network effects and economies of scale: the more enterprises, mentors, investors and buyers that participate, the more efficient and impactful the system becomes. For example, as hundreds of firms use the shared capability platform, the cost per firm drops and a rich data pool is

formed to better predict success and price risk, and more investors and investees are attracted in a virtuous cycle, with more firms graduating into independence. Similarly, buyers find it easier to source from a reliable pipeline of vetted suppliers, and small businesses can trust that if they meet the platform's performance criteria, market access will follow.

This dynamic of increasing returns via network effects is a powerful engine for inclusive growth, essentially leveraging technology and coordination to overcome the fragmentation and information failures that have long plagued MSME development. Moreover, by internalising externalities such as training or market development costs, the platform ensures these public goods benefit of the entire economy. In doing so, the Fund addresses the reality that many high-social-value investments, such as market data, environmental information, skills or infrastructure, are underprovided by private markets alone, necessitating coordinated efforts backed by blended capital and public sector orchestration.

The theory

South African MSMEs often struggle not simply due to lack of money, but due to opaque information and weak capacity, e.g. financial statements or quality assurances that financiers and buyers require. Likewise, large firms that provide capital or markets have limited direct or inferential information about the intrinsic capabilities of the entrepreneurs and companies that wish to interact with





them for enterprise development, e.g. intrinsic talent and psychometrics. The Fund directly tackles this by coupling finance with capability-building and by capturing granular data (telemetry) to make the invisible past, present or aspired future, visible.

The platform model also leverages network economics: modern development economics literature, including theories of industrial districts and digital platforms, shows that connecting many producers and consumers on a common platform can overcome scale barriers and spur innovation. The Fund's design embraces these insights, anticipating scale economies and spill-overs as participation grows, in line with global digital economy trends. Instructively, the academic evidence confirms that capability improvements lead to measurable reductions in default rates and boosts in firm growth, aggregating into macroeconomic gains. This integration of theory and practice, using platform economics to address market failures, makes the Fund a uniquely evidence-based policy tool.

The summary

In summary, the Fund is a strategic, high-impact initiative that reimagines South Africa's approach to empowerment and growth. For policymakers (the Presidency, the Department of Planning, Monitoring and Evaluation (DPME), National Treasury, **the dtic**, DSBSD and Cabinet), it offers a cohesive vehicle to achieve multiple national objectives: accelerating MSME growth, scaling up black industrialists, boosting employment and revitalising communities – all through one integrated programme aligned with the Medium-Term Development Plan (MTDP) 2024–2029 and the National Development Plan (NDP). Its emphasis on measurable results and accountability provides assurance that resources and policy support will translate into tangible development outcomes, addressing past critiques of inefficiency.

For the private sector, the Fund represents a partnership opportunity rather than a compliance burden: business and investors are invited to co-invest and co-design, benefitting from new markets and a stronger supplier base, while meeting B-BBEE and impact goals in a structured way.

For organised labour and civil society, the model shows that transformation can indeed be curated as a win-win ecosystem that creates broad based ownership, promotes entrepreneurship, decent good-quality jobs and reduces inequality, all within a transparent framework that can be scrutinised. To accelerate meaningful and sustainable economic transformation, the Fund deliberately encourages inclusive ownership models that broaden participation by workers and communities. This is achieved through structured worker share ownership, employee share schemes and community trusts. The Fund is firmly committed to facilitating the acquisition of equity stakes in investment vehicles that enable co-ownership by community groups, employee trusts and the broader public. Through these mechanisms, the Fund directly advances the expansion of black asset ownership in large-scale investments, ensuring that transformation outcomes are real, measurable and enduring. The Fund thus builds a broad coalition for change, signalling a shared national commitment to inclusive prosperity.

Ultimately, the reframed ambition is clear: to build the microeconomic engines of growth so that South Africa's macroeconomic aspirations can be fulfilled. The Fund's design, grounded in both research and practicality, addresses information gaps, coordination failures and historical biases that have constrained the South African economy. In doing so, it offers South Africa a tool to overcome stagnation and inequality.

It is thus, not merely a fund, but a platform for a new economic era, one where inclusive growth is engineered through data, innovation and partnership to unleash the country's full potential.



2. Introduction

2.1. Problem statement

Nearly three decades after apartheid, South Africa's economy remains characterised by stark racial inequalities in ownership, opportunity and wealth. Black South Africans constitute the majority of the population but still own and control only a small minority of enterprises, with the commanding heights of the economy remaining mostly in the hands of the historically advantaged minority. Government policies since 1994, notably B-BBEE, have aimed to redress these inequalities. While there have been noteworthy successes in creating a black middle class and a cadre of black industrialists, overall progress has been slow and uneven.

2.1.1. Hard reflections: B-BBEE status reports

According to recent national B-BBEE status reports, many of the transformation targets set out in the Codes of Good Practice are not being fully met. Critically, the enterprise development element, which is supposed to channel private sector support to emerging black businesses, has underperformed. Companies often treat B-BBEE compliance as a check-box exercise, focusing on the rand value spent to score points rather than the outcomes achieved. The B-BBEE Commission's 2021 research found that out of an estimated R26 billion budgeted by large companies for ESD in that year, only about 61% was actually spent on genuine supplier development initiatives, continuing a pattern seen in prior years. This shortfall implies that a significant portion of funds earmarked for developing black entrepreneurs either remain unused or are

not effectively reaching intended beneficiaries. Furthermore, where funds are spent, they are often fragmented across many small projects run by individual companies, without strategic coordination or alignment to broader economic priorities. As a result, the impact of these efforts has been limited, with many beneficiary MSMEs struggling to scale or sustain themselves once support ends, and there is insufficient integration of these enterprises into core markets and value chains

2.1.2. From problem to opportunity: entrench entrepreneurship

The Entrepreneurship Strategy Review (UNCTAD, 2023)² confirms that South Africa's entrepreneurial ecosystem is characterised by low survival and graduation rates of MSMEs. While over two million small businesses exist, fewer than a third contribute to formal employment at scale, and only 15% graduate into successful, sustainable companies. The Review stresses that existing support frameworks often measure entry into the ecosystem but not progression or graduation, leaving policymakers blind to whether interventions actually build sustainable enterprises.

The Review also highlights the inefficiencies of South Africa's decentralised model. Information asymmetries pervade the ecosystem: capital markets struggle to discover viable black entrepreneurs, black entrepreneurs struggle to find appropriate capital and government support, and government itself struggles to coordinate and signal opportunities effectively. This leads to duplication, high transaction costs and weak matching between resources and entrepreneurs.

² UNCTAD. (2023). *Entrepreneurship Strategy Review: South Africa*. Geneva: United Nations Conference on Trade and Development.

2.1.3. From problem to opportunity: strengthen the foundation for MSME access to finance

South Africa's MSME finance problem is not only a matter of insufficient supply of finance, but also of capability gaps that block bankability. The 2025 SA MSME Access to Finance Report³ for example shows that most MSMEs cannot produce the artefacts that lenders and buyers require: fewer than 25% use formal accounting systems and only 16% run payroll systems, leaving them without credible financial records, verified payroll journals, or compliance evidence to underpin loan or contract applications. As a result, fewer than 7% of MSMEs with under R1 million turnover have loans, while over 57% report no collateral and 81% are uninsured, factors that elevate risk perceptions and widen spreads.

These missing capabilities directly impede capital flows: accounting and payments systems are the foundation for credit records, cash-flow reports and tax certificates; business ledgers and e-invoicing underpin activity records that can validate repayment ability and unlock receivables finance; and payroll and HR compliance systems are essential for verification of job creation, a key requirement for state contracts and many ESD-linked facilities. Without these, MSMEs remain unscorable to banks and uncontractable to anchors, resulting in thin credit penetration, high rejection rates and exclusion from value chains. Conversely, where such capabilities are embedded, they manufacture eligibility: enabling capital providers to price risk more accurately, lowering the cost of finance and opening access to supply chains and public procurement. The implication is clear: MSME finance readiness is as much about capability infrastructure as it is about capital supply.

2.1.4. From problem to opportunity: activating sector master plans with intent

Master plans are the government's instrument for turning sector reform into broad-based participation and measurable growth. By design, each master plan raises the number of verifiably capable MSME and historically disadvantaged suppliers that can clear buyer and lender thresholds. They also all share a common architecture: a joint diagnosis of competitiveness, jobs and inclusivity gaps; a social compact between government, industry and labour; and an integrated method that couples (i) demand levers: public procurement, retailer and original equipment manufacturer (OEM) sourcing, export corridors; (ii) supplier-side capability upgrading: skills, standards and certification, technology, clustering; (iii) finance and incentives: industrial finance, rebates, blended instruments; and (iv) rules of the game: trade and competition remedies against illicit trade,

under-invoicing and concentration under a programme-management cadence with measurable outcomes in local content, exports, jobs, historically-disadvantaged and MSME participation. In other words, master plans align market access with supplier upgrading through a public-private delivery system that is reviewed and refined based on evidence.

2.1.5. From problem to opportunity: agriculture and agro-processing

South Africa's agricultural market has been found to present a dual barrier that excludes many MSMEs, especially black farmers and agri-SMEs (small and medium enterprises), from meaningful participation: (i) structural features in physical value chains and online marketplaces that raise entry and trading costs and limit visibility; and (ii) capability deficits in infrastructure, compliance, reliable data/records, and digital tools that prevent small producers from meeting buyer and platform requirements and from being financed at scale.

The Competition Commission of South Africa (OIPMI 2023⁴; FPPI 2025⁵) finds that market rules and trading architectures systematically disadvantage small and historically disadvantaged producers (HDPs). On digital routes-to-market, price-parity clauses, self-preferencing and pay-to-be-seen ad models suppress SME/HDP visibility and weaken bargaining power; in fresh produce, inefficiencies in municipal markets, agent conduct, high input costs and regulatory frictions raise entry and participation thresholds. In response, the Commission set out 31 practical remedies to open access and lower costs. These remedies include curbing restrictive clauses and conflicts, improving market governance and price transparency, easing input-market restraints and establishing targeted inclusion and capability funds. In terms of our framing here, these remedies lower the structural bar to entry and participation by the affected firms. Conversely, the problem statement for the Fund is to equip the firms to clear the bar via shared/centralised/platform-based capabilities such as cold-chain and logistics, compliance and certification, digital traceability and finance-ops, and go-to-market support, ensuring that reduced barriers translate into contracts, working capital and retention.

Nur Agro (2024)⁶, in turn, reports that circa two million majority black smallholders remain left out of higher-value agriculture because they lack affordable finance, enabling infrastructure and technology, and dependable market links. The diagnosis is capability-centred: without verifiable quality, reliable supply and auditable data trails, emerging black farmers struggle to win procurement, secure working

3. Finfind in partnership with African Bank, 2025. SA MSME Access to Finance Report 2025. Johannesburg: Finfind.

4. Competition Commission South Africa, 2023. Online Intermediation Platforms Market Inquiry: Final report. Pretoria: Competition Commission South Africa.

5. Competition Commission South Africa, 2025. Fresh Produce Market Inquiry: Final report. Pretoria: Competition Commission South Africa.

6. Nur Agro, 2024. Two million smallholder farmers in South Africa: Unlocking inclusion through finance, technology and markets. Johannesburg: Nur Agro.

capital on reasonable terms, or absorb risk, keeping productivity and incomes low and locking them out of the fastest-growing platforms and supply chains.

2.1.6 From problem to opportunity: engineering inclusivity into the export markets

South Africa's intra-Africa export base has strengthened but remains below potential. Between 2019 and 2023, goods exports to the rest of Africa increased from R343 billion to R547 billion (+59%), with manufactured goods accounting for ~87% of those exports in 2023; Africa already absorbs >25% of South Africa's total goods exports⁷. Government began shipping under African Continental Free Trade Area (AfCFTA) preferences on 31 January 2024 and has committed to expanding intra-Africa trade as part of a coordinated masterplan and AfCFTA push. The MTDP prioritises export promotion and localisation while fixing freight rail/ports and crowding in private capital to the grid so that rising export intensity translates into measured gains in growth and employment; the OECD (2025)⁸ underscores that easing product-market frictions and logistics constraints is essential for higher export intensity and job creation. In short, the status quo is a growing Africa footprint constrained by energy/logistics and market frictions, and the policy stance is to remove those bottlenecks so trade gains show up in the macro aggregates by 2030.

Within agriculture and agro-processing, the near-term gains sit in fresh produce and protein corridors where sanitary and phytosanitary (SPS) alignment and cold-chain reliability are the binding constraints; the Poultry Sector Master Plan targets domestic expansion and sequenced export market access, and the Joburg Market case shows the scale of last-mile trading that could be formalised into corridor-ready supply with traceability and working-capital improvements. In manufacturing/automotive, component-level localisation targets under the Automotive Master Plan and AfCFTA rules of origin put Tier-2/3 suppliers in a position to scale Africa sales as rail/port performance normalises. In processed minerals, fabricated metals and chemicals, regional demand for inputs and equipment tied to Africa's infrastructure and

energy build-out underpins the largest share of potential uplift. Health and pharmaceuticals, and digital and global business services (GBS) are smaller in base but can contribute non-trivial increments as regional procurement and platform markets open. Aggregated, these sector opportunities will offer a credible route by around 2030, provided the logistics/energy fixes proceed and corridor-specific standards and market-access requirements are met, while the micro-inclusion dividend of more MSMEs supplying certified and reliable volumes, supports the macro channels of growth through higher earned incomes, higher investments through more bankable projects at lower spreads, and stronger trade balances through export readiness and import substitution.

2.1.7. From problem to opportunity: deepening digital connections

In the Reuters Institute's 2025 survey⁹, 17% of people globally use TikTok for news weekly, but Kenya is among the world's highest at about 40%; South Africa is roughly one-third on TikTok and about 42% on YouTube, clear evidence of video-first, mobile-first habits that generalise to broader digital-service adoption. Comfort with artificial intelligence (AI)-mediated news is also relatively higher across several Global South markets; while parts of Europe report notably lower comfort, African summaries point to a more open adoption posture, a useful proxy for uptake of AI-enabled services beyond news.

Together, these signals point to a sustained pipeline of first-time digital users requiring identity, payments, trust layers, connectivity and low-latency compute. The opportunity is to build scaled economic and social networks of digitally connected people, businesses, and lifestyles - where the physical nodes and edges of air, rail, road and sea are augmented by dense, relatively quick-to-deploy digital graphs of data centres, AI-driven storage and compute, and large broadband networks - raising volumes, accelerating velocity and reducing viscosity in the flows of goods, services, information and socio-economic capital. For South Africa, this translates into a practical industrial thesis: (i) data-centre build and operations - civil, mechanical and



7. Industrial Policy & Strategy Review Transforming Vision into Action: Charting South Africa's Industrial Future, May 2024

8. OECD (2025). OECD Economic Surveys: South Africa 2025. OECD Publishing, Paris. Press presentation: "OECD Economic Survey of South Africa – Pretoria, 5 June 2025

9. Reuters Institute for the Study of Journalism. Digital News Report 2025 (June 17, 2025). Executive summary; Kenya country profile; South Africa country profile.



electrical engineering; construction; maintenance and operations; (ii) AI-fuelled digitalisation - identity, payments, trust registries, trade in digital artefacts, digitally-enabled trade in legacy-sector goods and analytics; and (iii) exportable digital vocational and GBS.

2.1.8. From problem to opportunity: strengthen the social impact

South Africa's socio-economic constraints are not only economic or structural; they are also profoundly social. Weak social outcomes - especially among youth - directly depress productivity, elevate risk and limit the ability of enterprises to participate in and contribute to the economy. Understanding these feedback loops is essential to designing transformation interventions that are both economically effective and socially durable.

Social impact and feedback to the economy

Exclusion from formal economic participation, particularly among young people, produces immediate and measurable social costs: higher NEET (not in employment, education or training) rates, skills erosion, food insecurity, indebtedness, crime exposure and declining trust in institutions. These social conditions feed back into the economy through (i) lower labour productivity and firm-level reliability; (ii) higher operating costs on security, insurance and shrinkage; (iii) disrupted schooling and skills pipelines; (iv) weaker tax buoyancy; and (v) a higher risk premium that suppresses private fixed investment, particularly in townships and rural areas. The result is a self-reinforcing loop of under-investment, social stress, higher costs and risks and further under-investment.

Why "fix growth first, social later" fails

These impacts are not externalities that can be priced in after growth; they are already embedded in unit costs and expected returns. Youth scarring lowers lifetime productivity;

uneven early childhood development (ECD) and education outcomes depress human capital formation; poor health and safety reduce effective labour supply; service instability raises business interruptions and asset risk. Deferring social remediation systematically understates true project risk and overstates returns, leading to chronic under-investment where the marginal social return is highest.

Implication for strategy

Interventions should be designed to co-optimize economic and social outcomes. Practically, that means: (1) tying capital to verifiable capability that abstracts out structural disadvantage so more MSMEs become bankable on raw and intrinsic talent that may or may not have been curated through formal education; (2) converting public and private demand into bankable orders via buyer and off-take councils with transparent onboarding criteria that notes, accepts and manages any incoming structural disadvantages; (3) using milestone-linked finance that releases tranches as operational and inclusion KPIs are met and use of system capabilities increase; and (4) executing place-based basics in ECD, primary healthcare, reliable municipal services and safety where the enterprise pipeline sits, as they directly reduce risk and raise productivity.

Expected macro effects

This approach makes inclusion part of the production technology, not an add-on. Verifiable enterprise capability lowers default probabilities and credit spreads raising investment levels, earned incomes from production lift household consumption, and certified, reliable supply improves export readiness and local substitution. Simultaneously, a thicker tax base and reduced crime and service instability lower economy-wide risk premia. In short, addressing social and economic constraints in tandem is viable and necessary to break the current low-growth, high-risk equilibrium.



3. Policy mandate for a Transformation Fund

South Africa's persistent structural challenges - including slow and uneven transformation, capability deficits among MSMEs, barriers to market entry, fragmented ESD spending and deep-rooted socio economic inequalities - have highlighted the need for a more coordinated, outcomes driven instrument to drive inclusive growth. The preceding analysis makes clear that existing transformation mechanisms, while well intentioned, remain insufficient in scale, integration and impact.

Against this context, the proposal for a transformation fund emerges as a policy aligned, constitutionally supported vehicle designed to address these systemic constraints through a unified national platform for capability building, capital mobilisation and market access.

3.1 Constitutional imperative

Section 9(2) of the Constitution explicitly endorses corrective measures to address past discrimination. It states that "to promote the achievement of equality, legislative and other measures designed to protect or advance persons disadvantaged by unfair discrimination may be taken". Establishing a large-scale empowerment fund is squarely

aimed at advancing those disadvantaged by apartheid's legacy and thus gives practical effect to this constitutional principle.

3.2 National Development Plan

The Fund is also anchored on the aspirations that have been set out in the NDP.

Economy and employment

The NDP's jobs-centred growth path targeted specific average real GDP growth rates, increases in real GDP levels, and a substantial addition to jobs and reduction in unemployment 2030. Priorities include lowering the cost of living and doing business, crowding in investment to lift gross fixed capital formation as a percentage of GDP, building competitiveness in exports, and strengthening labour-market matching, while expanding public employment programmes to full-time equivalents.

Inclusive rural economy

The NDP further envisages direct and indirect new jobs across agriculture, agro-processing and related value chains, a food-trade surplus with one-third produced by small-scale farmers/households, and higher rural incomes through effective land reform, expanded irrigated production, improved tenure security and rural services that enable skills, enterprise and market access.

South Africa in the region and the world

The NDP recognises regional economic integration is a growth lever: intra-SADC (Southern African Development Community) trade should rise as a percentage of regional trade, as well as South Africa's trade with neighbours. Actions include corridor infrastructure, faster and cleaner borders, using South African development finance to back regional expansion, and cooperation in food, water and energy markets, while deepening commercial diplomacy in fast-growing markets in Africa, Asia and Latin America.

Building a capable and developmental state

The NDP stresses the centrality of a capable, ethical state: stabilising the political-administrative interface, professionalising the public service, fixing intergovernmental coordination with clearer lines of responsibility, and strengthening state-owned enterprise (SOE) governance, including credible public-interest mandates, stable boards and aligned policy-shareholder oversight. It further highlights key anti-corruption measures: specialised prosecution capacity, central oversight over major tenders and stronger protection for whistle-blowers.

Nation building and social cohesion

The NDP advances the promotion of a shared constitutional identity and equal opportunity by calling for the popularisation of the Bill of Responsibilities and the Constitutional Preamble in schools and workplaces; sustained campaigns against racism, sexism, xenophobia and homophobia; broader and more effective equity instruments to expand economic participation; and investment in arts, culture and public spaces that promote shared belonging. It further proposes a social compact for growth, employment and equity proposed to align incentives and build trust across society.

3.3 B-BBEE Act Requirements

The B-BBEE Act provides the legislative framework for empowerment. Section 11(2)(b) of the Act requires the state to "develop a plan for the financing of B-BBEE, including the creation of incentive schemes to support [the growth of] effective black owned and managed enterprises." To date, this requirement has largely been addressed through various grant programmes and financing schemes, but no single coordinated financing instrument of the scale envisioned by the Act has been established. The Fund therefore gives effect to this mandate by providing a comprehensive, dedicated financing vehicle aligned to B-BBEE objectives.

3.4 South Africa's transformation agenda

The **the dtic**, DSBD and related agencies have repeatedly underscored the need for innovative financing mechanisms to spur transformation. The Fund framework aligns with existing policy initiatives such as the Black Industrialists Programme and various sector-specific empowerment funds. It is designed to complement, positively adjust and scale these initiatives, rather than replace them. The Fund will finance and support larger and more impactful projects, strengthening the operating leverage of inclusivity-led microeconomics transformation onto the macroeconomy and society at large. It will achieve this reframed ambition through a strong data-driven and outcomes-based governance operating model that supports efficient aggregation and use of resources, while ensuring alignment with national policy guardrails embedded in industrial policy, competition policy, sector master plans and social policies – all of which include transformation targets.

3.5 Intent of the Fund

The Fund's intent is unambiguous: to convert South Africa's binding constraints into investable pipelines and measurable outcomes, and give substantial impetus to the collective efforts of the state, business, labour and civil society in the national development project. The Fund will crowd in public and private capital, mobilise local and international development finance institutions (DFIs) and repurpose ESD/Equity Equivalent Investment Programme (EEIP) flows into capability-linked finance, buyer-anchored demand and a transparent telemetry layer, so inclusion becomes part of the production technology, not an afterthought.

In line with the MTDP (2024–2029) and sector masterplans, the Fund will standardise identity, compliance and performance data, de-risk MSMEs, and align ministries and SOEs, corporates and industry bodies, and place-based partners behind one outcomes-based operating model that lifts gross value added, jobs, exports and household incomes, especially for women, youth, township and rural enterprises.

Crucially, the Fund is export-led and AfCFTA-aligned: it will finance tradable capacity and working capital off verified telemetry; embed standards, certification and rules-of-origin compliance in ATC hubs; underwrite offtake pathways, cross-border logistics and digital trade rails; and grow the share of intra-Africa sales and globally tradable digital services and GBS. It will also track export intensity, market diversification and on-time-in-full cross-border performance as headline metrics.

In short: the Fund aims to turn problems into pipelines, friction into throughput, and fragmented initiatives into a coherent engine for inclusive, export-driven growth, at speed, at scale and in the open.



4. Engineering inclusive growth: rethinking ESD and transformation in South Africa

4.1 Macro and micro challenges unresolved by current ESD initiatives

South Africa continues to face extreme inequality, unemployment and sluggish growth despite decades of B-BBEE efforts. The legacy of apartheid concentrated wealth in few hands, and the racial wealth gap has widened post-1994. Macroeconomic indicators remain troubling: over the past decade, growth has averaged only approximately 0.7% - below population growth - while

unemployment exceeds 30%. A thin tax base of about 7.5 million personal taxpayers supports social grants for some 28 million people, reflecting an unsustainable situation that reflects the limited economic inclusion of the majority. In short, South Africa is forced into Scandinavian-level social transfers on an emerging economy tax base - a formula that is fiscally untenable. This macroeconomic imbalance underscores that the intended broad-based empowerment and growth have not materialised under current policies.

At the microeconomic level, the MSME sector remains stunted and constrained, suggesting that ESD programmes and transformation funding have not solved fundamental problems. Small businesses are widely recognised as key to job creation, yet most remain starved of capital and support. A recent analysis estimates an MSME credit gap between R86 billion and R346 billion in Africa¹⁰, indicating that the funding needs of small enterprises vastly outstrip the finance currently flowing to them.

10. Summit Africa, n.d. *Custom Capital Finance: Financing that is a game-changer for SMMEs*.

Even when funding is available, many MSMEs struggle to absorb it effectively due to capacity and knowledge gaps. Various surveys show that most entrepreneurs lack financial literacy and do not know how or where to secure appropriate funding, wasting effort on wrong avenues. Low levels of functional capital such as weak financial management, poor business planning and limited skills, also means many startups are evaluated as not finance-ready or able to scale sustainably. This results in a vicious cycle where small firms cannot grow or create jobs, even as large corporations and public programmes channel money into enterprise development.

The micro-level foundations for inclusive growth are not being fixed by current ESD interventions, leaving South Africa with too few robust black-owned businesses driving economic participation and income gains.

4.2 Economic inefficiencies in current ESD and transformation funding approaches

The mixed outcomes of South Africa's transformation efforts point to structural inefficiencies in how ESD and related funding are implemented. By 2021, measured entities were only achieving about 61% of their set ESD targets, a figure which declined to 46% during the COVID-19 crisis. In practice, this meant that, of the approximately R26 billion earmarked for ESD in 2021, a large portion was not deployed or fell short of intended impact.

The B-BBEE Commission's analysis finds that only 62% of companies even have a clear ESD strategy, and many treat it as an ad hoc compliance exercise. There is also little consensus on how programmes should be structured for success¹¹. Critically, what gets measured and rewarded is compliance with the scorecard rather than tangible business outcomes for both the sponsors and the beneficiaries. As a result, companies often opt for the easiest, check-the-box contributions such as grants and early payments to score points, possibly at the expense of what beneficiary firms actually need for growth. Indeed, researchers note that meeting scorecard targets can diverge from addressing real MSME needs, leading to misaligned efforts. From an economics perspective, this is inefficient because resource allocation is not structured to maximise overall system utility.

Another persistent inefficiency is the fragmentation and lack of scale in current ESD interventions. Corporate ESD programmes typically support only a small number of suppliers, usually those tied directly to a firm's immediate supply chain, without consideration for broader sectoral or geographic needs. Without coordination and the need to,

each firm sets up its own development projects, potentially duplicating efforts and missing out on economies of scale opportunities. The B-BBEE Commission highlighted that ad hoc and uncoordinated ESD reduces the intended impact of this important lever of transformation and inclusive economic growth. By way of example, over 22% of corporations did not even know the impact of their ESD initiatives on the MSMEs they supported. This lack of system-level awareness and monitoring and feedback loops (telemetry) means that resources are wasted by design: money is spent without any push or mechanism to optimise its mobilisation and application, with no clear view of outcomes, with low pressures of spend accountability and potentially inadvertently promoting of abuses such as fronting. In economic terms, the information failure here prevents learnings on what works and what does not, in order to enable funds to be allocated to their best use.

Additionally, current transformation funding tends to neglect outcomes-based capacity building, undermining long-run efficiency. Compliance-driven funding often assumes that providing capital or contracts alone will spur growth, but as noted above, many beneficiary enterprises fail due to operational weaknesses. The B-BBEE Commission found that a common obstacle is that ESD beneficiaries "were not ready to scale up their businesses" because of weak financial systems, poor management and lack of sound business plans. In other words, money without mentorship and skills transfer yields temporary relief at best, and collapse at worst. Many corporates even avoid offering direct loans to suppliers, calling them poor business practice because small firms struggle with repayment and proper use of funds. The outcome is a preference for grants or once-off aid that may not build a business's capacity to stand on its own. This short-termism is fundamentally inefficient: it treats ESD spend as a recurring charitable expense rather than an investment in sustainable enterprise growth.

Finally, current B-BBEE interventions have not moved the needle on macro outcomes, indicating a misallocation of economic resources. The Sanlam Transformation Gauge (2023) found that while ESD programmes have significant potential, they have failed to live up to both their compliance targets and their broader growth expectations. Broad-based empowerment remains limited in scope; for instance, black ownership and management targets see slow progress, and most of the economy's value-add is still generated by established - often white or foreign-owned - firms. In effect, the vast amounts spent on transformation funding have not yet catalysed a new class of competitive black enterprises at scale. The opportunity cost is huge: unused entrepreneurial potential translates into forgone GDP and jobs.

11. Myres, K., Cabot-Alletzhauer, A., Khosa, A. and Mamabolo, A., 2024. Enhancing enterprise and supplier development ecosystem effectiveness in South Africa. White paper. Gordon Institute of Business Science.

12. Intellidex, 2023. Sanlam Transformation Gauge: Report 2023. Arena Holdings Et Intellidex. Sponsored by Sanlam.

Figure 1: Summary: General inefficiencies of ESD as a lever of a transformation and an inclusive economy



Figure 1 summarises the state of affairs. South Africa's ESD system is structurally inefficient in its current form as a decentralised, transfer and output-oriented system expenditure of roughly R15–25 billion per year, and characterised by: limited funders, misaligned objectives and incentives, high levels of non-participation and a compliance focus culture - culminating in a weak quantitative link to macroeconomic and social outcomes.

Training-centric models fail as well because they are episodic, supply-side driven and not embedded in the needs of the

target firms, whether it be in relation to production, buyer demand, finance or an operational capability requirement.

The theory-of-change remedy is therefore clear: pool resources and replatform ESD into an outcome-based architecture - a central vehicle that integrates access to capability with capital and market access, sets measurable milestones and links firm-level productivity gains directly to economy-wide growth, fiscal resilience and social mobility. The basis for this is set in the next sub-section.





5. Solution objectives and theory of change

Given the shortcomings highlighted above, marginal adjustments will not suffice. South Africa needs to reframe its approach to transformation by linking micro-level empowerment directly to macro-level outcomes. This is the core premise of an inclusion-led growth paradigm: it engineers a causal chain from micro to macro to social outcomes, rather than leaving that link to chance. Specifically, instead of the traditional growth-first model, which waits for overall GDP growth to hopefully trickle down benefits, an inclusion-led model intentionally makes broad-based economic participation the driver of growth. In practical terms, this means empowering many more micro- and small enterprises up front, so that their collective output pushes the economy onto a higher growth trajectory.

5.1. Improve collaboration

The revamped approach envisions tight partnership between government, corporates and other stakeholders in driving inclusion. Government's role is to set the strategic priorities, the direction for industrial and MSME development, and to provide enabling infrastructure or co-funding, while private-sector partners contribute capital, expertise and market opportunities. A stakeholder governance structure aligns these interests through a jointly managed SPV that meets the compliance needs of business and the development objectives of the state.

Economically, this collaboration is vital to leverage more resources and capabilities than any one player could muster alone. It also promotes buy-in: companies see ESD and other transformation levers not as a coerced expense but as part of a national investment plan for market expansion, where today's small suppliers are tomorrow's industrial base

and consumer market. Similarly, public institutions target their grants or incentives as matching funds, guarantees or tax breaks to crowd in additional investments for the greatest impact. The shared platform concept naturally facilitates this multi-actor ecosystem – banks, corporates, incubators and government programmes can all plug into the same system to offer services to MSMEs, creating a network effect that increases overall impact.

5.2. Mobilise public-private investment for transformation

The Fund significantly expands the availability of affordable, appropriate finance for black-owned and -managed businesses, especially those currently underserved by commercial lenders, through developmental capital for enterprise start-up, scale-up or recovery in the case of distressed firms.

Financial resources are aggregated from a wide range of contributors - including private corporations, local and international DFIs, and philanthropic donors, into one large pool dedicated to B-BBEE. The allocation rules are clear and simple: leverage each rand for the greatest inclusive microeconomic impact for macroeconomic growth, and send a strong signal of joint commitment by the public and private sectors to South Africa's transformation.

5.3. Coordinate and enhance impact of transformation initiatives, including ESD

The Fund serves as a central vehicle for economic transformation initiatives such as ESD. This not only helps companies meet their compliance requirements with less administrative burden, but it also ensures that ESD and other transformation funds are invested in a coherent portfolio of programmes with measurable outcomes in terms of business growth and job creation. The Fund links the transformation efforts directly to market opportunities through a centralised, platform-based capability, telemetry and governance system – enabling a trusted and frictionless marketplace where corporates identify gaps in their supply chains that can be filled by Fund-supported and purpose-ready suppliers.

5.4. Provide non-financial support and mentorship

Since the intention is not simply for the state to centralise funding and attempt to provide equivalent support from above – but rather deliberately to reduce barriers to entry and marginal costs and risks of participation in the market, to rebalance the information asymmetry from both the supply and demand side of capital and markets, and to subject the entire value chain to rigorous yet frictionless

telemetry, proactive risk management and transparency - a necessary addition to the pillars of support (and one that can only work effectively through a platform/centralised architecture) is a fundamentally digital access to capability platform. This platform handles tens of thousands of users, leveraging technology to standardise and lower the cost of serving each additional business across basic business operations, sectors and cycles of businesses.

The Fund treats capability as a form of capital that must be invested into entrepreneurs, such that for beneficiaries, transformation funding comes bundled with capacity and capability, and market-access support - and the likelihood that a funded enterprise will grow, repay credit and become independently sustainable is significantly enhanced.

5.5. Promote inclusive growth and job creation

Through its financing and support activities, the Fund contributes directly to job creation, poverty reduction and a broadened economic base. The supported enterprises create new employment, especially in labour-absorbing sectors like manufacturing, agriculture, services and tourism, and help drive economic activity in their communities. The Fund reduces inequality by targeting participation of black women, youth and people with disabilities as beneficiary business owners, managers and employees, through an earmarked and prescribed portion of the Fund's resources.

5.6. Facilitate structural Transformation of the economy

Beyond supporting individual firms, the Fund pursues structural impact. This involves promoting the emergence - through its inclusive microeconomics-first approach - of black industrialists and competitive black-owned firms in key value chains, diversifying ownership in strategic sectors of the economy, and deepening the localisation of supply chains. In this regard, the Fund aligns with South Africa's industrial policy and finances new scaled industrial capacity owned by historically disadvantaged entrepreneurs in prioritised sectors such as manufacturing, beneficiation, green economy and digital industries. The long-term vision is a transformed economy where leading companies and industries are more representative of the country's demographics and where opportunities are accessible to talent from all communities.

5.7. Measure and publish progress and be accountable

One of the major flaws of the status quo is the lack of transparency in inputs, outputs and outcomes. This is an issue of both practicality and – potentially - the new framework embeds real-time monitoring and evaluation

through digital tools. Every grant, loan, or business support service provided via the platform would be recorded and tracked, creating an auditable data trail of inputs and results. Stakeholders, from government to corporate sponsors, can then see exactly which MSMEs are supported and how they are performing in terms of core business operations metrics such as revenue growth, growth in employment and loan repayment rates.

To truly unlock impact, the orientation shifts from spending for compliance to investing for outcomes. The framework defines clear success metrics aligned with the theory of change - such as growth in MSME output, profitability and employment; increases in MSME exports; number of formerly informal businesses becoming tax-paying formal firms. These metrics become the new system scorecard for South Africa's transformation policy and economics, so that corporate and public contributors are incentivised by the real economic value created, not just money disbursed.

In this regard, the Fund accepts the proposal for a transformation index that aggregates key performance indicators across capability uptake, risk reduction, market expansion and inclusion outcomes. The index is reported publicly as a benchmark of progress, much like GDP or employment stats, holding the ecosystem accountable to the nation's inclusive growth goals.

Importantly, financial and non-financial support work in tandem - as one system: capital deployed is conditional on certain results, and capability support is continuously measured by how it improves those results. When aligning incentives this way, ESD funding moves closer to an investment mindset, expecting a return in the form of thriving businesses that employ more capital and more people from across the social and demographic spectrum, generate more profits and increase the incomes and wealth of their employees and owners - a more efficient use of capital than treating it as a grant for points.

Finally, the data-driven approach enforces mutual accountability: funders are accountable for deploying capital effectively, and beneficiaries are accountable for using support to achieve agreed milestones. For example, for an intermediary that receives transformation funds to on-lend, the platform transparently shows the repayment outcomes and growth of those client businesses. Beneficiaries likewise

commit to performance targets that are appropriate to their sizes, and the system flags underperformance for corrective action.

Continuous feedback loops like this allow the programme to learn and adapt, scaling up interventions that yield positive results and fixing or dropping those that do not. In economic terms, resources are directed to their most productive use, increasing the efficacy of every rand spent on development.

5.8. Think and act for the long term

Finally, the solution framework insists on a long-term horizon for transformation outcomes, as opposed to short-term compliance cycles. Companies develop their transformation strategies with a 5–10-year view of growing suppliers, rather than one-off annual donations. Likewise, the pooled fund or platform is established as a permanent, self-sustaining institution - not a temporary project -, so that it can reinvest returns and successes back into the system.

This entails treating enterprise support as an ongoing development of an inclusive market ecosystem, where today's beneficiaries become tomorrow's competitive suppliers and even funders in their own right. The focus on sustainability also means the system builds beneficiary graduation pathways upfront: the goal is not to keep MSMEs dependent on help forever, but to get them to a stage where they can compete and finance themselves independently. Metrics such as the share of enterprises exiting the support programme into unsubsidised bankability or achieving significant scale are tracked to ensure the system is creating self-reliant businesses, not perpetual dependents. Over the long run, this widens the circle of successful black-owned firms that in turn contribute to further job creation and mentoring of new entrants, feeding a positive cycle of inclusive growth.

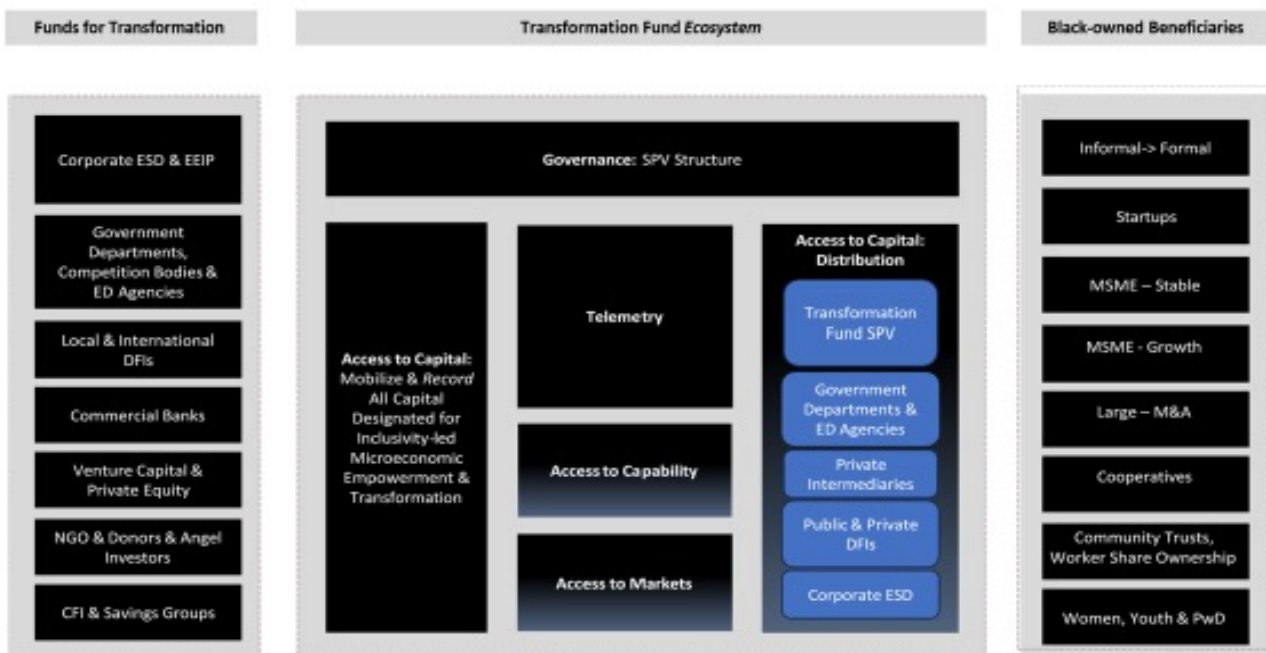
In conclusion, it is evident that current ESD and transformation funding practices in South Africa have fallen short of solving the dual crises of economic exclusion and low growth, largely due to inefficiencies and misalignments in their design. By contrast, the engineered inclusion-led growth approach as outlined above tackles the problem at its root: it connects the microeconomic empowerment of entrepreneurs to macroeconomic expansion and improved social outcomes in a deliberate, measurable way.



6. Single operating model and pillars

6.1. Overview

The Fund's single operating model is built on five interlocking pillars: access to capital, ATC, access to markets, a transformation index and telemetry system, and governance, that function together as one integrated architecture. This model treats financial and non-financial support not as separate streams but as a unified system aimed at overcoming South Africa's structural inclusion barriers more effectively than fragmented enterprise development efforts. It explicitly elevates technical capability support and market access to equal status with finance, reflecting evidence that many MSMEs fail "less for want of money than for lack of market access and the capacity to deliver quality at scale". All five pillars are coordinated through a central operating platform to ensure alignment and measurable impact via a national Transformation Index. The sections below describe each pillar and how, together, they form a venture capital-style single operating model for transformation at national scale.



6.1.1 Access to capital

This pillar provides the financial engine of the model – aggregating public and private funds into a pooled transformation vehicle. The Fund deploys a mix of patient capital instruments, including concessionary debt, equity and grants, targeted at historically excluded entrepreneurs and projects. Crucially, this capital is conditional and catalytic, designed to crowd in additional investment and incentivise capability uptake.

For example, funding may be tranching and released upon firms achieving capability milestones or performance targets - linking finance to real operational improvements. The integration of pooling resources nationally and tying disbursements to outcomes, means that this pillar moves beyond the fragmented, compliance-driven financing of traditional ESD funds towards institutionally ensuring that scarce transformation capital is allocated efficiently to ventures with both the intent and capacity to grow.

In structure and intent, this pillar mirrors the capital allocation function of a venture fund, making patient, strategic investments that are complemented by active support, rather than one-off handouts.

6.1.2 Access to Capability (ATC)

The ATC pillar is the centrepiece of the operating model's innovation. It provides a platform-based capability stack of non-financial services that equip enterprises to use capital effectively and compete in markets. Through a hybrid digital and in-person platform, emerging businesses can access critical capabilities on demand – from business and financial management tools, technical training and mentorship, production technology and infrastructure, to compliance and quality certification support.

In essence, ATC is a one-stop ecosystem to reduce firms' marginal cost of participation, lower marginal risk for funders/buyers and raise marginal benefit from market access by making costly capabilities shareable and scalable. For example, instead of each small firm bearing the full expense of software, equipment or expertise, the platform enables shared infrastructure and services such as common digital systems, pooled processing facilities and sector-specific toolkits. High fixed costs can be distributed across many users, so that as more firms join, “each pays only F/N – as N grows, the marginal cost per firm approaches zero” - making previously unfeasible upgrades attainable. This dramatically lowers the cost of entry and improves price competitiveness for small producers. At the same time, capability programmes such as inventory management training or agronomic extension services, raise each firm's productivity and output quality, effectively increasing their returns to scale.

Empirical studies confirm that targeted training boosts small enterprise output and market participation. In short,

ATC uses modern platforms to deliver the kind of technical know-how and operational tools that large firms take for granted, levelling the playing field for MSMEs. In addition, the standardisation and digitisation of key business processes across thousands of firms in core business process such as e-invoicing, supply chain traceability and HR compliance, means that the ATC also creates a rich data trail that feeds into risk assessment and market credibility. As discussed below, this has direct effects on reducing credit risk and expanding market access for participating firms.

6.1.3 Access to markets

Even with capital and capability, small businesses cannot thrive without reliable demand. This pillar therefore focuses on opening market opportunities and ensuring revenue for empowered firms. This involves both public- and private-sector market alignment.

On the public side, the Fund will coordinate with government procurement and industrial programmes, such as sector masterplans, to plug capable small suppliers into value chains. On the private side, the model leverages buyer councils and off-take agreements – essentially convening large corporates and value-chain anchors committed to sourcing from Fund-supported enterprises.

Because the Fund can vouch for the quality and reliability of its portfolio, backed by ATC's data and performance telemetry, corporates are more willing to contract with emerging suppliers. Additionally, the Fund will facilitate market access through export development support under this pillar. The integration of the markets pillar with capital and capability support means firms are not left on their own to find customers – market access is treated as a deliberate outcome of the investment.

To the extent that this pillar assures offtakes and links MSMEs to real contracts, this pillar helps translate enhanced capabilities into actual business growth. In effect, the Fund plays an aggregator and guarantor role in the marketplace: aggregating the output of many small firms so they can meet large orders and guaranteeing performance standards via the ATC data, thereby giving buyers confidence. This approach mitigates one of the biggest historical obstacles for emerging businesses, the inability to secure steady, large-scale demand, and thus closes the loop of the growth cycle initiated by access to capital and capability.

6.1.4 Transformation Index and telemetry

Cutting across all the three functional pillars is a robust data backbone – the Transformation Index and telemetry system – which continuously measures, aggregates and reports on transformation outcomes. Every firm engaged through the Fund - and even decentralised initiatives, as described later - will automatically feed into a central data repository capturing metrics such as: capability uptake in the form of metrics such as percentage of workflows digitised and

quality compliance rates; financial performance data such as revenue growth, and profit margins; risk indicators such as probability of default and credit spread movements; market outcomes indicators such as export volumes, on-time delivery and defect rates; and inclusion outcomes such as jobs created, demographics of ownership and geographic reach.

These indicators are synthesised into a Transformation Index, an innovative dashboard that provides a composite view of how effectively capital, capability and market access are translating into tangible developmental results. The Index serves multiple purposes: (a) performance management: it links to performance-based disbursements and support adjustments, ensuring accountability for results.; (b) policy feedback: it offers policymakers real-time insight into what's working (for example, seeing capability adoption correlate with lower default rates and higher sales, or identifying which sectors yield the best job multipliers) - this evidence base enables an adaptive approach, where resources can be reallocated to the most impactful interventions ("adaptive industrial policy"); and (c) transparency and alignment: an open Transformation Dashboard creates transparency and crowding-in of partners.

All stakeholders - government, private investors, DFIs, participating corporates and members of the public - can access easily a common set of data and indicators, reducing fragmentation of information and effort. In essence, the telemetry layer is the nervous system of the single model: it not only tracks progress but actively guides decision-making and trust among partners through data-driven transparency. This contrasts sharply with past enterprise support schemes that lacked consistent metrics

or hid outcomes in siloed reports. Here, a unified national scoreboard of transformation is created, against which all can calibrate their contributions.

6.1.5 Governance

Governance is established as an explicit, cross-cutting pillar that sits across the three functional pillars (access to capital, ATC and access to markets) and uses the Transformation Index to monitor, evaluate and make data-driven decisions on strategy, design, portfolio allocation and in-year operations.

It is the institutional mechanism that turns the model's data advantage into adaptive management, ensures policy coherence and accountability, and provides assurance to public and private contributors that resources are being deployed efficiently and for impact. Practically, Governance: (i) sets strategy and risk appetite; (ii) gates disbursements and follow-on support based on performance; (iii) reallocates capital and capability budgets to what works; (iv) enforces data governance, privacy and cyber-security; and (v) aligns decentralised initiatives to national outcomes through common metrics and transparent dashboards.

6.2. Alignment, efficiency and policy coherence

The Fund's single operating model addresses long-standing structural inefficiencies in South Africa's transformation efforts. Historically, support for emerging black businesses has been piecemeal: money in one silo, training in another, market access left to chance - often delivered through "reactive, piecemeal and compliance-oriented" programmes. Billions in ESD spending by corporates have





been frequently fragmented and misaligned with operational needs, yielding only isolated success stories and failing to move the needle on inclusive growth. The single operating model directly confronts this by providing a coherent, systemic solution: all key inputs (capital, capability, markets) are provided in tandem, and all outputs are measured in one system. This not only improves efficiency (by eliminating duplicate programmes and capturing economies of scale as described) but also ensures that policy intentions translate into results. For example, government's equity-equivalent investments or DFI funds will no longer dissipate in scattered projects with no follow-up; instead, they flow into a coordinated vehicle with clear outcome targets and accountability. Likewise, corporate procurement commitments (as per sector charters or the B-BBEE codes) are channelled through a pipeline of capable suppliers, maximising the impact on actual enterprise growth, rather than simply ticking a procurement spend box.

From a microeconomic efficiency standpoint, the model is designed to get the highest developmental return per rand by leveraging the platform effects and data-driven allocation. Every support action is logged and its outcome tracked, allowing rapid learning about cost-effectiveness. This data-centric approach means resources can continually be reallocated to what works best. It introduces a level of rigour and adaptability commonly found in the private sector to the realm of public developmental spending – aligning with the government's goal of a “capable, ethical and developmental state” that uses evidence-based methods.

The focus on inclusive growth and enterprise productivity means that the Fund also dovetails with South Africa's key policy frameworks such as the NDP and the Medium-Term Strategic Framework. These plans highlight inclusive growth, job creation and building a capable state as top priorities. The Fund contributes directly to these by enabling high-potential small firms become engines of employment

and by institutionalising a capable support infrastructure at national scale. In particular, Strategic Priority 1 of the MTD – “Drive inclusive growth and job creation” – and Priority 3 – “Build a capable, ethical and developmental state” – find concrete expression in this model.

The Fund's emphasis on data transparency, partnerships with private sector and civil society, and outcome-based funding aligns with the call for collaborative and performance-driven approaches to economic transformation.

Finally, South Africa's structural challenges - from the thin MSME sector contributing only ~34% to GDP, to persistent spatial and racial inequalities in business ownership - require a game-changing intervention. The Fund's theory of change is exactly that: an engineered model where inclusion is the driver of growth, not a by-product. The model deliberately links micro-empowerment to macro-outcomes and thus offers a path to break the low-growth, high-inequality trap. It tackles the root causes (lack of capability, access and data) that kept most black enterprises from scaling, rather than just treating symptoms.

In conclusion, the single operating model architecture, with its five pillars working in concert, is a microeconomically efficient, macroeconomically informed and policy-aligned solution. It brings the discipline and innovation of a venture capital approach to the public goal of economic transformation, creating a sustainable engine for inclusive growth. Through the consolidation of data on capital flows, capability investments, market access and enterprise outcomes into one transparent system, the model enables all stakeholders to pull in the same direction, on a systemic approach that should deliver far greater impact on South Africa's structural inefficiencies and inclusion gaps than the fragmented efforts of the past, charting a new path toward a more equitable and dynamic economy.



7. Resource mobilisation and capitalisation

7.1 Funding sources

A crucial aspect of the Fund's design is the mobilisation of resources to reach the ambitious minimum target of R100 billion. The Fund's capital will come from a combination of public funds, private sector contributions, and other funding partners, as outlined below.

7.1.1 EEIP contributions

A significant private sector funding stream will come through the B-BBEE Act's EEIP. The EEIP is a provision that allows multinational corporations, which are constrained from selling equity to local shareholders, often due to global ownership structures, to instead contribute 25% of the value of their South African operations towards approved empowerment projects in lieu of direct ownership. Historically, EEIP contributions by such multinationals have

been individually managed projects such as setting up enterprise incubators, funding universities and innovation hubs.

Under the Fund, qualifying multinationals will be encouraged - or required for new EEIP approvals - to place these equity-equivalent funds into the Fund. This ensures the funds are channelled into a broader portfolio with greater transformational impact and reach than isolated projects. By doing so, multinationals fulfil their ownership element obligations while the Fund gains a sizable inflow of capital dedicated to development purposes. Moreover, the Fund's aggregated approach can deploy these resources in areas of the economy that yield high impact on unemployment, inequality and poverty, aligning with national priorities. It also resolves issues some multinationals have faced in finding suitable empowerment projects by providing a ready vehicle - removing the bottleneck where companies cite inability to find transactions, as the Fund will have a pipeline of opportunities.

7.1.2 ESD contributions

Perhaps the largest potential source of private funding is the redirection of corporate ESD spend into the Fund. Under current B-BBEE codes, large companies are expected to spend around 3% of net profit after tax on supplier and enterprise development initiatives. This has been translating to roughly R20–R26 billion annually across the economy in recent years, although not all of it is effectively used. The Fund is designed to partner with the private sector such that companies can contribute their ESD budgets to the Fund and receive full B-BBEE recognition for those contributions, subject to verification.

To facilitate this, **the dtic** intends to amend the B-BBEE Codes of Good Practice to explicitly recognise contributions to the Fund as a qualified form of ESD spend, yielding the same or enhanced scorecard points as if the company ran its own ESD programme. The mechanics would allow a contributing company to earn its ESD points in the year the contribution is made (for example, by providing a receipt or certificate from the Fund), even though the Fund might disburse that money over several years to beneficiaries. This provides a strong incentive for firms to opt into the scheme, as it can simplify their compliance process and potentially increase the impact of their spend. The Fund's administrators will work closely with measured entities to market this option and demonstrate that pooled development funding can achieve better outcomes in terms of creating viable suppliers and MSMEs than siloed efforts.

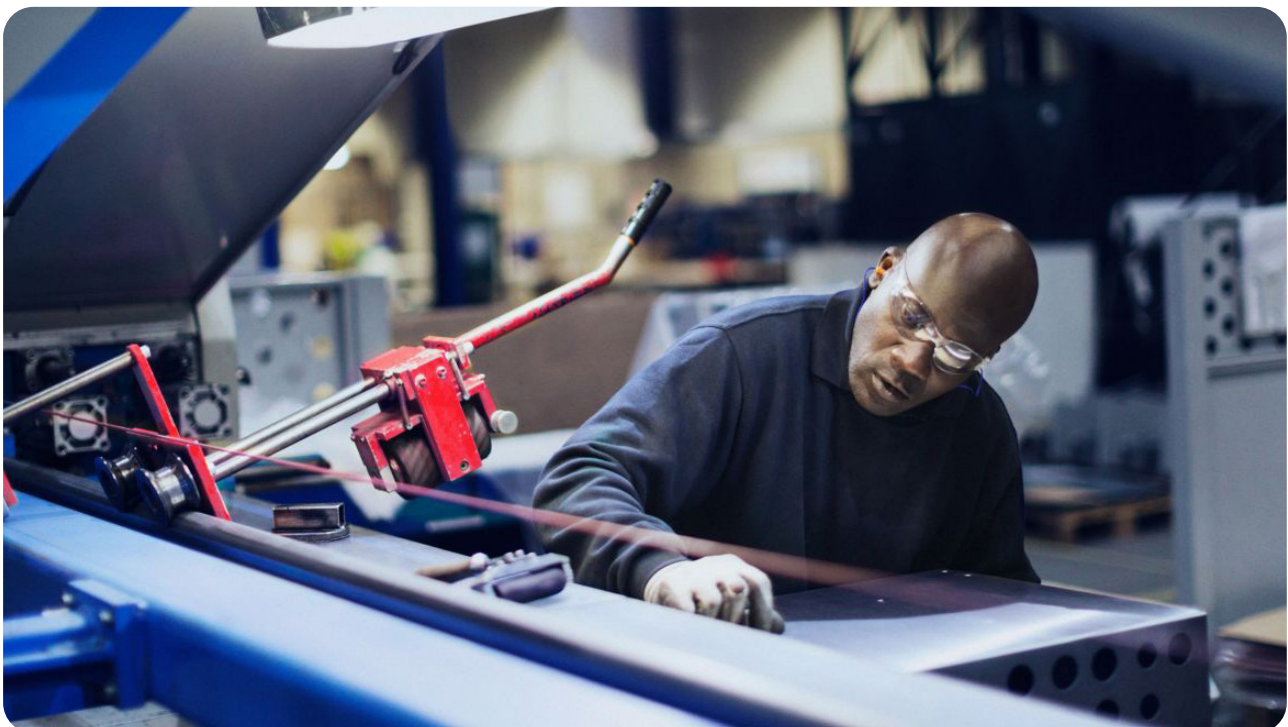
Additionally, it is proposed that unspent ESD funds at company level, which might otherwise lapse or be carried over, be actively encouraged to flow into the Fund so that they are not wasted. The Fund will maintain an auditable trail of how each rand of ESD contributions is utilised, enabling contributors to confidently report on the impact of their spend in their own annual reports and to their stakeholders. As part of transparency, the Fund will issue an annual report accounting for all funds under management, investments made and performance outcomes, which contributors can reference.

7.1.3 DFIs and impact investors

The Fund will seek complementary funding from both domestic DFIs and international development partners (multilateral banks, export credit agencies and impact investment funds). These institutions often have mandates overlapping with the Fund's goals. By co-investing or providing credit lines to the Fund, DFIs can extend their reach. For instance, the Fund might raise a concessional loan or guarantee facility from an international partner to amplify its lending capacity. DFIs might also match-fund certain categories of projects. Engaging DFIs and impact investors can also bring technical expertise and ensure rigorous standards in environmental social, and governance aspects of projects.

7.1.4 Donors and philanthropy

While not primary, the Fund welcomes grants and donations from foundations, high-net-worth individuals, and international donors who support enterprise development



and economic inclusion. Such funds could be used for specific programmes (for example, a grant from a tech philanthropy to set up a technology start-up accelerator under the Fund's umbrella, or funding from a global MSME initiative to support women entrepreneurs). These contributions may be attractive because the Fund provides an accountable structure to deploy donor money with local oversight and alignment to national objectives.

7.1.5 Innovative financing and private investors

In the medium term, as the Fund demonstrates success, it could explore raising capital through innovative means such as impact bonds, blended-finance instruments or even tapping into pension funds for investment (with appropriate risk-adjusted returns). For instance, portions of the Fund could be structured into an MSME investment portfolio that yields modest returns and is attractive to institutional investors looking for social impact. This is speculative at the concept stage, but the Fund's governance will certainly investigate all opportunities to expand the resource base beyond the initial five-year horizon, ensuring longevity.

7.1.6 Special case: overcoming ESD complexity for mid-sized Firms

Mid-sized companies (turnover circa R50 million–R1 billion) often struggle with the complexity and overhead of running full ESD programmes. Unlike large corporates, these firms have limited capacity and dedicated resources for managing

ESD initiatives, making it difficult to identify, support and monitor small supplier development projects. Indeed, many companies fail to fully utilise their ESD budgets – in 2021, firms achieved only about 61% of targeted ESD spending. A persistent challenge has been finding credible, high-impact ESD initiatives to invest in, leading to fragmented or misaligned efforts that do not integrate with the company's operational needs. This gap leaves well-intentioned mid-sized enterprises wanting to contribute meaningfully to transformation yet facing disproportionate complexity to earn B-BBEE scorecard recognition.

7.1.7 Direct fund contributions with full recognition

A specific proposal that has received wide acceptance would be to allow all participating and qualifying mid-sized firms to pay a 3% of their turnover in the form of a levy and receive immediate Level 3 B-BBEE status. It is estimated that this method would pool a minimum of R40 billion at full uptake, and conservatively R20 billion in Year 1 at 50% participation.

7.2 Mobilisation strategy

To secure these diverse sources, a proactive strategy will be employed. The dtic, together with National Treasury, DSBD and other key ministries, will lead engagements with corporate South Africa. The goal is to secure buy-in and





firm pledges from major companies to contribute ESD and EEIP funds into the Fund. Early commitments by some will build momentum for others to join.

A detailed Participation Agreement template will be prepared and will outline the terms for companies' contributions on issues such as, how funds will be used, what reporting mechanism will be in place, and what the rights of contributors will be. Potential contributors will be provided this model agreement to review. This will give certainty and address any legal/financial concerns upfront.

The Fund will also coordinate with the B-BBEE Commission and verification agencies so that the B-BBEE scorecard treatment of contributions is clear and favourable. Early guidance and possibly practice notes will be issued so that companies know they will immediately benefit in scoring by directing funds to the Fund, which helps drive uptake.

On the Government side, a Cabinet memorandum has been prepared to endorse co-funding by all relevant departments. Post-approval, letters will be sent to departments and public entities encouraging them to integrate their MSME development budgets with the Fund where appropriate, or at least ensure alignment of objectives.

Marketing and communication: A robust communication plan will be rolled out to raise awareness about the Fund's launch and its mission. This includes industry roadshows,

investment conferences and public media campaigns. Highlighting success stories and pilot projects will be key to show the Fund's value proposition. Also, demonstrating early wins (even during initial phases) will attract further contributions – success begets success.

Phased Approach: It is understood that raising R100 billion will not happen overnight. The Fund will adopt a phased approach. Phase 1 might involve setting up the SPV, securing a foundational amount and executing a set of pilot funding transactions to validate processes. Phase 2 would scale up mobilisation to a wider array of contributors, and Phase 3 would target the full capitalisation goal, also introducing external investors or bonds if needed. This phased strategy ensures that the Fund's disbursement capacity scales in line with capital inflows and that lessons from initial rounds are applied to improve operations.

Through this multi-pronged mobilisation plan, the Fund aims to assemble unprecedented financial firepower for empowerment. Importantly, the co-funding model means shared responsibility and risk, with no single entity bears the load alone, and all stakeholders have a vested interest in the Fund's success.



8. Investment approach

8.1 Detailed description of windows and investment instruments

The Fund is designed with multiple investment windows and instruments that work in tandem to provide both capital and capability support. Unlike traditional funding schemes that silo financial and non-financial assistance, this Fund integrates them within a pooled national vehicle – treating technical support in on equal footing with funding. Each window corresponds to a tailored product or facility addressing different enterprise needs and stages, yet all share a common philosophy of simplicity, innovation and alignment with real business operations.

For example, one window may offer pre-investment support in the form of project preparation grants and capability vouchers, to get MSMEs investment-ready, while another provides concessional growth capital (blended loans/equity) disbursed in stages as the business reaches certain milestones. A further window could target early-stage risk funding for start-ups or underserved sectors, and another might back market access enablers. Importantly, the Fund's governance will formalise the exact terms and criteria of each instrument – the focus here is on the conceptual architecture that departs from business-as-usual.

8.1.1 Point of departure

The Fund's investment approach breaks sharply from the overly bureaucratic, form-driven models of the past. It replaces long paper applications and rigid criteria with a data-driven, platform-enabled process that meets entrepreneurs where they are. Small business owners often complain that red tape and distant, centralised processes make existing

funds inaccessible (e.g. waiting nine months for a response to an application, or being invited to showcase events with no follow-up support¹³).

The Fund addresses these gaps by simplifying access (e.g. online and on-site onboarding, using capability data in lieu of endless forms) and by taking the Fund to the entrepreneurs – through local sector hubs and proactive outreach, rather than requiring MSMEs to navigate standard bureaucracy. Importantly, funding decisions will not hinge on static checkboxes such as collateral, perfect financials, but on dynamic indicators of potential and improvement. This means an MSME that lacks formal financial statements but is willing to adopt, say, digital bookkeeping and quality controls can still engage the Fund – the instruments are structured to help build those missing capabilities, rather than exclude the firm for not having them upfront.

Each investment instrument is designed to be entrepreneur-centric and adaptive, in contrast to private-sector financing that often ignores this target market. The Fund's windows emphasise flexible terms, streamlined discovery of opportunities and hands-on support to ensure investments translate into growth. Key differences from conventional finance include:

- **Structure:** The Fund operates as a one-stop blended finance platform, pooling public and private capital under an SPV with independent oversight. This allows multiple instrument types to be offered under one umbrella with unified objectives, rather than the patchwork of siloed programmes. By ring-fencing critical activities like project preparation, early-stage capital and market research, the Fund ensures these often-neglected needs are directly financed – a clear break from typical ESD funds that rarely fund pre-investment or capacity-building support.

13. *Vutivi Business*. (2023, September 12). *SMMEs challenge government on Transformation Fund*.

- **Deal discovery and eligibility:** Instead of passively waiting for lengthy applications, the Fund will proactively identify promising enterprises through capability assessments, on-the-ground partners and the ATC platform's automated data analytics engines. Eligibility will be based on an enterprise's potential and willingness to build capacity, not just its current collateral or credit score. This open approach contrasts with private lenders that rely on rigid credit criteria and often overlook informal or early-stage businesses. By using modern platform analytics and on-site due diligence, the Fund can discover viable MSMEs that banks miss and bring them into the pipeline on the condition that they engage in the capability-building journey.
- **Support bundling:** Every financial instrument comes bundled with technical assistance and mentorship. Rather than a lender that only disburses money, the Fund acts more like a venture builder or portfolio investor providing ongoing business development services. For instance, an MSME receiving a loan will also receive access to industry experts, training programmes, or an enterprise resource planning (ERP) system subsidised through the Fund. This ensures the enterprise can actually deploy the capital effectively. Such active support is a marked shift from private-sector instruments that provide capital alone and expect the entrepreneur to sink or swim. It recognises that many MSMEs fail less for want of money than for lack of market access and capacity to deliver quality at scale.
- **Terms and conditions:** The Fund's instruments feature innovative terms tailored to MSME realities – longer grace periods, income-based or milestone-tied repayments, and concessional rates that reward improvements. For example, a loan might start with a low interest rate that only steps up once the business's cash flows improve, or equity that vests as the firm meets governance benchmarks. Tranches of funding can be released in stages rather than one-off disbursements to mirror the business growth curve. These terms are simpler and more patient than those of commercial banks, which often demand immediate repayments and high security, ensuring that entrepreneurs are not crushed by impractical obligations. At the same time, they are designed to instil financial discipline and progress – aligning incentives so that founders focus on achieving business milestones to unlock the next financing tranche.
- **Proactive risk management:** Unlike conventional financiers that rely mainly on collateral or ex-post financial statements to manage risk, the Fund uses real-time operational data and hands-on oversight. Through the ATC platform, it will monitor metrics like production output, on-time delivery, inventory turns and other capability indicators. This telemetry-driven approach

allows the Fund to spot early warning signs - a slip in quality or delays - and intervene with support or course-corrections before problems compound. Essentially, risk underwriting is continuously updated based on the enterprise's capability improvements – if an MSME consistently delivers on-time-in-full (OTIF) and digitises its processes, the perceived risk and credit spread for that firm should fall, enabling the Fund to comfortably increase exposure. This dynamic risk management stands in contrast to private lenders' static, checkbox risk models and contributes to far lower default rates.

- **Post-investment involvement:** The Fund remains an active partner post-investment, rather than a distant creditor. Through regular check-ins, participation in buyer councils and continued training, the Fund accompanies the MSME until it achieves sustainable commercial viability. This could mean helping to troubleshoot operational bottlenecks or brokering relationships with new customers. The Fund's role is closer to that of an investor in a business accelerator programme than a bank loan officer. By comparison, traditional financiers provide capital with minimal ongoing engagement, aside from monitoring repayment, which often fails to address the evolving challenges faced by small enterprises. The Fund's high-touch model ensures that its investment is not just a transaction but a long-term partnership, driving the enterprise toward graduation into the mainstream market and finance. Notably, all these practices will be codified under formal governance – the specific product terms or covenants will be set by the Fund's Investment Committee, but always within this overall philosophy of nurturing viable, capable firms.

In summary, the Fund's investment windows marry patient capital with practical support tools in a unified, entrepreneur-friendly architecture. Financial and non-financial instruments operate as one system where capital is conditional and catalytic, capability is productised and measurable, and markets are assured via structured demand linkages. This is a deliberate departure from status quo programmes that were fragmented, bureaucratic and disconnected from on-the-ground realities. By embedding simplicity and innovation into each instrument, the Fund aims to unlock latent enterprise potential that purely private funding mechanisms have left untapped.

8.2 Capability-linked finance

A cornerstone innovation of the Fund's approach is capability-linked financing, delivered through ATC-linked term sheets. In essence, this means that the financing itself is structured around the attainment of specific enterprise capability milestones.

Rather than handing over funds based solely on static upfront criteria, the Fund issues term sheets that condition the release of capital on the business achieving agreed ATC milestones – measurable improvements in the firm’s systems, quality or governance. For example, an initial tranche of a loan or grant might be disbursed to allow a small manufacturer to implement a basic quality assurance system or an ERP-lite software for record-keeping. Subsequent tranches are then unlocked only when the company demonstrates progress such as obtaining a quality certification, attaining a certain usage level of the ERP - digitising a share of its workflows, achieving high on-time delivery rates with traceability - OTIF above 95% for a period, or establishing key governance practices such as proper financial accounts or compliance checks. Each milestone reached is not only an indicator that the enterprise is strengthening, but also triggers a corresponding financial reward, such as a next loan disbursement, a lower interest rate or a conversion of a tranche from debt to equity/grant.

This milestone-conditioned tranche system aligns incentives on both sides. For the entrepreneur, it provides clear targets and support to build a resilient business, with each target tied to a value-adding capability. The firm is essentially earning additional capital by de-risking itself through better operations. For the Fund, it means capital deployment is paced by real risk reduction: as the MSME becomes more capable and transparent, the Fund’s risk of loss diminishes, allowing it to safely deepen the investment. This approach strengthens the Fund’s underwriting capacity – instead of relying on collateral or personal sureties that are often impossible for MSMEs, the Fund gains comfort from the capability signals the MSME emits over time. Empirical logic backed by the ATC framework shows that as a firm’s capability intensity rises – through digitised workflows, quality control, reliable delivery – its probability of default falls and its creditworthiness improves. By conditioning finance on those improvements, the Fund effectively bakes risk mitigation into the growth process.

In practical terms, an ATC-linked term sheet might work as follows. An MSME is approved for a certain investment amount, but rather than receiving it all at once (or based on traditional covenants), the agreement lists a series of ATC milestones and corresponding tranches. Milestones could include: “Implement a recognised quality management system within 6 months”, “Adopt inventory/ledger software and achieve 100% e-invoicing of sales”, “Maintain an OTIF delivery rate of >95% for 3 consecutive months”, “Reduce debtor days (accounts receivable cycle) to under 60 days”, or “Obtain industry-specific accreditation (e.g. safety standard or export licence)”. Upon evidence of each milestone, verified through the ATC platform’s telemetry or third-party audits, the next tranche is released promptly

under pre-agreed terms. The term sheet thus behaves like a performance-based contract, where finance is earned by building capacity. Notably, these milestones are designed not as arbitrary hoops but as mutually beneficial goals: hitting them typically makes the enterprise more profitable and sustainable, while giving the Fund concrete justification to increase its stake. It is a win-win cycle of capability capital – more capability – more capital. This capability-linked financing contrasts sharply with conventional private-sector instruments for small businesses.

A bank, for instance, might extend a fixed loan and then mostly step back, only checking compliance or financial ratios occasionally. The terms of a bank loan rarely adapt to the borrower’s operational improvements except perhaps vague covenants, nor do banks coach the borrower through improvements. Here, by contrast, the Fund is an active partner: it essentially says, “We will finance your growth if you build the internal muscles to sustain that growth – and we will help you build them.” The inclusion of ATC milestones introduces an element of pay-for-performance familiar in impact investing but seldom applied at the enterprise capability level.

As referenced in the Fund’s design, this approach integrates tightly with a broader Transformation Index and assurance framework, meaning each tranche release is transparently tied to development outcomes such as improved delivery reliability or digital uptake, that can be reported to stakeholders. It brings an unprecedented level of accountability to MSME financing – every rand is tied to a result – which is attractive to impact-oriented investors and public funders alike.

Critically, capability-linked term sheets are also a tool for enterprise development and not just risk management. The mere fact of having milestone triggers encourages entrepreneurs to actively pursue modernisation: they know, for example, that getting a certain certification will directly unlock more growth capital, so it focuses their effort. The Fund, through its ATC platform and hubs, provides or subsidises the technical support to achieve those milestones – so the entrepreneur is not left alone in meeting the conditions. It is a supportive accountability mechanism, not a punitive one. By the time the MSME has drawn down all tranches, it has not only received funding but also transformed into a more competitive, well-run business. This dramatically increases the chances of the firm graduating to independent financing. In fact, a design goal of the capability-linked finance model is to position firms to eventually refinance with commercial banks or attract private investment on mainstream terms since they will have the track record and systems that were previously missing.

The term sheets can even be structured to facilitate this graduation – for instance, the final tranche might convert to a guarantee or co-investment that brings in a bank, once the MSME’s data shows reduced risk levels. In other words, as the company hits its ATC milestones and telemetry persists, the Fund’s role transitions from primary financier to a bridge connecting the MSME with market-rate instruments such purchase-order finance, invoice discounting, which become viable once the firm demonstrates reliable delivery and cash-flow discipline.

From a policy and analytical perspective, capability-linked finance represents a highly proactive form of risk sharing. The Fund absorbs more upfront risk by lending to or investing in a sub-commercial enterprise, but it continuously reduces that risk by engineering capability gains within the firm. Private sector financiers typically avoid this market because they perceive high risk and lack the mandate or means to mitigate it from within the business. The Fund’s approach shows a new path: strengthen the firm to secure

the finance, rather than demand the firm be fully secure before receiving finance. By conditioning capital on soft infrastructure like quality processes and digital systems, the Fund simultaneously builds the collateral that really matters – a well-run operation – thereby underwriting its investment in a way collateral alone cannot. This is a novel departure from credit-scoring paradigms as it acknowledges that for MSMEs, capability is the new collateral and each ATC milestone achieved is akin to adding a brick to the creditworthiness wall.

In summary, ATC-linked term sheets ensure that the Fund’s financial support is dynamically and intelligently allocated, strengthening both enterprise and lender with each step. Milestone-conditioned tranches align perfectly with the Fund’s transformation mandate: they turn financing into a vehicle for capacity building, not just a one-time transaction. The result is a healthier portfolio of MSMEs that have not only received money but have also upgraded their internal operations and credibility. This method stands apart





from private financing that would either not enter these deals or would do so without any mechanism to improve the underlying business. By directly tying investment to capability outcomes, the Fund de-risks the previously unbankable segment and paves the way for true financial inclusion.

8.3 Sector ATC Hubs and buyer councils

To complement its innovative financing, the Fund introduces Sector ATC Hubs and Buyer Councils as twin pillars of its market engagement strategy. This is about structurally solving the market access puzzle that so often plagues small businesses. Rather than leaving MSMEs to find buyers on their own or staging occasional expos, the Fund will actively create and coordinate demand pipelines through dedicated sector-based hubs linked to committed buyer groups. The approach is inspired by successful models both globally and locally, where clustering suppliers and aggregating demand have unlocked growth for small firms.

Sector ATC Hubs are essentially sector-focused capability centres: specialised incubators or industrial hubs equipped with shared resources, industry-specific technology platforms and a playbook for success in that sector. Each hub will be built on a shared capability platform: a standardised set of tools and processes that all member MSMEs in that sector can use. For example, an agro-

processing hub might offer a common traceability system, cold-chain logistics support and compliance templates for food safety, all pre-negotiated by the Fund.

A manufacturing hub could provide access to product testing labs, ERP systems or even shared production facilities. These hubs draw on sector playbooks – codified best practices (standard operating procedures, data templates, regulatory checklists) that the Fund’s project preparation team develops and continuously updates. By onboarding small enterprises to a hub, the Fund dramatically reduces the time-to-bankability and time-to-market: the MSMEs do not have to each reinvent the wheel or procure expensive systems individually. Instead, they plug into an ecosystem where foundational capabilities are readily accessible as a service. This not only cuts costs through pooled procurement, the Fund can bulk-buy software licences, equipment and distribute via vouchers, but also ensures that every enterprise in the hub meets a baseline standard of quality and operational readiness. In effect, the hub acts as a quality lift and accelerator, grooming cohorts of small suppliers who all operate with the rigour of much larger firms.

Buyer councils are the demand-side counterpart to these hubs. A buyer council in a given sector is a forum of major purchasers, including corporations, government departments or large distributors, who commit to working

with the Fund to bring capable new suppliers into their value chains. Rather than each buyer running separate, ad hoc supplier development efforts, the Council provides a structured interface: they collectively signal the types of products and services they are looking to source locally, define the required standards and agree to streamline pilot opportunities for hub-affiliated MSMEs. In practical terms, a buyer council will hold regular sessions or use an online platform to review vetted profiles of hub graduates and fast-track them for procurement opportunities. Members might, for instance, pre-clear a simplified onboarding process for these MSMEs or set aside a percentage of procurement for them, subject to performance. The Council construct assured demand – or at least a fair shot at demand – for businesses coming through the hubs, replacing the unreliable “maybe someone will buy” scenario with a more predictable pipeline.

As one design principle put it, the aim is to “replace ‘market access’ events with assured demand” by convening buyer councils that agree on common standards and move promising MSMEs from introduction to pilot to paid contracts within 60–90 days. This is a radical improvement over the status quo where small suppliers might knock on doors for months or years before getting a break.

The combination of hubs and buyer councils creates a closed-loop system: hubs ensure the supply side is competent and compliant, while councils ensure the demand side is accessible and collaborative.

This arrangement is analogous to the famous Italian industrial districts, where networks of small firms in the same locale collectively achieved competitiveness by sharing infrastructure and market linkages. Italy’s MSME clusters, strongly rooted in their communities, showed that bottom-up growth driven by specialised small-firm networks can be highly competitive globally¹⁴. They succeeded in part because local institutions (banks, cooperatives, consortia) helped aggregate demand and resources for the cluster. The Fund’s Sector Hubs revive this model in a modern, intentional way – each hub acts as a focal point for a sector’s small players, offering them what Italian districts organically developed: specialisation, cooperation and shared services leading to greater efficiency and innovation. Likewise, the buyer councils mirror modern procurement platforms like India’s Government e-Marketplace (GeM), which has digitised and simplified access for MSMEs to sell to Government. GeM has opened a vast market by connecting small suppliers directly with public purchasers on transparent, efficient terms, including features like relaxed eligibility and prompt payment for MSMEs¹⁵. The local buyer councils could do something similar in the South African context – provide a credible, large market that is easier for small businesses to tap into, with the Fund acting as an integrator and honest digital broker between the sides.

Consider a concrete scenario: A Sector ATC Hub for renewable energy installers might train and equip dozens of small contractors with standard solar photovoltaic (PV) design software, safety certifications and project management tools. In parallel, a buyer council of municipalities and commercial property developers is formed, committed to procuring a portion of their solar installations from emerging contractors that meet the quality and performance benchmarks. Through the Hub, these MSMEs get audit-ready training and perhaps initial inventory support; through the Council, they get visibility and a fast-track to contracts, maybe starting with smaller pilot projects to prove themselves. The result is that when a municipality has a tender for solar streetlights, for instance, there is a roster of investment-ready local businesses that can be contracted in weeks, not the usual months or years it takes for unknown micro-enterprises to break into public procurement. The Hub ensures these businesses can do the job well, and the Council ensures that if they can, they have a market. This greatly reduces the time-to-market for MSMEs and improves their procurement readiness, since everything from compliance paperwork to technical standards is pre-handled in the Hub playbook.

From a policy standpoint, these mechanisms tackle the classic failures in MSME support: fragmentation and disconnect. Currently, many market access initiatives are one-off events or pledges with little coordination – for example, corporate buyer fairs that raise hopes but lead to few signed purchase orders, or government set-asides that falter due to supplier underperformance or bureaucratic delays. In contrast, buyer councils institutionalise a regular pipeline. Members are not merely making charity purchases; they are co-designing the solution by sharing what they need and vetting the standards that give them confidence in new suppliers. By agreeing on telemetry and quality assurance (QA) standards up front (e.g. what on-time delivery rate or product certification is expected), they enable the Fund to train and vet MSMEs to those standards. It creates a common language of performance.

This proactive coordination means when an MSME from the Hub pitches to a buyer, the buyer already trusts the data (since it has been collected per the Council’s specification) and can move swiftly to a pilot order. The usual gap – where an MSME has to convince each buyer of its reliability from scratch – is narrowed by the reputation of the Hub and the data it provides.

Local analogues for this approach can be seen in initiatives like South Africa’s Automotive Supplier Park in Rosslyn. There, a cluster of component manufacturers was physically co-located next to major car OEM plants, with shared facilities and support from the Automotive Industry Development Centre. This proximity and support

14. UNIDO. (2008). *The Italian SME Experience and Possible Lessons for Emerging Countries*. United Nations Industrial Development Organization, Vienna.

15. Atoliya, H. (2025, February 7). *Government e-Marketplace: Opportunities for MSMEs in India*. Global Risk Community.

dramatically improved small suppliers' ability to meet OEM requirements, creating synergies and cost savings through clustering.

The Fund's Sector Hubs emulate this concept across diverse industries – not only through physical co-location when possible, but through virtual clustering on the platform (shared digital infrastructure and data). Additionally, some corporate supplier development programmes have successfully paired emerging suppliers with guaranteed offtake agreements or mentoring from lead firms. The buyer councils take such bilateral efforts to a multilateral, ecosystem level, ensuring that it is not just one big company helping one supplier, but a coalition of buyers uplifting a pool of suppliers systematically.

In terms of time-to-market and efficiency, these arrangements are transformative. An MSME in a hub is effectively fast-tracked: it knows exactly what capability targets to hit because the playbook and buyer input make requirements clear, and it has a ready avenue to revenue once those targets are hit the Council's pipeline. This can cut down the typical gestation period for a small business to scale. Moreover, it mitigates the dreaded valley of death between product development and commercialisation – the Fund's Hubs will coordinate with buyer councils to pilot new products or services in real operating environments, providing invaluable feedback and initial sales that prove the concept. By the time the MSME seeks larger contracts or external investment, it already has reference clients and a performance record, thanks to the structured demand pipeline.

In summary, Sector ATC Hubs and Buyer Councils embed the Fund's investments in a supportive market context, ensuring that financing is not occurring in a vacuum. This is a clear departure from past funding approaches that might have disbursed money to MSMEs but left them in isolation to find customers. Here, finance, capability and market access are a coordinated trilogy. The Hubs produce what one might call procurement-ready enterprises – small businesses operating on a common platform with verified performance data – and the buyer councils convert that readiness into actual economic opportunities.

Finally, it should be noted that while the Fund will catalyse and facilitate Sector Hubs and Buyer Councils, it will operate under formal governance and partnerships – for instance, sector-specific working groups including industry bodies, government agencies and community representatives to ensure inclusivity and avoid capture. The precise constitution of each Buyer Council or Hub management team will be decided under the Fund's governance framework. The key point at this conceptual stage is that by anchoring its investment products in real economy linkages, the Fund ensures that capital deployment translates into actual market traction and growth for MSMEs. This integrated model of "capital + capability + market" is what sets it apart from typical private-sector instruments that provide capital alone and from past public programmes that tackled pieces of the puzzle in isolation. The Fund thereby not only finances enterprises but actively engineers an environment in which those enterprises can thrive commercially, creating a virtuous cycle of sustainable growth and widening inclusion in the economy.





9. Investment products and target market

This section outlines the target market segments and conceptual investment products of the Fund. These proposals are aligned with the Fund’s mandate to reach historically excluded enterprises and to provide fit-for-purpose financial instruments. Actual product terms will be finalised through the Fund’s governance structures, but the concepts below clarify strategic intent and how the Fund will differ from form-heavy, bureaucratic predecessors. Each product is designed with specific use cases and support mechanisms (e.g. capability-linked disbursement tranches) to ensure a strong product–market fit for the Fund’s diverse target beneficiaries.

9.1 Target market segmentation

The Fund’s target market is intentionally broad but segmented to prioritise enterprises that are underserved by existing finance. Segmentation is done along two dimensions – by firm type/stage and by structural context – to ensure inclusive coverage of South Africa’s emerging business landscape. Key target segments include:

9.1.1 Informal and start-up enterprises

Very small or informal start-ups (e.g. township traders, emerging farmers, micro manufacturers) that need support to formalise and grow. These enterprises often lie outside

established corporate supply chains and struggle to access any capital. The Fund will deliberately target such nascent businesses, addressing the structural imbalances that have historically left informal and township entrepreneurs without funding opportunities. By focusing on new greenfield projects and early ventures, the Fund provides a launchpad for enterprises with high potential but no track record.

9.1.2 Early-stage industrial and high-impact ventures

The Fund will dedicate capital to black industrialist projects and other strategic sectors critical for economic transformation. This includes manufacturing startups, agro-processing facilities, mineral beneficiation projects, tech or green economy ventures – often capital-intensive undertakings that are black-owned but struggle to attract traditional investment. Such ventures require patient, risk-tolerant funding to reach scale. The Fund’s focus on productive sectors means a portion of funding is reserved for these high-priority industries (agriculture, manufacturing, infrastructure, etc.) that drive GDP growth and job creation. By backing early-stage industrial ventures, the Fund aims to create new industrial champions and diversify the economy beyond the historically concentrated sectors. These investments will be structured to encourage broad-based ownership (for example, funding equity structures that include worker or community shareholding), so that successful industrialisation directly expands black asset ownership.

9.1.3 Growth-Phase MSMEs

Small and medium firms that have survived initial hurdles and are ready to scale. These include businesses needing finance to fulfil large orders, expand capacity or enter new markets (including export-ready firms). The Fund will offer patient growth capital to MSMEs that are poised for expansion but cannot meet the onerous collateral, paperwork or offtake contract requirements of conventional lenders. By reaching established MSMEs in this missing middle, the Fund helps bridge a noted gap in South Africa's financing landscape, where viable small businesses often stall for lack of accessible growth finance.

9.1.4 Mid-size firms graduating to large enterprises

Mid-sized, majority black-owned firms with proven unit economics that aim to scale structurally via technology modernisation, capacity expansion, product diversification and market/geographic extension — including buy-and-build mergers and acquisitions (M&A) and eventual public listing. The Fund backs these enterprises with growth equity/mezzanine and acquisition finance (with partial guarantees), capability-linked tranches tied to capability milestones, and ATC Hub sprints for post-merger integration, digital core and governance uplift. Buyer councils and AfCFTA export corridors de-risk demand, while listing readiness and investor relations are built in. Inclusion guardrails preserve and deepen black ownership and leadership, with outcomes tracked through the Transformation Index.

9.1.5 Cooperatives and collective enterprises

Enterprises owned and run by communities or member groups (e.g. agricultural cooperatives, artisan cooperatives, village savings groups). These are often rural or township-based and play a vital role in local economies. The Fund views cooperatives as a key vehicle for inclusive growth and will tailor support to their needs — for example, helping them acquire shared assets or meet quality standards to supply larger markets. By pooling resources for cooperatives, the Fund can unlock scale and market access that individual micro-entrepreneurs could not achieve alone. Targeting cooperatives also advances broad-based ownership by spreading benefits across many small stakeholders.

9.1.6 Youth-, women- and designated group-led businesses

Enterprises led by historically disadvantaged groups — in particular black women, youth and people with disabilities — form a core target segment. These groups have long faced systemic barriers in accessing finance and markets. The Fund will earmark a mandated portion of its resources exclusively for businesses majority-owned by these designated groups. This ensures that black women and young entrepreneurs benefit directly, correcting disparities where mainstream finance has been gender-

blind and indifferent to structural inequities. By lowering requirements (e.g. accepting alternative forms of credibility beyond collateral) and providing linked technical support, the Fund's products will enable more women- and youth-led MSMEs to qualify for capital that was previously out of reach. In short, empowering women and young business owners is not only a matter of equity but also a catalyst for broader transformation.

9.1.7 Township and rural enterprises

Across all the above categories, the Fund places special emphasis on businesses located in townships and rural areas. Enterprises operating in disadvantaged localities have immense latent potential yet suffer from poor infrastructure, skills gaps and weak market linkages. A dedicated portion of the Fund will be set aside for township and rural businesses, ensuring these geographies are not left behind. By targeting local entrepreneurs in underserved areas, the Fund will stimulate job creation where it is needed most and help build vibrant local economies outside the main urban centres. In practice, this means prioritising funding for (say) a township manufacturing co-op, a rural agro-processor or a village tourism enterprise — ventures that traditional banks might overlook due to perceived risk or distance. The Fund's platform-based support model will further mitigate those risks, for example by deploying on-site technical assistance and connecting rural firms to supply chains, so that geography is not a permanent handicap to growth.

Together, these segments define the Fund's inclusive target market. Any majority black-owned business with growth potential — from an informal trader with a promising idea to a mid-size manufacturer in a priority sector — will find a place within these categories. Crucially, the Fund's segmentation is intentional: it ensures that support reaches businesses that current systems have failed to serve (whether due to size, location or ownership profile). By mandating allocations to designated groups, priority sectors and township/rural enterprises, the Fund safeguards its transformational impact in line with national policy goals. This multifaceted targeting approach creates a level playing field for marginalised entrepreneurs and aligns the Fund's investments with South Africa's broader objectives of inclusive growth and structural change.

9.2 Proposed investment products

To meet the needs of its diverse target market, the Fund will offer a suite of investment products that blend financial capital with capability support. These products are conceptually designed to fill gaps left by existing funding instruments — emphasising flexibility, reduced bureaucracy and integration of technical assistance. Rather than standard one-size-fits-all loans or grants, the Fund's instruments will be market-appropriate and adaptive, ensuring that each segment of the target market receives the right kind of

16. Mokwebo, S. (2025, April 19). *The proposed Transformation Fund aims to work with and for black women.* Mail & Guardian, Thought Leader.

support. Below are the key proposed investment products and their intended use cases:

9.2.1 Start-up and informal business grants

Instrument: Small start-up grants or convertible vouchers for early-stage and informal enterprises.

Use case: Provide seed capital to entrepreneurs who lack initial funding or collateral – for example, a township shopkeeper expanding into a formal storefront, or a youth-led tech micro-enterprise building a prototype.

Product-market fit: Tailored to micro and informal businesses that cannot navigate complex loan applications. These grants would be easy-access (minimal paperwork) and disbursed in tranches linked to developmental milestones (such as registering the business, completing a training course or hitting a first sales target). By front-loading technical support alongside funding, the product ensures that even inexperienced entrepreneurs can utilise the capital effectively.

Overcoming bureaucratic failures: Traditional public grants often involve lengthy forms and delays; in contrast, the Fund's startup voucher would use a streamlined digital platform for applications and reporting. The focus is on outcomes (business formalisation, capability uptake) rather than onerous compliance for its own sake. Moreover, the grant can be conditional on the enterprise adopting certain capability enhancements (e.g. basic bookkeeping on

the Fund's platform), which both simplifies reporting and improves the business's chance of survival. Embedding these conditions addresses a common failure of past schemes where money alone was given without improving the recipient's capacity.

Support mechanisms: This product explicitly builds in support via capability-linked tranching – an initial tranche might be given upfront as working capital, then additional tranches are unlocked as the entrepreneur achieves capability milestones (for instance, digitising their inventory or attaining a quality certification). This pay-for-performance approach ensures that grant funding translates into real skill and infrastructure development in the business, rather than being a one-off handout. It also deters misuse of funds, as the enterprise must show progress to receive the next infusion.

9.2.2 Growth and expansion loans

Instrument: Patient, concessionary loans for scaling up established MSMEs, delivered with flexible terms and performance-based disbursements.

Use case: Enable growing firms to invest in capacity (new equipment, larger facilities, hiring staff) or to fulfil large contracts that require upfront capital (e.g. a manufacturing MSME needing working capital to deliver on a big retail order, or an agro-processor scaling to supply an exporter).

Product-market fit: Aimed at businesses that have outgrown





micro-finance but are not served by commercial banks due to insufficient collateral or credit history. The loans would be low-interest or have blended terms (a mix of repayable and grant portions), recognising that these enterprises often face high costs of capital.

Overcoming bureaucratic failures: Current DFI loans can be rigid, requiring extensive paperwork, fixed repayment schedules and collateral that many black entrepreneurs lack. The Fund's expansion loans will instead rely on the enterprise's performance and potential. For example, rather than demanding fixed assets as security, the Fund might accept alternative security like project receivables or make the loan convertible to equity if the firm cannot service debt in early years. Approval and monitoring will leverage the Fund's digital platform – pulling data on the business's performance (sales, delivery times, etc.) to streamline due diligence and reduce the need for the entrepreneur to produce endless documents. By cutting red tape, the time from application to disbursement will shorten, addressing the common complaint that by the time public loans are approved, the business opportunity has passed.

Support mechanisms: Capability-linked tranching is a cornerstone of this product. Instead of disbursing the entire loan upfront (which can be risky and often necessitates conservative underwriting), the Fund will release funds in

stages tied to key milestones. For instance, an initial portion enables the firm to install a new production line; subsequent portions are released only when the firm meets agreed operational targets – such as achieving a certain output level, reaching >95% OTIF delivery performance, or improving its financial record-keeping. Because these milestones reflect capability improvements (not just financial ratios), the enterprise is incentivised to strengthen its operations with the Fund's technical assistance. The tranche structure thus mitigates risk (the Fund can pause or adjust support if the business falters) and ensures continuous engagement: Fund mentors and enterprise coaches will work closely with the firm between tranches to help it meet the performance criteria. The result is a financing instrument that feels more like a partnership than a one-off loan – capital is delivered hand-in-hand with capacity-building, directly addressing the weaknesses that often cause MSMEs to default. As the ATC framework posits, this integration of finance and capability reduces default probability and even lowers the effective cost of capital over time.

9.2.3 Equity and co-investment instruments

Instrument: Equity funding (direct equity, equity-like instruments or co-investments) for larger-scale ventures and high-growth companies, particularly in priority sectors.

Use case: Support black industrialists and innovative start-

ups that need substantial capital injections to achieve market dominance or industrial scale. Examples include taking an equity stake in a new manufacturing plant, investing in a black-owned renewable energy project or providing venture capital to a technology firm poised for expansion.

Product-market fit: This addresses enterprise that are beyond the scope of small loans – they require patient ownership capital and strategic partnership. Traditional private equity or venture capital often bypasses black entrepreneurs (due to network gaps or perceived higher risk), and government equity programmes have been limited. The Fund’s equity instruments will fill this void by acting as a strategic investor with a development mandate.

Overcoming bureaucratic failures: Past empowerment financing sometimes relied on debt to facilitate ownership (leveraged buyouts, etc.), which left companies over-indebted and vulnerable. The Fund’s approach is to offer true risk capital – taking an ownership share that aligns its returns with the entrepreneur’s success. Unlike cumbersome grant funds that cannot take equity, the Fund can hold equity stakes and even list them on a stock exchange to broaden ownership. Notably, the concept includes listed shares for broad-based equity structures, meaning the Fund could help create vehicles where community groups, employee trusts or the public can co-own shares in large investments. For instance, the Fund might invest in a large agro-processing venture and facilitate a portion of the equity to be held by a community cooperative or to be sold in small lots to ordinary citizens thus democratising

ownership. By doing so, the product overcomes the narrow ownership outcomes of past deals and ensures widespread benefit from big projects. Additionally, the Fund as equity partner will streamline approval by focusing on business fundamentals and transformation impact rather than box-ticking compliance. It will bring in private co-investors where possible, on terms that prevent exploitative returns so that private partners do not reap outsized rewards without the community also benefitting.

Support mechanisms: With equity comes deep engagement. The Fund will likely attach technical experts or mentors to each equity investee to bolster governance, financial management and market development. This is akin to a venture capital portfolio services model, where along with capital the firm gains access to high-level advice and networks. Milestone-based disbursement can apply here too: an equity commitment might be tranching, e.g. first round now, follow-on investment only when the company achieves specified growth or transformation targets such as launching a new product line or reaching a revenue threshold while maintaining inclusive hiring. Throughout, the Fund will use instruments like shareholder agreements to bake in transformation objectives – for example, linking the entrepreneur’s earn-out or the Fund’s exit to the firm meeting B-BBEE and job creation targets. In summary, the equity product is designed to be patient and catalytic, taking higher risks than commercial investors would, but also actively steering the enterprise toward developmental outcomes. The presence of the Fund as an equity partner





reassures other investors and lenders by signalling that the venture has institutional support and strong oversight, thereby crowding in additional capital to multiply impact.

9.2.4 Blended finance and guarantees

Instrument: Blended-financing solutions that combine public and private capital, potentially including first loss guarantees, subsidised credit lines, or risk-sharing facilities.

Use case: Encourage commercial banks and other investors to extend finance to the target segments by reducing their risk. For example, the Fund could provide a partial credit guarantee on bank loans to township businesses or offer a low-interest subordinated loan that leverages additional senior lending for a rural cooperative.

Product-market fit: Aimed at situations where the obstacle is not the absolute absence of capital, but the risk perception and cost. Many MSMEs might be just below bankability; with a modest guarantee or subsidy, they could secure mainstream financing. The Fund's blended instruments will thus stretch its impact by mobilising multiples of private finance for each rand of Fund money – a critical strategy given the scale of transformation needed.

Overcoming bureaucratic failures: Existing government guarantee schemes have often been underutilised due to cumbersome processes and misalignment with banks' incentives. The Fund will design its guarantees to be user-friendly for both MSMEs and co-lenders. That means standardising and digitising the claims process, capping

the downside for private partners clearly and tying the guarantee to the enterprise's developmental progress rather than blanket coverage that could encourage laziness in lending standards. By providing a guarantee only when certain capability criteria are met – e.g. the borrower must be onboarded to the ATC platform and sharing performance data – the Fund ensures that its risk-sharing actually translates into improved business practices thus reducing the likelihood of default. In effect, the guarantee is not just credit insurance; it is a tool to nudge both lender and borrower towards a developmental relationship.

Support mechanisms: Blended finance deals will come with the same wrap-around support as the Fund's direct products. If a bank loan to a women-led manufacturer is guaranteed by the Fund, that manufacturer will simultaneously be enrolled into the Fund's technical support programme so that she receives mentoring, systems training and market access help. The guarantee could be released in tranches alongside proof that the firm is adopting these supports – mirroring the capability-linked tranche approach in other products. Additionally, the Fund may convene buyer councils or use its networks to help guaranteed firms secure offtake contracts, thereby addressing the market access side of the equation (one of the failures noted in prior schemes). By integrating such support, blended instruments remedy the prior issue where guarantees alone did not lead to sustainable business growth. Instead of just backstopping loans, the Fund uses guarantees as leverage to drive behavioural change: participating lenders must

agree to simpler application processes for MSMEs, and participating MSMEs must commit to capability upgrades. This reciprocal arrangement ensures that blended capital truly works for the entrepreneur.

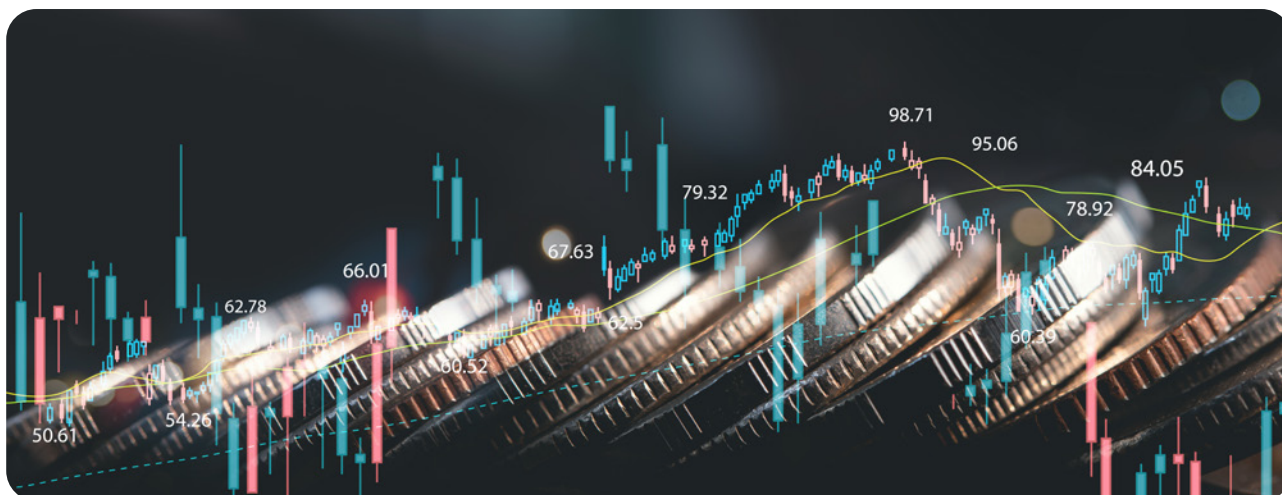
Across all these product offerings, a unifying design principle is that financial capital is combined with capability development. The Fund's instruments deliberately move away from the old paradigm of treating technical assistance as an afterthought or a separate grant programme. Here, technical support (access to capability) is baked into the product structure – whether through milestone-based tranches, voucher systems or mandatory platform onboarding. By doing so, each rand deployed is more likely to result in a sustainable enterprise, not a one-time spend. The Transformation Index and other monitoring tools (see Section 7) will track how these businesses improve in operational metrics, risk profiles and growth outcomes as they receive Fund support. This integrated approach directly tackles the failures of form-heavy instruments: instead of judging enterprises by their ability to produce paperwork or meet inflexible criteria, the Fund judges success by tangible improvements and graduation to commercial viability. The emphasis is on learning and adaptation – products can be fine-tuned by the Fund's governing board over time, based on what the performance data shows (rather than being locked into a rigid scheme).

9.3 General investment criteria

The Fund seeks to create a more level playing field for majority black-owned businesses, allowing for increased participation in the broader economy. The Fund would support majority black-owned entities at various stages of their development. Ultimately contributing to broader economic transformation and more equitable development across the country.

9.3.1 Eligibility criteria

- **Location:** The Fund will support all businesses. It will also support and prioritise businesses located in - or within a 5km radius of - a township or rural area. Further, the Fund will support the District Development Model of Government and will target areas earmarked for development.
- **Job creation:** Preference will be given to MSMEs that demonstrate the ability to create new employment opportunities. Supported projects should result in securing or increasing direct employment and must be in the productive sectors.
- **Business size:** All businesses will be supported. The Fund will also support small and medium enterprises.
- **Localisation:** Applicants must demonstrate that a portion, or all, of their inputs will be sourced locally, not imported.
- **Environmental sustainability:** Businesses must employ environmentally responsible and sustainable practices.
- **Financial viability and developmental imperatives:** Applicants must provide clear and achievable plans for profitability and financial sustainability. The Fund will also advance concessionary funding to entry level businesses.
- **Statutory compliance:** Be a registered legal entity in South Africa in terms of the Companies Act 1973 (as amended), the Companies Act 2008 (as amended), the Close Corporations Act 1984 (as amended), the Co-operatives Act 2005 (as amended) or a trust; registered with the South African Revenue Service (SARS).
- **Transformation:** Majority black owned enterprise (at least 51% black-owned - direct ownership) as guided by the B-BBEE Act; black entrepreneurs or owners must be actively involved in operations with their livelihoods tied to the business (no passive ownership).
- **Developmental:** 50% of the Funds will be earmarked for businesses majority-owned (at least 51%) by women, youth and persons with disabilities (designated groups).





10. Governance and accountability

This section outlines the governance framework ensuring that the SPV operates with transparency, integrity and effectiveness. It details the SPV's structure and legal underpinnings, clarifies functional responsibility areas and describes how digital infrastructure supports impact oversight. It also sets out public reporting practices and rules for recognising stakeholder contributions..

10.1 Structure and committees

10.1.1 SPV legal structure

The Fund is constituted as an SPV company, legally incorporated to ring-fence its activities and finances. It operates under South African law and in alignment with public policy mandates for economic transformation. The SPV's formation is enabled by a robust legal framework including the B-BBEE Act and its Codes of Good Practice, which provide the primary basis and objectives for establishing such a fund. Other applicable legislation governs the SPV's operations to ensure it pursues its mandate lawfully and accountably. Importantly, the SPV is structured to be tax-exempt and to maintain a dedicated, ring-fenced bank account for the Fund's resources. This means all capital raised is isolated from other uses and can be redeployed fully toward the SPV's developmental investments, reinforcing that transformation funds are used solely for their intended purpose.

10.1.2 Governance structure

Governance is shared between public and private stakeholders to promote broad accountability and expertise. The SPV is overseen by a board of directors composed jointly of public-sector appointees and private-sector representatives, reflecting a co-governance model. This joint Board is the apex body providing strategic direction and fiduciary oversight, ensuring that government priorities and private sector efficiency principles are both represented in decision-making.

Additionally, an independent oversight layer may supervise the Board's performance, further strengthening public accountability. Crucially, funds and decision processes are insulated from undue influence through formal charters and strict ring-fencing of assets. The governance model is deliberately robust – featuring clear investment charters, transparent reporting and defined oversight mechanisms – to build trust among stakeholders and attract sustained participation.

10.1.3 Functional responsibility areas

While specific committees are not enumerated here, the governance framework defines distinct functional areas of responsibility to cover all critical aspects of the SPV's operations:

- Strategic leadership and oversight: Setting the Fund's vision and strategy, approving major investments and monitoring overall performance. This is primarily the role of the Board, ensuring alignment with the SPV's mandate and compliance with high governance standards.

- Investment management and execution: Responsible for identifying, evaluating and executing investments in target enterprises. This function conducts due diligence, approves funding within delegated limits and manages the portfolio to achieve both financial returns and transformational impact.
- Financial stewardship and risk management: Focused on prudent financial management of the Fund’s capital, including budgeting, treasury and audit functions, and on risk oversight. It ensures funds are managed soundly, with independent audits and internal controls in place to prevent misuse.
- Impact monitoring and compliance: Tasked with tracking the socio-economic outcomes of investments and ensuring compliance with all legal and ethical standards. This area uses defined metrics and evaluation criteria to assess whether the Ffund’s activities are achieving the intended transformation goals, and it ensures regulatory compliance.

These functional areas correspond to internal teams or sub-committees each with a clear mandate. By delineating responsibilities in this way, the SPV’s governance ensures that no aspect of oversight is neglected while avoiding duplication of roles. All committees and management roles operate under an integrated governance framework that emphasises accountability, expertise and checks-and-balances..

10.1.4 Board appointment criteria

The establishment of a competent, diverse and representative board is essential to ensuring robust governance, effective oversight and fidelity to the Fund’s developmental mandate.

The appointment of the board will entail a transparent, inclusive and merit-based process for soliciting nominations and applications from suitably qualified individuals, guided by principles of merit, diversity and sectoral expertise. The process of board appointment will involve a closed call for submissions for independent board members (including the Chairperson), from government and the social partners. Thereafter, an open call for board subcommittees serving in the Audit and Risk, Investment, and Social and Ethics Committees, will be made.

10.2 Digital infrastructure, impact oversight, and monitoring and evaluation

Effective governance is supported by a robust digital infrastructure that enables real-time oversight of both financial performance and developmental impact. The SPV leverages modern data systems to collect, analyse and report key metrics across its portfolio. This digital oversight platform serves as the nervous system of the Fund, continually gathering information from investee companies and internal operations to inform decision-makers and stakeholders.

10.3 Real-time data collection

Investments and beneficiaries are connected to a central platform where data are submitted on a regular basis. Wherever possible, data collection is automated or systematised – for instance, linking to the investees’ accounting systems for financial data and using online tools for capturing social impact data like jobs created



or communities served. This reduces manual reporting burdens and improves the accuracy and timeliness of information..

10.3.1 Impact dashboard and analytics

The incoming data streams feed into an interactive dashboard accessible to the Fund's managers and oversight bodies. This impact dashboard visualises the Fund's progress on key metrics and flags any areas of concern. For example, it can display the cumulative number of black-owned businesses funded, jobs supported, capital deployed versus target, and financial returns achieved to date. Advanced analytics, potentially including AI-driven insights, help the team identify trends and risks – such as which investees are underperforming or which sectors are yielding the greatest impact – enabling proactive management interventions.

10.3.2 Transparency and stakeholder access

Digital infrastructure also facilitates transparency. Selected performance data and impact metrics may be shared with stakeholders, enhancing trust through visibility. A transformation index or similar composite indicator is envisioned for public-facing reporting, aggregating outcomes to illustrate the overall impact of the Fund. This index would track not just fund deployment but tangible results – for instance, the number of sustainable black-owned businesses created or scaled, jobs created within those enterprises, increases in their revenues or profitability, and the geographic spread of impact.

Management and the Board can drill down into the performance data and impact metrics on-demand, and any concerning trend triggers automated alerts. This proactive, data-driven oversight enables the Fund to not only measure its impact but also to respond swiftly – reinforcing accountability at all levels.

10.4 Public reporting and recognition rules

Public transparency and stakeholder recognition are cornerstone principles of the Fund's governance. Public reporting is conducted on a regular schedule to keep all stakeholders, from government overseers to private contributors and the general public, informed about the fund's activities and results. Key practices include:

- **Annual integrated reports:** The SPV publishes a comprehensive annual report detailing the funds under management, investments made and the Fund's overall performance against its objectives. These reports include audited financial statements and an overview of impact metrics, and they are made publicly available.

- **Quarterly updates:** The Board receives quarterly performance reports from SPV management, and an overview of these results is also shared with the Government's oversight authorities and key stakeholders. This quarterly reporting cadence ensures ongoing accountability and allows for regular oversight interventions if needed.
- **Stakeholder meetings:** An annual general meeting (AGM) is convened by the SPV, where the leadership presents the year's results and answers questions from stakeholders. This forum, along with periodic briefings to Parliament through the Minister responsible for the Fund, ensures that the Fund's progress is subject to public scrutiny and aligned with national expectations.

In addition to reporting on performance, the governance framework establishes recognition rules to acknowledge and incentivise contributions by partners that fuel the Fund's mission. The Fund is designed to work in synergy with South Africa's empowerment policies, offering formal recognition for those who channel resources into transformation:

- **B-BBEE scorecard recognition:** Contributions to the Fund by corporations can count toward their B-BBEE obligations, such as ESD targets. Indeed, policy adjustments are being pursued so that companies earn B-BBEE points immediately upon contributing to the Fund. This provides a clear incentive: firms supporting the Fund's mission are rewarded with improved B-BBEE compliance status, formally recognising their role in empowerment.
- **Public acknowledgment:** The Fund also publicly acknowledges major contributors and partners in its reports and events. This is intended to build a culture of recognition and encourages further participation.
- **Beneficiary recognition:** On the other end, successful investees are recognised through published case studies or spotlight features. This not only celebrates their achievements but also demonstrates the Fund's impact in human terms. Such success stories reinforce accountability by showing tangible outcomes of the investments.

Through transparent public reporting and structured recognition rules, the SPV maintains a high level of accountability to all stakeholders. Regular disclosures backed by independent audits ensure that observers can track progress and trust that funds are used effectively. At the same time, aligning contributor recognition with national empowerment incentives creates a virtuous cycle. It encourages more private sector funding into the initiative while publicly honouring those who contribute to South Africa's economic transformation. This blend of accountability and positive reinforcement underpins a governance ethos that is both responsible and collaborative.



11. Risk, safeguards and compliance

11.1 Regulatory and policy alignment

The Fund's design is closely aligned with South Africa's policy and legislative framework to ensure both compliance and strategic relevance. In particular, the Fund directly advances the objectives of the B-BBEE Act by providing financing and support to majority black-owned enterprises, as mandated by Section 2(h) of the Act. In fact, the B-BBEE Act explicitly calls for mechanisms to increase effective economic participation of black-owned MSMEs and for financing schemes to drive broad-based empowerment.

The Fund is also aligned with the MTDP's developmental priorities. The MTDP emphasises inclusive growth, support for small businesses and an ethical, transparent state apparatus as critical to transforming the economy.

The Fund's commitment to transparency and accountability in its operations also reflects the MTDP's call for a "capable, ethical State" wherein developmental programmes are efficient, transparent and reach intended beneficiaries.

Beyond these high-level alignments, the Fund is structured to comply with specific national laws and regulations and mitigate regulatory risks. Key frameworks include:

- **Companies Act 2008:** The Fund's SPV will be incorporated in line with the Companies Act 2008 adhering to its provisions on corporate governance, transparency and financial record-keeping. The Act's

purpose of encouraging high standards of corporate governance is mirrored in the Fund's governance model, which includes independent directors and financial disclosures. This ensures the Fund's legal vehicle has the flexibility of a company while upholding statutory duties that safeguard stakeholders' interests.

- **Competition Act and MSME exemptions:** The Fund is careful to remain within competition law boundaries. Normally, collusion or certain cooperative agreements among market players are prohibited, but the Competition Commission's MSME Block Exemptions (2024) provide leeway for collaboration that benefits small businesses. The Fund's collaborative financing arrangements will utilise these provisions – for instance, pooling corporate and public resources in the Fund is structured to fall under permitted exemptions for MSME development, with required approvals from the Competition Commission. This mitigates the risk that the Fund's activities could be seen as anti-competitive. In addition, the Fund will actively engage with regulators, obtaining clearances when needed, to avoid regulatory misalignment.
- **Public Finance Management Act (PFMA) and public finance governance:** If and to the extent that public funds or government agencies contribute to the Fund, PFMA principles apply. Should this need arise, the Fund's financial management and reporting practices are designed to meet PFMA standards for efficient, effective and transparent use of public resources. This alignment addresses risks of regulatory non-compliance by embedding public-sector financial rigour into the Fund's operations. Additionally, the Fund's governance will include public-sector oversight participation to ensure policy alignment and that no regulations are inadvertently breached.

- **Public procurement and policy fairness:** In procurement of services or disbursement of funds, and to the extent that public funds are utilised, the Fund shall abide by governance principles requiring fairness, transparency, competitiveness and cost-effectiveness. The Fund mitigates the risk of misalignment by voluntarily adhering to these public procurement even if not strictly required in the private SPV context. This proactive alignment with public procurement policy not only ensures compliance but also guards against perceptions of favouritism or irregularity.
- **Other relevant legislation:** The Fund's design was reviewed against other laws such as the Financial Intelligence Centre Act 2001 (FICA) to implement anti-money laundering controls, and any licencing requirements. Compliance with FICA means rigorous customer due diligence on fund beneficiaries and reporting of suspicious transactions, reducing regulatory risk on the financial crimes front. Furthermore, environmental and social regulations will be observed to avoid legal pitfalls in project execution.
- **Regulatory Uncertainty and Mitigation:** Acknowledging that laws and policies can change, the Fund's governance includes legal advisory capacity to monitor and adapt to regulatory shifts. Regulatory uncertainty – for example, future amendments to B-BBEE codes or shifts in government transformation policy – is mitigated through continuous dialogue with policymakers and a flexible fund mandate

In practice, this means the Fund will regularly review its compliance against all relevant legislation and seek exemptions or adjustments proactively if any misalignment emerges. Public-private governance is a key mitigating factor: the Fund's SPV is co-governed by an independent board and an oversight committee with representatives from government and industry. This joint structure ensures neither sector's interests dominate to the detriment of compliance – government voices help ensure public policy alignment, while private sector experts bring agility and adherence to commercial laws.

Overall, the Fund's legal design as an independent company with public-purpose objectives and its governance structure provide checks and balances that greatly reduce regulatory non-compliance risk

11.2 Data protection and cybersecurity

The Fund recognises that handling sensitive data – including beneficiary personal details, funder financial information and strategic operational data – requires the highest standards of protection. The Fund's approach to data security is anchored in compliance with the Protection of Personal Information Act 2013 (POPIA) and alignment with

international cybersecurity best practices. Accordingly, the Fund will implement a comprehensive data protection policy that covers data handling from collection to deletion. This policy will include appointing an information officer responsible for POPIA compliance and data subject rights, maintaining consent records and ensuring that personal data is only used for its intended purpose.

A unique aspect of the Fund's operations is the use of digital infrastructure and telemetry platforms to monitor projects and collect impact data. For example, the Fund may deploy a cloud-based system where beneficiaries report on project progress, or an internet of things (IoT)-enabled telemetry to track usage of assets financed. These technologies improve oversight but also introduce specific cyber risks.

11.3 Anti-capture and vendor-lock-in controls

Given South Africa's institutional history, the Fund is acutely aware of the risks of capture, whether by state actors, powerful corporate interests or intermediaries, and the corrosive effect capture can have on development programmes. This section identifies those risks and details the safeguards built into the Fund's structure to maintain integrity, independence and broad-based benefit. The Fund openly acknowledges that both objective risks and perceived risks of capture exist in the local context, and addresses them through transparency and governance measures to ensure credibility.

11.4 State or political capture

One risk is undue political influence, for instance, the danger that government stakeholders or politically connected individuals might attempt to steer the Fund's investments toward pet projects or to benefit certain cronies. South Africa's recent experience with state capture underscores the need for institutions insulated from political meddling. The Fund mitigates this by establishing the SPV as an independent entity with a balanced governance structure, whose Board shall be composed of individuals selected for their technical expertise and integrity, not political office-holders or corporate lobbyists.

11.5 Corporate or funder capture

Equally important is guarding against capture by large corporate funders or intermediaries. As the Fund pools resources from corporates and possibly DFIs or banks, there is a risk that a major contributor could try to dictate the terms – for example, insisting that funds be used in a way that primarily benefits their supply chain or setting onerous conditions that undermine the Fund's broad mandate.

To counter this, the Fund operates on the principle of arm’s-length funding agreements. Contributions to the Fund are governed by a standard set of terms in the investment charter, preventing any contributor from imposing bespoke conditions that skew the Fund’s objectives. All contributors, whether public or private, must adhere to the Fund’s transparency and impact requirements. The Fund’s public-private governance model again plays a role: with diverse voices on the oversight structures, any attempt by one party to unduly influence direction would be checked by others.

Additionally, contribution caps or weighted decision rules can be used so that no single private funder commands a controlling share of votes or influence over funding decisions. The Fund’s commitment to publishing its investment criteria, project selection results and performance data further deters behind-the-scenes influence – it would be apparent if funds were consistently flowing to projects linked to a particular donor, for instance, inviting scrutiny. This transparency serves as a sunlight disinfectant against corporate capture.

11.6 Intermediary and vendor capture

A significant operational risk is vendor lock-in or capture by service providers that the Fund relies on. Procurement gaming is a known problem in many large programmes – a vendor might secure a long-term contract and then exploit the lack of competition, leading to inflated costs or subpar service, ultimately reducing programme impact. The Fund shall proactively address this through clearly articulated and managed procurement and contracting policies.

11.7 Transparency and independent oversight

The overarching safeguard against any form of capture is extreme transparency and third-party oversight. All fund operations – from governance appointments to project approvals and financial statements – are subjected to disclosure and external review. The Fund will undergo annual independent audits, not only financial audits by reputable firms but also forensic audits at intervals to probe for any irregularities or signs of malfeasance. The results of these audits, and the Fund’s responses, will be shared with stakeholders and, where appropriate, the public.

In addition, the Fund may institute a Technical Advisory Panel composed of independent experts who would periodically review the Fund’s portfolio and processes. This panel would flag any concerns of mission-drift or undue influence in an advisory capacity.

A civil society stakeholder forum could also be established, providing a channel for NGOs, community organisations and the intended beneficiary groups to give feedback on the Fund’s effectiveness and integrity. This forum enhances accountability by creating a public space to raise concerns.

Embracing such independent mechanisms is essential in the South African context, where public trust is earned through visible checks and balances. Indeed, the Fund’s emphasis on transparency, verifiability and independence is what underpins its credibility. When all processes are verifiable, capture becomes difficult to hide and therefore less likely to be attempted.





12. Execution strategy and phasing

The Fund will be implemented through phased, principle-based stages rather than rigid timelines. This ensures sequencing is aligned with institutional capacity and stakeholder readiness, while remaining flexible to adapt based on on-the-ground learning. Each phase builds the Fund's governance structures, digital infrastructure and partnerships in a logical progression, from initial setup to full institutionalisation. Importantly, the execution strategy prioritises coordination with public agencies, private investors, DFIs and sector stakeholders at every step, embedding the Fund within the broader ecosystem of South Africa's development initiatives.

Phase 1: Pre-launch (foundational setup). In this preparatory phase, the Fund's SPV is established and capitalised with initial commitments from aligned contributors. Key governance bodies are formed – for example, an independent oversight board with representatives from government, private sector and civil society – to cement multi-stakeholder accountability. The digital platform and telemetry infrastructure for data and performance tracking are designed and prototyped. This includes setting up the Transformation Index framework,

key metrics and data systems, and basic automation for reporting. Regulatory or legislative enablers such as any required approvals, charters or alignment with B-BBEE codes are also secured in this stage.

Critically, Phase 1 focuses on institutional alignment: engaging public-sector partners to ensure the Fund's mandate complements national programmes, and onboarding initial private/DFI partners through memoranda of understanding (MOU). Early buy-in is sought from development banks, impact investors and industry leaders, who can co-design the Fund's products and pipeline. By the end of pre-launch, the Fund should have a robust governance structure, a minimum viable digital platform, initial capital pool and a clear policy framework in place.

Phase 2: Activation (early adoption). With fundamentals in place, the Fund launches initial programmes to deploy capital and capability support on a small scale. This phase tests the platform model in action: a first cohort of MSMEs or projects receive blended finance combined with technical support. Simultaneously, market access arrangements such as buyer contracts or offtake agreements via buyer councils are facilitated to assure demand for these enterprises' outputs. The Fund's digital platform begins capturing telemetry data from these interventions, feeding into the Transformation Index.

Monitoring during the activation phase is intense: capability adoption rates, default probabilities, sales growth, job creation and other key indicators are tracked in real time. This allows the Fund's management to validate the causal links in the model – for example, whether providing basic enterprise management tools and mentorship is improving firms' loan repayment and product delivery. The governance committees use these insights to refine operating procedures and investment criteria.

Importantly, Phase 2 involves close coordination with partners: public agencies, supported by independent discovery systems, help identify target beneficiaries, DFIs and banks co-fund some pilot deals or share risk, and corporates channel portions of their ESD spend into the platform. Early wins and lessons from this phase are transparently communicated via open dashboards and reports to build credibility. By phase end, the Fund should have demonstrated proof-of-concept transactions and a working monitoring system, paving the way for expansion.

Phase 3: Scale-up (expansion and mainstreaming).

After successful early adoption, the Fund enters an expansion phase, scaling up the volume of investments and the breadth of support services. Capital mobilisation is ramped up significantly: additional tranches of funding are unlocked and larger commitments from private investors, pension funds and multilateral DFIs are secured, leveraging the track record established.

The Fund's digital operating system is fully deployed nationwide, onboarding many more MSMEs onto the platform and extending the capability toolkits, including adding sector-specific modules for agriculture and manufacturing.

This phase also entails institutional mainstreaming: integrating the Fund's activities with government initiatives, including coordinating with the Jobs Fund, sector master plans, or provincial development programmes to avoid duplication. Private-public coordination deepens as well: corporations join as buyers in structured market-access programmes or as co-investors, and banks might adopt the Fund's telemetry data to inform their own MSME credit assessments, thus reducing information asymmetries in the broader market.

Throughout this phase, monitoring and evaluation remains rigorous. The Transformation Index is published regularly, showing aggregated outcomes on cost of capital improvements, revenue growth of beneficiaries, jobs per rand invested, inclusion of youth/women to demonstrate impact at scale. Feedback loops are formalised: if certain sectors or approaches underperform, strategy is adjusted in an agile manner. By the end of Phase 3, the Fund aims to achieve critical mass – a portfolio large enough to materially influence MSME finance trends and demonstrably crowd in private investment, for example, with commercial banks step up lending to Fund-supported firms as their risk profile improves.





Phase 4: Institutionalisation (sustainability and policy embedding).

In the final phase, the Fund transitions from a special initiative into a permanent feature of South Africa’s financial architecture. This may involve formalising its status via legislation or integrating it into a broader institutional home, while retaining the agility of the SPV structure. The governance model is firmly entrenched – for instance, the independent board and committees become long-standing bodies with succession plans, and possibly a statutory mandate is defined for the Fund. The Fund’s practices (investment approach, capability-platform model, telemetry requirements) are codified into standard operating procedure and potentially adopted by mainstream institutions. For example, government departments and state finance agencies might incorporate the Fund’s platform and data systems into their own MSME support workflows or require that public MSME support funnels through the Fund vehicle for efficiency and consistency.

By this stage, the Fund’s digital infrastructure could serve as national common infrastructure for MSME finance and support – a public-good platform underpinning various programmes. Coordination mechanisms with the broader public sector are institutionalised, for example, reporting into DPME to feed into national outcome monitoring, aligning with the MTDP targets, ensuring the Fund contributes to and is accountable for national development goals. Private sector and civil society buy-in is also maintained through

formal channels such as annual public reports or forums on the Fund’s performance. In Phase 4, long-term funding streams are secured: for instance, budget allocations or regulated contributions, such as a portion of B-BBEE enterprise development spend or DFI commitments, are programmatically channelled into the Fund, reducing reliance on ad hoc fundraising. The result is an institutionalised Fund that will endure across administrations, continuously driving inclusive growth. Its telemetry and learning systems become permanent features of the policy landscape, informing evidence-based adjustments to MSME and transformation policy over time.

Throughout all phases, the execution strategy adheres to key principles: adaptive learning, transparency and partnership. A strong monitoring and telemetry framework is embedded from day one, allowing the Fund to steer based on data and to build trust via openness. Regular telemetry reports on the Transformation Index metrics are shared with stakeholders and the public, creating real-time accountability. This data-driven execution ensures the Fund remains outcomes-focused, tracking capability and performance indicators, in addition total money spent (invested).

In summary, the phased approach moves the Fund from concept to sustainability in a methodical way: starting small, proving the model, then scaling up and anchoring it in South Africa’s institutional fabric.

13. Conclusion

South Africa's profound economic inequality and slow growth trajectory demand an ambitious intervention, with the incremental or compliance-driven strategies no longer viable. The Fund has been presented as a national instrument for structural change, directly addressing the root causes of our socio-economic malaise. It confronts the legacy of skewed capital ownership, low black participation in high-value industries and chronic underinvestment in emerging enterprises by deploying a bold but carefully engineered solution. In doing so, it speaks to the heart of South Africa's twin challenges: reigniting growth and ensuring that growth is inclusive and just.

This concept has been deliberately innovative in design yet aligned with global best practices and local realities. The Fund's architecture – an SPV operating as a platform – provides a controlled environment for innovation, protected from typical bureaucratic failures yet linked to public objectives. Its platform-based model links five pillars (capital, capability, markets, telemetry, governance) into a cohesive whole. In pooling and ring-fencing transformation capital under independent oversight, the Fund avoids the fragmentation of past efforts and creates a vehicle with the single mission of economic transformation.

On a specific point of departure, the Fund elevates ATC alongside access to finance and markets, reflecting evidence that businesses often fail not for lack of money, but for lack of skills, systems and market linkages. The inclusion of a robust technical support and enterprise development platform ensures that capital is effectively absorbed and translated into productivity, rather than remaining idle or misallocated. At the same time, an assured demand side, through market partnerships, means supported firms have tangible growth opportunities, not just theoretical potential.

The Fund's design is also rigorously outcome-oriented and data-driven. The telemetry system and Transformation Index together build continuous monitoring, evaluation and learning into the Fund's core operations. Departing from historical issues where funding impact was unclear, the Fund will track real indicators like credit risk improvements, business growth – including revenue, employment, profit and balance sheet growth, and the graduation of firms off support. Such evidence-based governance not only increases the likelihood of success, through timely course-

correction and effective resource allocation, but also strengthens accountability. Stakeholders, from Cabinet to communities, can see transparently what the Fund is achieving. This transparency and independent oversight, including multi-stakeholder representation, mitigate the governance risks that plagued some past development initiatives in South Africa, ensuring the Fund remains credible and insulated from patronage or misuse. In essence, the Transformation Fund marries ambition with responsibility: it is unapologetically bold in seeking structural change, yet it is managed with technocratic diligence and oversight.

In the broader political economy context, the Fund represents a pragmatic grand bargain. It channels the impatience for tangible economic transformation into a structured programme that can deliver results without destabilising the economy. In particular, it offers a constructive path that balances reform with stability. Private sector actors are given a clear role and incentive to participate, through co-investment opportunities, risk-sharing and the promise of new viable enterprises in their supply chains, while the public sector provides strategic guidance and an enabling environment. Labour and civil society, in turn, gain confidence that transformation is being tackled through a system that prioritises broad-based inclusivity and human capital productivity, not just cosmetic changes at the top. The Fund aligns the interests of multiple stakeholders, articulating a non-zero-sum objective space and showing through design and execution that, what is good for inclusive development is also good for business and social stability.

Finally, the Fund is in full alignment with South Africa's national development vision and international development principles. Its objectives directly support the MTDP 2024–2029 priorities of building an inclusive, job-rich economy, and as a result, it represents an important tool in advancing the NDP's Vision 2030 goals of drastically reducing poverty and inequality. The Fund can be a key delivery mechanism for the 7th Administration's economic agenda, translating high-level commitments into on-the-ground action.

In conclusion, the Fund is more than a new government programme; it is a strategic solution engineered to tackle the structural barriers that have long constrained South Africa's economy. It embodies a new ethos of execution, partnership and evidence-based policy, offering a credible path to create a microeconomic foundation for macroeconomic growth. If implemented with the commitment and coordination described, the Fund promises not only to accelerate inclusive growth and enterprise development in the short term, but to fundamentally reshape the economic landscape over the long term – catalysing a more equitable and prosperous society for generations to come.

References

1. Atoliya, H. 2025, 'Government e-Marketplace: Opportunities for MSMEs in India', Global Risk Community, 7 Feb.
2. Banerjee, A. & Duflo, E. 2019, *Good Economics for Hard Times*, Allen Lane, London.
3. Banerjee, A., Duflo, E., Glennerster, R. & Kinnan, C. 2022, 'From Micro to Macro Development', MIT Department of Economics Working Paper, Massachusetts Institute of Technology, Cambridge, MA.
4. Bernstein, A. 2025a, 'Transformation Fund will backfire and throttle growth', Politicsweb, 2 Jun.
5. Bernstein, A. 2025b, 'Transformation Fund means backdoor corporate tax', Politicsweb, 4 Jun.
6. Bhorat, H., Kanbur, R. & Stanwix, B. 2024, 'Low informality amidst high unemployment: The case of South Africa', paper presented at The World at a Turning Point: Cornell Conference on Development Economics and Law, Cornell University, Ithaca, NY, 3–5 Oct.
7. Broad-Based Black Economic Empowerment Commission 2022, *Determining the effective implementation of Enterprise and Supplier Development (ESD) funds: Final report*, Department of Trade, Industry and Competition, Pretoria (Aug).
8. Centre for Development and Enterprise (CDE) 2025, *CDE Submission: Transformation Fund – Right Goal, Wrong Approach*, CDE, Johannesburg (Jun).
9. Chance, T. 2025a, 'Rethink needed over R100bn Transformation Fund', BusinessLIVE (Opinion), 22 Jan.
10. Chance, T. 2025b, 'R100 billion "Transformation Fund" concept document recycles failed programmes in new language', Democratic Alliance Newsroom, 28 Mar.
11. China Daily (Blair, D.) 2020, 'Nation's e-commerce villages herald rural transformation', China Daily (Global Edition), 21 Sep.
12. Cliffe Dekker Hofmeyr 2019, 'Tribunal fines Computicket for exclusive contracts: Where does that leave me?', Competition Alert, 12 Feb.
13. Cohen, T. 2025, 'After the Bell: Parks Tau's terrible Transformation Fund idea makes a comeback', Daily Maverick, 23 Mar.
14. Competition Commission South Africa 2023, *Online Intermediation Platforms Market Inquiry: Final report*, Competition Commission, Pretoria.
15. Competition Commission South Africa 2025, *Fresh Produce Market Inquiry: Final report*, Competition Commission, Pretoria.
16. Department of Trade, Industry and Competition (**the dtic**) 2025, *Transformation Fund Concept Document (Draft & Revised)*, **the dtic**, Pretoria.
17. Finfind (in partnership with African Bank) 2025, *SA MSME Access to Finance Report 2025*, Finfind, Johannesburg.
18. FinMark Trust 2024, 'FinScope MSME South Africa 2024: Key findings highlight urgent need for informal sector support', FinMark Trust Knowledge Hub, 16 Sep.
19. Harvard University – Center for International Development (Hausmann, R. et al.) 2023, *Growth through Inclusion in South Africa (CID Working Paper 434)*, CID, Cambridge, MA (Nov).
20. International Monetary Fund (IMF) 2007, 'Globalization and Inequality', in *World Economic Outlook: Globalization and Inequality*, IMF, Washington, DC.
21. Intellidex 2023, *Sanlam Transformation Gauge: Report 2023*, Arena Holdings & Intellidex, Johannesburg.
22. Institute of Race Relations (IRR) (Gon, S.) 2025, 'Parks Tau's perverse R100bn Transformation Fund – BEE Chamber', 22 Jan.
23. Institute of Race Relations (IRR) (Jeffery, A.) 2025, 'Proposed R100bn Transformation Fund unconstitutional', IRR Comment, 21 Jan.
24. Kenney, M. & Zysman, J. 2016, 'The Rise of the Platform Economy', *Issues in Science and Technology*, 32(3), Spring.

25. Kululeka.org 2025, Transformation Levy Whitepaper: Submission to the Department of Trade, Industry & Competition, Kululeka.org.
26. Labuschagne, H. 2025, 'André de Ruyter's message to Cyril Ramaphosa', MyBroadband, 14 Sep.
27. Lesejane, K. & Nkosi, S. 2023, Interlinkages between South African households' financial position and the domestic financial system, South African Reserve Bank, Pretoria (Jul).
28. Mabasa, N.J. 2025, 'Transformation Fund draft document lacks clear, outcome-driven goals, BLSA says', Mail & Guardian (Business), 17 Jun.
29. Mavuso, B. 2025, 'OP-ED – The intention of the Transformation Fund is commendable', Business Leadership South Africa (BLSA) Thought Leadership, 1 Apr.
30. Mokwebo, S. 2025, 'The proposed Transformation Fund aims to work with and for black women', Mail & Guardian – Thought Leader, 19 Apr.
31. Moonstone Information Refinery 2025, "No big stick": Tau calls for collaboration on Transformation Fund', 2 May.
32. Myres, K., Cabot-Alletzhauer, A., Khosa, A. & Mamabolo, A. 2024, Enhancing Enterprise and Supplier Development Ecosystem Effectiveness in South Africa (White paper), Gordon Institute of Business Science, Johannesburg.
33. North, D.C. 1993, Institutions, Institutional Change and Economic Performance, Cambridge University Press, Cambridge.
34. Nura Global 2024, 'The 2-million smallholder farmers market of South Africa is showing its promise', Nura Global Blog, 12 Feb.
35. OECD 2025, OECD Economic Surveys: South Africa 2025, OECD Publishing, Paris.
36. Palit, A. 2013, 'Indian Economy: Amartya Sen and Jagdish Bhagwati', Observer Research Foundation (Brief), New Delhi.
37. Patnaik, I. 2021, Inequality, Inclusiveness and Inclusive Growth: Measurement, Trends and Policy (Working Paper 015/2021), National Institute of Public Finance and Policy, New Delhi.
38. Republic of South Africa 1998, Competition Act 89 of 1998 (as amended), consolidated legislation, SAFLII.
39. Reuters Institute for the Study of Journalism 2025, Digital News Report 2025, University of Oxford, Oxford (17 Jun).
40. Sen, A. 1999, Development as Freedom, Oxford University Press, Oxford.
41. Statistics South Africa 2025, Quarterly Labour Force Survey (QLFS) 2025: Quarter 1 (P0211), Statistics South Africa, Pretoria (26 Aug).
42. Stiglitz, J.E. 2018, 'Inequality and Economic Growth', Columbia University (essay/lecture resource).
43. Summit Africa n.d., 'Custom Capital Finance: Financing that is a game-changer for SMMEs', product page.
44. UNCTAD 2023, Entrepreneurship Strategy Review: South Africa, United Nations Conference on Trade and Development, Geneva.
45. UNIDO 2008, The Italian SME Experience and Possible Lessons for Emerging Countries, United Nations Industrial Development Organization, Vienna.
46. Vutivi Business 2023, 'SMMEs challenge government on Transformation Fund', 12 Sep.
47. World Bank 2022, Driving Inclusive Growth in South Africa: Quick Wins with Competitive Markets and Efficient Institutions, World Bank, Washington, DC (30 Mar).

List of abbreviations

AfCFTA - African Continental Free Trade Area	IoT - Internet of Things
AIOps – Artificial Intelligence Operations	IRR – Internal Rate of Return
API – Application Programming Interface	ISO - International Organization for Standardization
APQP – Advanced Product Quality Planning	JFPM - Johannesburg Fresh Produce Market
ATC - Access to Capability	KPI – Key Performance Indicator
BBC - Black Business Council	MEL - Monitoring, Evaluation and Learning
B-BBEE - Broad-Based Black Economic Empowerment	MOU – Memorandum of Understanding
BEE - Black Economic Empowerment	MSME - Micro, Small and Medium Enterprise
BLSA - Business Leadership South Africa	MTDP - Medium Term Development Plan
BPO - Business Process Outsourcing	MW – Megawatt
BUSA - Business Unity South Africa	NDP – National Development Plan
CCI - Cultural & Creative Industries	NEDLAC - National Economic Development and Labour Council
CCS – Cash Conversion Cycle	NEET – Not in Employment, Education or Training
CFO – Chief Financial Officer	NGO – Non-Governmental Organization
CIDB - Construction Industry Development Board	NPAT - Net Profit After Tax
CIT - Corporate Income Tax	OEM - Original Equipment Manufacturer
CLF – Central Liquidity Facility	OIPMI – Online Intermediation Platforms Market Inquiry
CRM - Customer Relationship Management	OTIF - On-Time, In-Full
CTFL - Clothing, Textiles, Footwear & Leather	PAYE - Pay-As-You-Earn
DFI - Development Finance Institution	PD - Probability of Default
DIO – Days Inventory Outstanding	PFMA - Public Finance Management Act
DPME - Department of Planning, Monitoring & Evaluation	POPIA - Protection of Personal Information Act
DPO – Days Payable Outstanding	POS – Point of Sale
DSO – Days Sales Outstanding	PPAP – Product Part Approval Process
dtic - Department of Trade, Industry and Competition	QA - Quality Assurance
EBITDA – Earnings Before Interest, Taxation, Depreciation and Amortisation	QLFS - Quarterly Labour Force Survey
EEIP - Equity Equivalent Investment Programme	QSR - Quick-Service Restaurant
e-POD – Electronic Proof of Delivery	ROI – Return on Investment
ERP - Enterprise Resource Planning	SABS - South African Bureau of Standards
ESD - Enterprise & Supplier Development	SADC - Southern African Development Community
FPMI – Fresh Produce Market Inquiry	SANAS - South African National Accreditation System
FX – Foreign Exchange	SARS - South African Revenue Service
GBS - Global Business Services	SaaS - Software-as-a-Service
GDP - Gross Domestic Product	SED - Socio-Economic Development
GFCF - Gross Fixed Capital Formation	SEIAS - Socio-Economic Impact Assessment System
GIS - Geographic Information System	SLA – Service Level Agreement
GNI - Gross National Income	SPV - Special Purpose Vehicle
GVA - Gross Value Added	SPS - Sanitary and Phytosanitary
HACCP - Hazard Analysis and Critical Control Points	TFP - Total Factor Productivity
HDI - Human Development Index	UNCTAD – United Nations Conference on Trade and Development
HDP – Historically Disadvantaged Person	VAT - Value-Added Tax
HSE - Health, Safety & Environment	VC – Venture Capital
HR - Human Resources	WMS – Warehouse Management System
IaaS/PaaS - Infrastructure/Platform as a Service	
ICT - Information and Communications Technology	
IES - Income and Expenditure Survey	

Glossary

AfCFTA	African Continental Free Trade Area
AGM	annual general meeting
AI	artificial intelligence
ATC	access to capability
B BBEE	broad-based black economic empowerment
DFI	development finance institutions
the dtic	Department of Trade, Industry and Competition
DPME	Department of Planning, Monitoring and Evaluation
DSBD	Department of Small Business Development
ECD	early childhood development
EEIP	Equity Equivalent Investment Programme
ERP	enterprise resource planning
ESD	enterprise and supplier development
FICA	Financial Intelligence Centre Act
GBS	global business services
GDP	gross domestic product
HDP	historically disadvantaged producers
IoT	internet of things
M&A	mergers and acquisitions
MOU	memorandum of understanding
MSME	micro, small and medium enterprises
MTDP	Medium-Term Development Plan 2024–2029
NDP	National Development Plan
NEET	not in employment, education or training
OEM	original equipment manufacturer
OTIF	on-time-in-full
PFMA	Public Finance Management Act
POPIA	Protection of Personal Information Act
PV	photovoltaic
QA	quality assurance
SADC	Southern African Development Community
SARS	South African Revenue Service
SED	socio-economic development
SME	small and medium enterprises
SOE	state-owned enterprise
SPS	sanitary and phytosanitary
SPV	special purpose vehicle
the Fund	Transformation Fund



TRANSFORMATION FUND