

Draft Transformation Fund Concept Document March 2025



the dtic

Department:
Trade, Industry and Competition
REPUBLIC OF SOUTH AFRICA

the dtic - together, growing the economy

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Glossary of Terms

B-BBEE	Broad-Based Black Economic Empowerment
Black People	African, Coloured and Indian people as per B-BBEE Act
Codes	Codes of Good Practice on B-BBEE
DFIs	Development Finance Institutions
EEIP	Equity Equivalent Investment Programme
ESD	Enterprise and Supplier Development
Fund	Transformation Fund
GNU	Government of National Unity
IDC	Industrial Development Corporation
MSME	Micro, Small and Medium Enterprises
NEF	National Empowerment Fund
PFMA	Public Finance Management Act
SEDFA	Small Enterprise Development and Finance Agency
SPV	Special Purpose Vehicle
SMME	Small, Medium and Micro Enterprises
the dtic	The Department of Trade, Industry and Competition

1. Executive Summary

Government in partnership with the private sector seeks to establish a R100 billion aggregated Fund to support the ever-growing funding requirements for businesses owned and managed by black entrepreneurs to propel inclusive growth across various sectors of South Africa's economy. The Transformation Fund is anticipated to be capitalised at R20 billion per annum over a five-year period.

The basis for the fund is embedded in Section 7 (2) of the Constitution which mandates that the state must respect, protect, promote, and fulfill the rights in the Bill of Rights. In addition, Section 9(2) of the Constitution of the Republic of South Africa 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) (B-BBEE Act 53 of 2003, as amended by Act 46 of 2013), which gives expression to the Constitutional imperative, a plan must be developed for the financing of B-BBEE, including the creation of incentive schemes to support effective majority black-owned and managed enterprises.

The growth and sustainability of SMMEs remain vital for the South African economy. Supporting and financing majority black-owned businesses, not only fosters job-creation and economic expansion but also aligns with government policies aimed at reducing unemployment. This approach plays a crucial role in addressing historical inequalities and promoting inclusive economic transformation.

South Africa's black entrepreneurs continue to face unprecedented challenges in accessing affordable finance, non-financial support and post-investment assistance from the market. The Transformation Fund seeks to be an instrument that will contribute towards economic growth, acceleration of equal economic participation by the historically disadvantaged as well as maintain and create jobs that will alleviate the adverse levels of poverty in South Africa.

The Fund will be administered through Special Purpose Vehicle (SPV). A board of directors constituted by government and private sector will oversee the implementation of the Fund.

2. Introduction and Background

2.1 Introduction

The slow pace of transformation of the South African economy to bring about meaningful participation of black people continues to be a key challenge where ownership and control of most enterprises rest in the hands of the minority, despite various reforms of the B-BBEE Act and its Codes of Good Practice.

The majority of black people are still excluded from the economic mainstream. As a result, government has a responsibility to assist black enterprises to increase their economic participation and income-earning potential. The increased economic participation of black people will in turn lead to increased contribution towards economic growth and a substantively equal society.

The 2024 Statement of Intent of the Government of National Unity (GNU) accentuates the South African Government's aim to build a democratic state guided by a progressive Constitution and a system of institutions that translate the values of the Constitution into practice with a focus on the achievement of social justice, redress and equity, as well as the alleviation of poverty. Thus, transformation has been highlighted as one of the key programmes of the GNU.

The 7th Administration has committed, as one of its core principles, to focus on a 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 Transformation Fund is an initiative of **the dtic** aimed at addressing access to funding for majority black-owned enterprises and SMMEs.

2.2 Objectives of the Transformation Fund

As part of the implementation of the programmes of the 7th Administration, **the dtic** has decided to refocus on the implementation and empowerment objectives of B-BBEE through the establishment of a **Transformation Fund**. The objectives of the Fund are to:

- Promote economic transformation in order to enable meaningful participation of black people in the economy;

- Improve access to funding for majority black-owned and controlled enterprises;
- Empower and support majority black-owned and controlled enterprises participation in value chains across key sectors of the economy; and
- Mobilise financial resources from the private and public sector using B-BBEE legislation.

2.3 Problem Statement

The imperative is to transform the economy through increased participation of the previously disadvantaged groups in the mainstream economy (across all sectors and industrial and service value chains) remains relevant for economic redistribution and the changing of patterns of ownership of means of production. The evolution of B-BBEE through its codification, where B-BBEE contribution has been disaggregated to elements such as 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 was achieved for ESD in 2021, which is a continuing trend over the past five years (2017: 44%; 2018: 60%; 2019: 51%; 2020: 61%). The issue at hand on ESD and its utilisation transcends the compliance imperative as imposed legislatively by all economic actors, it is about unleashing its potency in driving economic inclusion and participation. As matters stand, it is imperative to acknowledge that the funds raised through ESD contributions do not have a positive impact on marginalised groups as envisaged within the B-BBEE legislation, more especially the SMME sector which is under-serviced and under-funded.

2.4 Rationale for the Transformation Fund

The fund is rooted in Section 9(2) of the Constitution of the Republic of South Africa, 1996 which firstly, in the Constitution's recognition of the injustices of the past against persons disadvantaged by unfair discrimination and in the 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. The fund seeks to fulfill this constitutional objective by empowering majority black-owned enterprises and SMMEs.

Secondly, in giving expression to these Constitution provisions, Section 2(h) of the B-BBEE Act obligates the government to “increase the effective economic participation of majority black-owned and managed enterprises, including small, medium, and micro enterprises (SMMEs), and enhance their access to financial and non-financial support.” The fund is a direct mechanism to advance this legislative mandate.

The obligation of the B-BBEE Act for the development of financing mechanism to increase effective participation Black people in the economy, is furthermore emphasized in Section 11(2)(b) of the B-BBEE Act, which states that a comprehensive plan must be developed to finance B-BBEE initiatives. This includes the establishment of incentive schemes designed to support effective majority black-owned and managed enterprises, with the goal of addressing historical economic imbalances being:

- Ownership and control of most enterprises mostly in the hands of the minority;
- Majority of Black people are still excluded from the mainstream economy;
- The SMME sector is still largely under-serviced and under-funded; and
- The ESD contributions do not seem to have the anticipated impact on marginalised groups.

In light of these challenges, there is a strong rationale for the creation of an aggregated fund, such as a Transformation Fund, to address these issues in a more coordinated and impactful manner. The Fund would aggregate resources from various stakeholders, including government, corporates and other entities committed to transformation. It would be dedicated to supporting majority black-owned businesses, facilitating their growth and driving broad-based economic empowerment. This fund aims to provide critical financing, mentorship and business development support, focusing on sectors and enterprises most in need of transformation. Additionally, it would promote greater compliance with B-BBEE requirements and create a more sustainable and inclusive economic ecosystem, ultimately contributing to the redress of past inequalities.

2.5 Pillars of the Transformation Fund

a) Technical Support and Access to Markets

In most instances, the failure of SMMEs may not be so much about shortage of funding but lack of access to markets and lack of capacity to deliver quality goods and satisfactory services to the market. Access to markets and technical support will be prioritised and adequately funded above all pillars of the Fund. This is to ensure that there is sustainability through an all-round intervention.

b) Accessibility

Majority Black-owned entities particularly those outside of the supply chain of generic enterprises have difficulty accessing opportunities. A centralized fund, administered by government, will ensure a more even spread of, and thus greater access to such funding opportunities. This is especially significant in the context of township and rural economies as means of production and economic activities in South Africa are heavily skewed towards urban areas. All majority black-owned entities at various stages of operation shall qualify, including but not limited to new projects (Greenfields and Brownfields), venture capital projects and distressed clients.

c) Financial and Non-Financial Support Instruments

The Fund will be disbursed through debt, grant and equity funding to majority black-owned entities. It will be a combination of wholesale and direct lending funding instruments. Financial support is equally important as non-financial support. The Fund will facilitate pre-and post- investment support, including, among others, business planning, feasibility and environmental impact studies. The Fund will also assist the beneficiaries with the acquisition of necessary accreditations in specialised industries like ICT and engineering. Furthermore, non- financial support will be advanced through initiatives like business training, export readiness and financial management training.

d) Focus on Townships and Rural Areas

A portion of the Fund to be set aside exclusively for entities based in township and rural areas, the businesses must be located in those areas and mainly employ people from those areas.

e) Focus on Productive Sectors

The funds will be applied to productive sectors of the economy and priority sectors which, among others, include township business support, supporting businesses in rural areas, services industry, tourism, agriculture, and many others.

3. Transformation Fund Value Proposition

The Transformation Fund is a strategic initiative backed by the South African government, and relevant economic and social partners. Its primary goal is to drive Black Economic Empowerment by facilitating greater participation of black people into the mainstream economy.

The Fund brings a unique value proposition to the market by focusing on inclusive economic growth, especially through the empowerment of black entrepreneurs and the support of businesses that promote social and economic change.

The key elements of this value proposition include:

Unity and Collective Action towards Transformation

The Transformation Fund seeks to foster collaboration across both the public and private sectors, encouraging collective efforts to address systemic challenges. By bringing together diverse stakeholders, the importance of shared responsibility and collective action in driving meaningful societal transformation is emphasised.

Alignment with National Transformation Goals

The Transformation Fund is directly aligned with South Africa's B-BBEE policies and economic transformation goals. By targeting funding and support to majority black-owned enterprises, it actively supports the reduction of economic inequalities and promotes a more inclusive economy.

The alignment with the state's transformation agenda ensures the Fund is a central player in national efforts to achieve inclusive economic growth.

The Fund's financing options are adaptable, recognising the diverse stages of growth and development within the black business community. Whether it is an early-stage venture needing seed funding or a more established majority black-owned business seeking to scale up, the Transformation Fund provides flexible support designed to meet the evolving needs of these enterprises.

Streamlining and Coordinating Empowerment Efforts

The Transformation Fund aggregates various empowerment initiatives under a unified framework, enhancing efficiency and reducing fragmentation. This centralised approach fosters coherence across government and private sector programmes, ensuring that resources are deployed effectively to maximise impact and accelerate B-BBEE compliance.

Fostering Sectoral Diversification and Innovation

The Transformation Fund targets strategic sectors such as renewable energy, manufacturing, agriculture, technology and green industries. By promoting diversification, it enhances economic resilience, fosters innovation and supports South Africa's transition to a low-carbon, knowledge-based economy.

Strengthening Governance, Transparency, and Accountability

A robust governance structure underpins the Fund's operations, emphasising transparency and accountability. Comprehensive monitoring, evaluation and reporting mechanisms provide stakeholders with clear insights into financial performance, job-creation and transformation outcomes, building trust and credibility.

Key Differentiators from Other Existing Funds

Below is the detailed characteristic differentiator between the existing ESD Funds and the proposed Transformation Fund:

ESD /Third Party Funds	Transformation Fund
Exclusive loan funding as informed by the existing funds	Funds to be set aside for grant and concessionary funds for risky rural and township businesses
To sector specific funds allocated	Key sectors and impact funds to be made available
Limited resources informed by various funding thresholds	To have no funding limit especially for impact creating transactions
To funds and unit dedicated towards research for market intelligence and foresight	To set aside funds for overall research
To adequate funds allocated for project preparation and early-stage investment due to limited resources	Funds to be allocated for project preparation and early-stage investment
Utilise intermediaries through fund raising, however on a small scale	To use intermediaries to augment fund raising capacity
Limited relations with provincial government agencies in terms of the funding implementation	Work closely with provincial and local government agencies in the implementation of the Transformation Fund

4. Resource Mobilisation and Capitalisation

4.1 Introduction

The Transformation Fund capitalisation and resource mobilisation strategy involves sourcing contributions from a variety of sources to achieve sustainable and inclusive economic growth. The proposal is that sector funding from government departments be allocated to the Fund as seed capital that will enhance and attract additional funding contributions from other sources, particularly the private sector.

Donor agencies, including international organisations and development banks, private sector investment, philanthropic contributions from foundations and other strategic third-party contributors particularly for initiatives with social or environmental impact goals.

By diversifying funding sources, the Transformation Fund can leverage these varied resources to create a comprehensive and adaptable financing model that meets the evolving needs of the country's economic growth and transformation agenda.

Strategic available resources from the following key sources will be prioritised:

Government contributions

The Fund will mobilise resources and funding from government departments, organs of state and public entities in order to leverage on funds and non-financial support which are available in various departments, nationally, provincially and local level. The resources from those initiatives will be leveraged together with funds from the private sector in order to increase the impact in various sectors targeted by various departments like Tourism, Rural Development, Agriculture and Provincial Economic Development Departments.

a) Equity Equivalent Investment Programme (EEIP)

There are multinational businesses that have challenges complying with the ownership element of the B-BBEE Codes, and the Codes make provision for those entities to set aside funds (25% of the value of their South African operations) which will be used for transformation purposes.

Funds from EEIP will be channelled to the Transformation Fund to ensure that they are used for greater transformational impact and for a broader reach than is the case if the multinationals attempted to implement transformation initiatives themselves. This will provide the country with an opportunity to utilise such resources in areas that contribute towards overcoming unemployment, inequality and poverty. This will also ensure that all funds are utilised and the challenge that many entities are citing that they are unable to find transactions, will be overcome.

b) Enterprise and Supplier Development (ESD) Funds

Government will review the ESD Codes to ensure that funds for ESD are paid by entities towards the Transformation Fund. It is proposed that an amendment be made to the B-BBEE Codes in order to make it easier for entities to make contributions to the Fund and in turn, earn B-BBEE points immediately upon contribution to the Fund. The Fund will partner with measured entities and industries to implement enterprise and supplier development initiatives.

The ESD funds will be utilised for transformation purposes and will not be repayable to contributing entities. The administration of the Fund will be required to ensure that those funds are deployed towards supporting majority black-owned enterprises, SMMEs, township and rural businesses. All ESD funds must be used in a transformative manner and on development terms and should be accessible particularly to SMMEs. The Fund will issue an annual report accounting on the funds under management, investments made and the performance of the Fund.

4.2 Fund Mobilisation Strategy

The Transformation Fund's resource mobilisation strategy will focus on promoting inclusive economic transformation, job-creation, and empowerment across various sectors of the economy. Key to this approach is the identification of potential donors and funders whose objectives align with the Transformation Fund for sustainable and inclusive economic development and social impact. These include government agencies, international development partners and corporate sponsors committed to funding job-creation and impactful economic transformation programmes.

The Fund will seek out strategic partnerships on high-impact projects that foster inclusive growth and empower local communities. Additionally, the Fund will be proactive in submitting unsolicited sector bids, presenting tailored proposals to stakeholders that address sector-specific needs and opportunities for transformative impact.

To enhance visibility and engage with a broader audience of potential partners and investors, the Fund will participate in sector expos and marketing events, where it showcases the outcomes and potential of its transformation initiatives, fostering collaboration and support for sustainable job-creation and long-term economic empowerment. Through these diversified approaches, the Transformation Fund will secure the necessary resources and build partnerships that drive real and lasting change.

5. Investment Approach

The Transformation Fund will provide market appropriate products and services, including start-up grants, listed shares for broad-based equity structure, debt and equity instruments. The summary of the investment approach of the Fund is as indicated below:

a) Accessibility

Majority black-owned entities, particularly those outside the traditional supply chain of generic enterprises, face significant challenges in accessing opportunities for growth and development. These challenges are compounded by structural imbalances that limit their access to funding, particularly in township and rural economies where means of production and economic activities remain heavily concentrated in urban areas. To address this disparity, the establishment of a centralised fund, administered with a focus on equity and inclusivity, would ensure a more even distribution of resources and greater access to funding opportunities for these entities.

The Transformation Fund is important as it 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, including but not limited to new projects (both Greenfields and Brownfields), venture capital projects and distressed clients in need of revitalisation and support. By addressing the financial gaps faced by these businesses, the Fund would contribute to broader economic transformation and more equitable development across the country.

b) Designated Groups

In addressing South Africa's pervasive inequality, particular attention will be given to businesses owned by women, youth and people living with disabilities. These groups have historically faced significant barriers to economic participation, and the challenges of unequal access to resources and opportunities remain deeply entrenched in South African society.

To promote greater equity and support the transformation of the economy, the distribution rules of the Fund will mandate that a prescribed amount of available resources be allocated to entities owned by majority black designated groups. This focus on designated groups, especially black women, is critical in redressing gender disparities and ensuring that women have equal access to the same economic opportunities that have long been dominated by other groups.

In addition to benefiting women, this approach also seeks to address the broader challenges faced by the youth and people living with disabilities, ensuring a more inclusive and representative economic landscape. This targeted focus aims to contribute directly to dismantling the structural barriers that perpetuate inequality and to foster a more diverse, dynamic and sustainable economy.

c) Focus on Productive Sectors and Services

A portion of the Fund distribution will be exclusively for entities who operate within the definition of 'Black Industrialists' as per the definition of the Black Industrialist Policy.

Below are the productive sectors of the South African economy based on their contribution to GDP and employment creation:

- Agriculture and Agro-processing
- Mining and Minerals beneficiation
- Manufacturing opportunities
- Services opportunities
- Infrastructure opportunities.

d) Focus on Township and Rural Areas

South Africa's historical legacy of apartheid has left a significant economic divide between urban and rural areas, with townships and rural communities still facing high levels of unemployment, poverty and limited access to resources. Despite this, these areas possess untapped economic potential that can be harnessed with targeted investment. By investing in businesses located in these areas, funds can stimulate job-creation and provide much-needed infrastructure, which will enhance local economies and reduce the dependency on urban-centric growth.

Rural and township economies are often driven by informal sector activity, which contributes significantly to the livelihoods of many households. However, this sector faces numerous challenges, including limited access to finance, skills development, and formal market channels. A dedicated development fund will help bridge these gaps by offering targeted support to local entrepreneurs and businesses. Empowering small businesses in these areas not only generates jobs but also helps diversify local economies, making them more resilient to economic shocks.

A portion of the Fund will be set aside exclusively for entities based in township and rural areas. The businesses must be located in those areas and mainly employ people from those areas.

The following township economic development opportunities have been identified:

Retail and Convenience Shops: With around 150,000 spaza shops contributing significantly to the economy, there's a growing trend of big retailers opening smaller-format stores in townships. These shops cater to immediate consumption needs and are increasingly competitive.

Informal Services: The informal sector includes a variety of businesses such as fast-food outlets, bakeries, shebeens, hawkers, minibus taxi operators, mechanics and hair salons. These businesses meet essential social and economic needs within the community.

Digital and Financial Services: Despite high mobile penetration, there's a lack of financial infrastructure in townships. This gap presents opportunities for fintech solutions and digital payment systems to enhance safety and convenience.

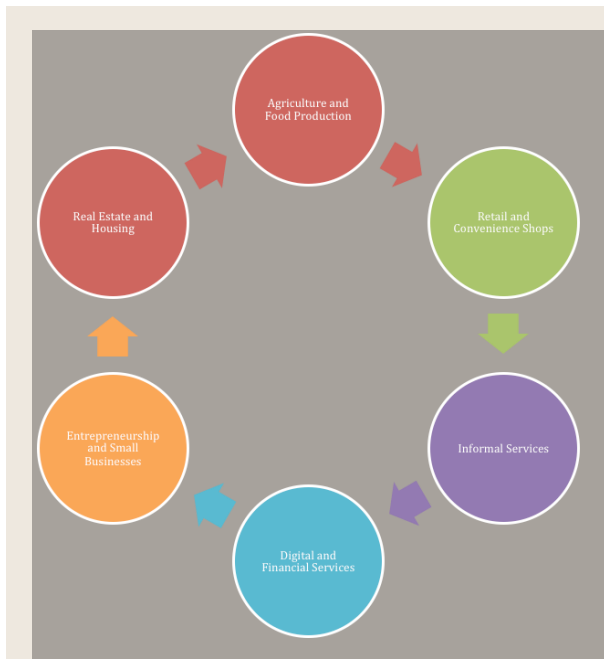
Entrepreneurship and Small Businesses: Supporting local entrepreneurs can unlock economic potential, create jobs and empower communities. Initiatives that provide training, funding and market access can significantly boost the township economy.

Real Estate and Housing: Backroom rentals, student accommodation (including commercial properties) and affordable housing projects can address the high demand for accommodation in townships. This sector also offers investment opportunities for developers.

Agriculture and Food Production: Urban farming and local food production can improve food security and create employment. Initiatives that support small-scale farmers and food producers can thrive in township settings.

Township economic development opportunities

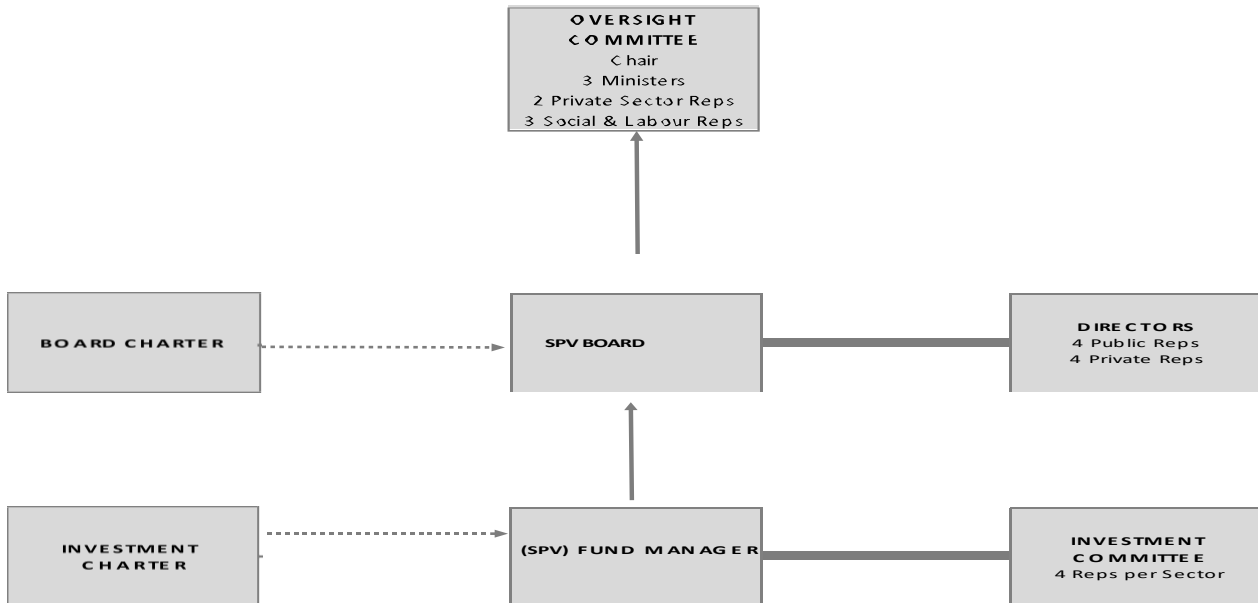
Strategies that may be implemented include: -



- ESD initiatives to train, upskill and formalise the businesses of informal traders through collaboration with the relevant government agencies;
- Improving profit margins and sustainability of informal traders which may be realised through the purchasing power of more established retailers that the Fund may support;
- Developing small-scale farmers operating in the secondary economy that supply fresh produce which would potentially minimise value chain disruptions;
- Localisation of the ownership of land, retail and production
- Digitisation opportunities as an enabler of economic activities in townships

6. Governance Framework

Below is a proposed governance structure of the Transformation Fund:



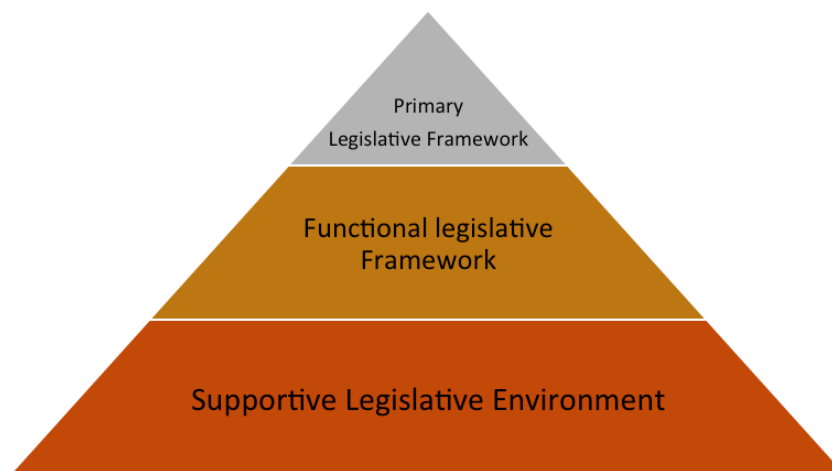
The Transformation Fund will be administered through an SPV.

- A Board of Directors, appointed by the Minister, (“Board”) constituted of 8 members will oversee the activities of the SPV
- The Minister will appoint an Oversight Committee that will oversee the Board. The Oversight Committee will be made up of a Chairperson, three ministers and five members from the business and social groups
- The funds will be held in a ring-fenced Bank Account of the SPV
- The SPV will be a tax-exempt entity therefore its funds can be redeployed to the market in full.
- Two representatives from the private sector and the public sector will form part of the investment committees when they consider the Transformation Fund transactions and will have voting rights
- An Investment Charter will be adopted to regulate all the activities of the Fund
- The Board will oversee and provide strategy
- A Board Charter will be adopted to govern the activities of the Board in relation to the - The Board will meet on a quarterly basis and/or as and when necessary
- The SPV will submit quarterly reports to the Board about its investment activities for the preceding quarter

- The Board will report to the Oversight Committee on a quarterly basis or as and when required
- An annual general meeting will be convened by the SPV for purposes of reporting on its activities to all the stakeholders

7. Legislative and regulatory environment

The regulations that impact the formation of an aggregated Fund for transformation can be divided into three main sections – namely a primary legislative base, a functional legislative framework and a supporting legislative environment. Altogether encompassing a regulatory universe that is to be observed concurrently for the thorough execution of this Fund.



The SPV reports to Parliament through the Minister of Trade, Industry and Competition. The work of the SPV is governed by a broad legislative framework that has been outlined below.

	Act	Purpose of the Act
Primary Legislation		
1.	The BBBEE Codes of Good Practice ['The Codes']	<p>The objectives of the Codes are to specify the interpretative principles of Broad-Based Black Economic Empowerment and to specify the basis for determining compliance by Entities with the Codes.</p> <p>Compliance with the Codes forms the primary basis in establishing the Fund.</p>

Functional Legislation

2.	National Empowerment Fund Act, No. 105 of 1998	To establish a trust and its objects for the promotion and facilitation of economic ownership of income-generating assets by historically disadvantaged persons; to develop mechanisms to redress historical inequalities and structures to attain the objects of the trust; to provide for the control, management and the dissolution of the trust; and to provide for matters incidental thereto.
	Industrial Development Act 22 of 1940	To promote the establishment of new industries and industrial undertakings and the development of existing industries and industrial undertakings
3.	Broad-Based Black Economic Empowerment Act, No. 53 of 2003 as amended by Act 4 of 2013	To establish a legislative framework for the promotion of black economic empowerment; to empower the Minister to issue codes of good practice and to publish transformation charters; to establish the Black Economic Empowerment Advisory Council; and to provide for matters connected therewith.
	Act	Purpose of the Act
4.	The Public Finance Management Act (PFMA) Act, No.1 of 1999	To regulate financial management in the national government and provincial governments; to ensure that all revenue, expenditure, assets and liabilities of those governments are managed efficiently and effectively; to provide for the responsibilities of persons entrusted with financial management in those governments and to provide for matters connected therewith.
5.	Companies Act No. 71 of 2008	To create flexibility and simplicity in the formation and maintenance of companies; encouraging transparency and high standards of corporate governance as appropriate, given the significant role of enterprises within the social and economic life of the nation.
6.	Financial Intelligence Centre Act 38 of 2001	To establish a Financial Intelligence Centre and a Money Laundering Advisory Council to combat money laundering activities and the financing of terrorist and related activities; to impose certain duties on institutions and other persons who might be used for

		money laundering purposes and the funding of terrorist and related activities. As a money remitter, the National Empowerment Fund is an Accountable Institution in terms of FICA, and the Act contains stringent requirements with which the SPV is obliged to comply.
7.	Public Procurement Act of 2024	For starters, the Public Procurement Act plans to consolidate the previous procurement legislation from a fragmented framework. Secondly, section 217(1) of the Constitution of the Republic of South Africa, 1996, stipulates that contracting of goods and services by organs of state in the national, provincial and local sphere of government, and other institutions identified in national legislation, must occur in accordance with a system which is fair, equitable, transparent, competitive and cost-effective. The Act intends to further introduce a tribunal and processes to report, investigate and charge those that contravene the act and its objectives.

Supporting Environment

8.	The National Small Enterprise Amendment Act 21 of 2024	The purpose of the Act is to Establish the Small Enterprise Development Finance Agency (SE DFA) to provide financial and non-financial support to small enterprises and allow the Minister to set criteria for classifying micro, small, and medium enterprises. The Act also ensures an equitable trading environment for small enterprises.
9.	Small, Micro and Medium-Sized Business Block Exemption Regulations 2024 (The 'SMME Block Exemptions').	Previously, the Competition Act prohibited certain agreements and practices between SMMEs. Now, the SMME Block Exemptions aim to permit these actions. SMMEs need prior approval from the Competition Commission to benefit from the exemption.

The SPV will become a registered Financial Services Provider (FSP), positioning it SPV to become an entity of choice when Government Departments and large private sector

companies wish to partner with SOEs to discharge financial advisory and intermediary services and access reputable SOE's for the Fund Management expertise.

With this registration underway, several key compliance priorities have emerged. These are listed as follows:

Financial Advisory and Intermediary Services Act 37 of 2002 [FAIS]

The purpose of the FAIS Act is to regulate the rendering of certain financial advisory and intermediary services to clients. The Act also prescribed that all organizations who render financial advice or intermediary services must possess an FSP (Financial Services Provider) License. To become a reputable and registered Fund Manager, the SPV has undertaken to register and obtain an FSP License.

Financial Sector Regulation Act 9 of 2017 [FSRA]

The purpose of the FSRA is to establish a system of financial regulation by establishing the Prudential Authority and the Financial Sector Conduct Authority, to regulate and supervise financial product providers and financial services providers, to improve market conduct in order to protect financial customers. In light of the FSP License to be obtained by the SPV, the SPV will either provide financial products or financial services and therefore needs to subscribe to treating its customers fairly per the Treating Customers Fairly (TRF) principles.

National Environment Management Act 107 of 1998 [NEMA]

The NEMA is intended to promote co-operative governance and ensure that the rights of people are upheld but also recognizing the necessity of economic development. The SPV has recently drafted and approved its own ESG (Environmental, Social and Governance) Policy which sets the framework of how it should remain a responsible corporate citizen.

Collective Investment Schemes Control Act 45 of 2002

The Collective Investment Schemes Control Act governs collective investment schemes in South Africa. The governing statute was enacted to empower the registrar of collective investment schemes, as well as to control and administer them. A collective investment scheme is one in which two or more members of the public pool their money or other assets. Investments can be made in the form of bonds, securities, or cash. This may start having relevance to the SPV, since the SPV has discussed entering this realm via various savings vehicles for staff and investees alike, both formal and informal, such as Stokvels. The SPV would be required to be licensed in this regard.

8. The South African Enterprise and Supplier Development (ESD) market

The South African ESD funds market plays a vital role in supporting the growth of SMMEs in South Africa, fostering inclusive economic development and contributing to the country's transformation agenda. At the core of this market is the government's B-BBEE legislation, which mandates that large companies allocate a portion of their resources to support the development of small businesses, particularly those owned by historically disadvantaged individuals, including Black South Africans, women, youth and people with disabilities.

The ESD funds facilitate the growth and advancement of SMMEs in South Africa through financial support, capacity building programmes and supplier development initiatives. These funds are instrumental in driving economic transformation, fostering job creation and enhancing skills development.

The key drivers of the market are as follows: -

B-BBEE Legislation

The B-BBEE legislation is a key driver of South Africa's transformation agenda, aiming to redress the imbalances caused by apartheid by promoting the inclusion of historically disadvantaged groups in the economy. Under this framework, large companies are required to invest in the development of small businesses, especially those owned by Black South Africans, women, youth and people with disabilities. Compliance with B-BBEE is measured through a scoring system, where companies can earn B-BBEE points across various categories, including enterprise and supplier development.

ESD initiatives, which include funding, mentorship and capacity building for small businesses, provide large companies an opportunity to improve their B-BBEE scores. By supporting the growth of SMMEs that align with B-BBEE goals, large corporations contribute directly to promoting economic inclusion and diversification. These contributions help strengthen the broader economy while also benefiting companies by developing a more competitive and sustainable supply chain. Therefore, the B-BBEE legislation not only incentivises corporate investment in SMME development but also serves as a catalyst for social and economic transformation in South Africa.

B-BBEE Codes of Good Practice

Government Incentives

The South African government plays a significant role in promoting SMME development through a variety of programmes, grants and funding schemes. These initiatives, such as those provided by **the dtic** and DFIs, offer financial assistance and resources to help

SMMEs access capital, improve their capacity and expand operations.

For instance, **the dtic** and the Department of Small Business Development offer programmes like the Black Industrialists Programme (BIP) and the Small Enterprise Finance and Development Agency (SEFDA), respectively, which provide funding to emerging businesses in various sectors. The NEF focuses on empowering majority Black-owned businesses, offers equity investments, loans and business support to ensure these enterprises can compete and grow sustainably.

Grant incentives from the government are crucial for addressing the financing gap that many SMMEs face, particularly in the early stages of business development. By providing favourable financing conditions and strategic support, these initiatives enable SMMEs to build capacity, access new markets and scale their operations, all of which contribute to economic growth and job creation.

Private Sector Involvement

In addition to government programmes, the private sector has increasingly recognized the importance of supporting SMMEs, particularly through banks, corporate foundations and DFIs. These entities provide a range of financial products and services, such as loans, grants and equity investments to both emerging and established small businesses.

Banks have tailored products aimed at SMMEs such as affordable loans for working capital or capital expenditures. Corporate foundations often support social enterprises that align with their own corporate social responsibility (CSR) goals, while DFIs focus on higher-risk investments and financing options that can help SMMEs become more competitive. In addition to financial support, these private sector players frequently provide business development services, including skills training, mentorship and market access, which are essential for building long-term business success.

The increased involvement of the private sector in ESD initiatives is not only driven by regulatory requirements like B-BBEE but also by the recognition that a thriving SMME sector is integral to a sustainable and resilient economy. By investing in small businesses, private sector players contribute to the creation of new markets, the expansion of business opportunities, and the development of a more diverse economic landscape.

Access to Market Opportunities

One of the most significant advantages for SMMEs participating in ESD initiatives is access to market opportunities. Large corporations are incentivised by B- BBEE to integrate smaller, previously disadvantaged businesses into their supply chains. This can provide SMMEs with opportunities to offer products or services to large companies that

they otherwise might not have had access to. For SMMEs, being part of a larger company's procurement process can significantly boost their revenue streams, improve operational efficiencies and foster business growth.

The vendor development aspect of ESD focuses on enhancing the ability of SMMEs to meet the procurement standards of large companies. By providing financial support and capacity-building, large enterprises help smaller suppliers improve their quality, pricing and operational processes to become competitive players in the market. This collaborative relationship not only improves the SMME's ability to serve larger clients but also fosters a more inclusive and integrated business ecosystem.

Furthermore, SMMEs that participate in supply chains are better positioned to access new markets and customers, thereby strengthening their long-term viability. This access to markets, paired with the financial and developmental support from large companies, creates an environment in which small businesses can thrive and contribute to the broader economy.

Overall, the interaction between large companies and small businesses through ESD initiatives plays a pivotal role in driving sustainable economic growth, creating jobs and empowering historically disadvantaged individuals. The combination of regulatory incentives, government support and private sector involvement makes the ESD market a critical component of South Africa's ongoing economic transformation.

9. Execution strategy

9.1 Implementation Overview

The Transformation Fund will be an aggregated Fund supported by a bank account established in the name of the SPV. The proceeds of this account would be used exclusively by the SPV to invest in beneficiaries, which would be majority Black-owned or Black women-owned SMMEs, intending to facilitate the development, sustainability and/or financial and operational independence of the beneficiaries.

To the extent that the investments would attract returns and/or be repayable, these proceeds would be paid into the Fund and be reinvested, thereby creating an additional source of funding for further investments in the beneficiaries.

Upon a decision to contribute to the Transformation Fund, the measured entities will be required to enter into an agreement (Participation Agreement) with the SPV. The Participation Agreement would regulate the terms and conditions applicable to the measured entities' contributions to the Transformation Fund and the use to which the SPV may put such contributions in qualifying development initiatives.

The model Participation Agreement will be provided to Measured Entities as prospective contributors and their advisors. It should be reviewed carefully before deciding whether or not to contribute.

The following is a summary of key terms and conditions for contributions that the measured entities will make to the Transformation Fund, as set out in the model Participation Agreement that the Fund will enter into with the Measured Entities.

The Contributor	Measured Entities, Government Departments, Private Sector ESD Contributions, Equity Equivalents, Donors	
The Recipient	The Transformation Fund (Utilising SPV)	
Nature of the Fund	A segregated fund supported by a bank account in the name of the SPV. The proceeds of this bank account are ring-fenced from the SPV's other bank accounts and operations. The proceeds of the bank account will be separately accounted for.	
The Contributions	All contributions from measured entities in any Participation Agreement will be irrevocable and unconditional. The Fund has no obligation to repay the contributions to the measured entities.	
Term of the Fund	A prescribed term for each Contributor shall be proposed, with an option to extend for an agreed period, at the end of which any surplus proceeds of the Fund would be wholly reinvested into the Transformation Fund.	
Fund Raising Period	Currency Considerations	The Fund will be a South African Rand denominated fund, and the funding of investments and distributions, as well as related expenses, will be made in Rand.
	Minimum Commitment	The Fund will be a South African Rand denominated fund, and the funding of investments and distributions, as well as related expenses, will be made in Rand.
	Each financial year throughout the course of the year	

9.2 Key considerations

BEE Scorecard points

Through the Transformation Fund, the contributors would receive ESD credits under Code 400 of the Codes, the Beneficiary could tap into an additional source of funding, and most importantly, the SPV would be able to make more investments designed to enable meaningful participation of black people as defined in the Codes (black people) in the country's economy.

Tax Effects

Contributions made to the Transformation Fund will generally be exempt in terms of section 56(1)(h) of the Income Tax Act, 1962. They would qualify for a deduction in section 18A of that Income Tax Act upon issuing of confirmation of receipt in respect of contributions made to the Transformation Fund.

Transformation Index

A Transformation Fund Index would serve as a benchmark to measure and track the impact of the Fund designed to promote socio-economic transformation, particularly focusing on inclusivity and compliance with B-BBEE objectives.

10. Conclusion

The Transformation Fund conceptualisation and implementation will be a key milestone for the SMME sector and majority black-owned businesses, including those owned designated groups. It is imperative that the Fund becomes a reality and be rolled out to the intended beneficiaries who are in dire need of such an intervention from government.

A coordinated and comprehensive mechanism to monitor and enforce B-BBEE compliance is crucial for fostering inclusive economic growth. The proposals presented in this document will ensure that there is strengthened accountability, enhanced data transparency, effective collaboration among stakeholders, enabling the sustained pursuit of transformation objectives across all sectors.

The Transformation Fund is a funding mechanism that seeks to bring the transformation aspirations of the GNU into reality. It also presents an opportunity for the empowerment of black people and businesses, who are in the periphery of profitable economic activities, to enter into the mainstream economy and become active participants thereby making significant contributions to the growth of the South African economy.

Stakeholder Engagement

The Minister of Trade, Industry and Competition, Mr Parks Tau has published this Draft Transformation Fund document for a 30-day public commentary period. During this period the Department will be conducting sessions with stakeholders to create awareness.

Members of the public and interest parties must send their inputs to the following e-mail address: transformationfund@thedtic.gov.za by 7 May 2025.