TRANSFORMATION FUND

ENGINEERING AN INCLUSIVE MICROECONOMIC FOUNDATION
FOR MACROECONOMIC GROWTH AND SOCIAL STABILITY

PHAKAMANI

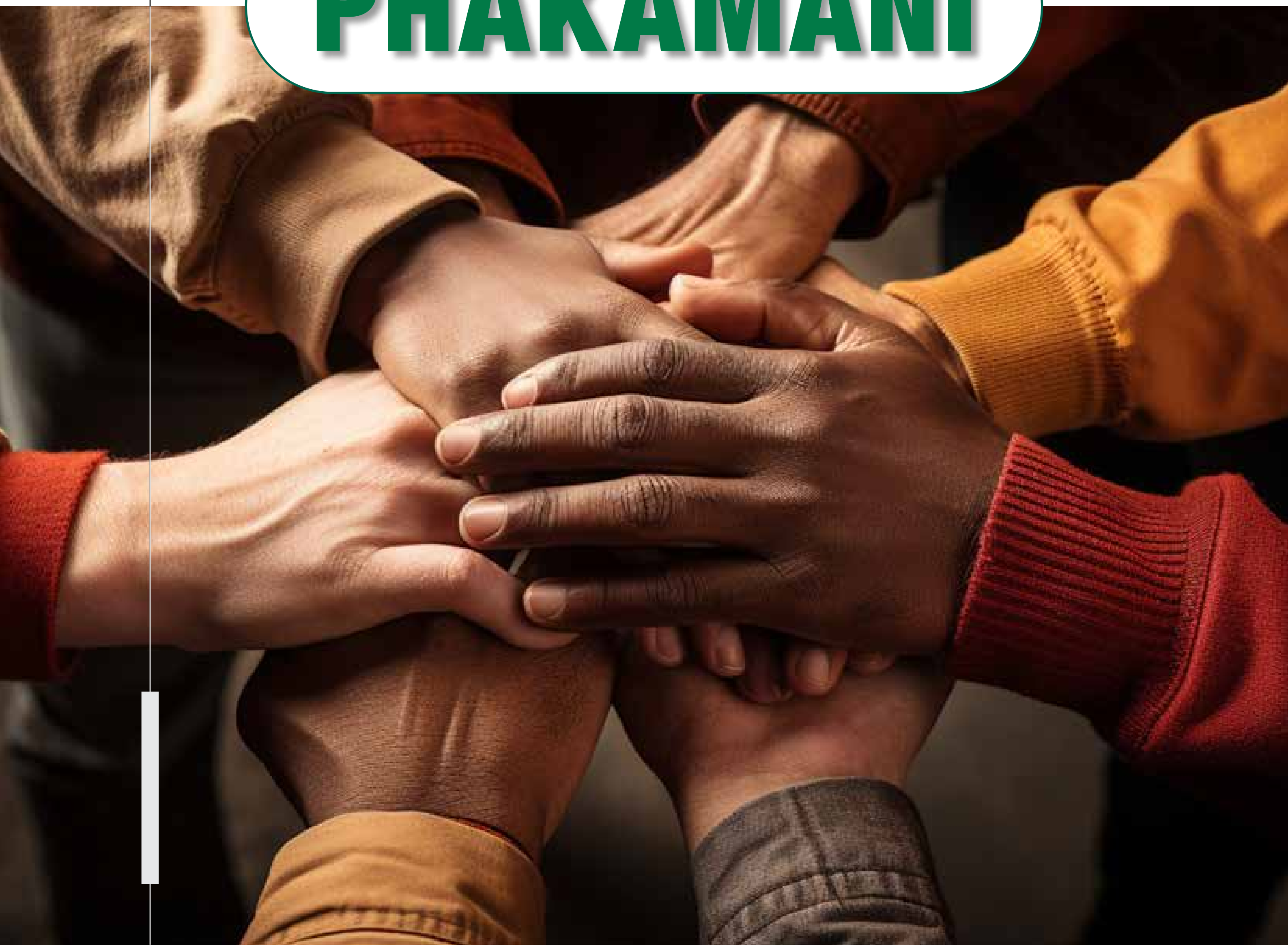


TABLE OF CONTENTS

Funding Transformation: Engineering an Inclusive Microeconomic Foundation for Macroeconomic Growth and Social Stability

1. EXECUTIVE SUMMARY

South Africa's economic future hinges on a bold shift in how we foster inclusive growth and the slow pace of transformation of the South African economy to bring about meaningful participation of black people represents a real threat on the national outlook. Decades after apartheid, the country still grapples with structural inequalities: a concentration of wealth and productive assets in a few hands, 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 programs have yielded only incremental progress. Against the increasing size and complexity of the national socio-economic problem space, it has become starkly clear that different, new and/or enhanced, are instruments are required to ignite broad-based economic empowerment and it's natural corollary, broader participation in the productive economy, at scale.

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 Department of Trade, Industry and Competition (**the dtic**) has launched Transformation Fund (the Fund) as the policy instrument to refocus, re-engineer and redirect the implementation of the empowerment objectives of B-BBEE and present it as an integrated national platform for inclusive economic transformation that tackles the problem at its roots and drives macroeconomic growth deliberately from first principles of total factor productivity of all national resources: *engineering an inclusive microeconomic foundation for macroeconomic growth and social stability.*

The Objective

Succinctly, the objectives of the Fund are to:

- Promote economic transformation in order to enable meaningful participation of black people in the productive 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.

The Focus

The codification of B-BBEE disaggregates contribution into five elements, Ownership, Management Control, Skills Development, Enterprise & Supplier Development (ESD), and Socio-Economic Development (SED), enabling measurable assessment of each actor's contribution.

Scorecard weightings (Generic Codes, Amended):

	Level 1		Level 2		Level 4	
Element	**Points**	**%**	**Points**	**%**	**Points**	**%**
Ownership	25	22,9%	25	26,3%	25	31,3%
Management Control	19	17,4%	19	20,0%	19	23,8%
Skills Development	20	18,3%	20	21,1%	20	25,0%
ESD (PP + SD + ED)	40	36,7%	40	42,1%	40	50,0%
SED	5	4,6%	5	5,3%	5	6,3%
Total	109	100,0%	95	114,7%	80	136,3%

**ESD = Preferential Procurement (≈25) + Supplier Development (≈10) + Enterprise Development (≈5) (Statement 400). NPAT targets: 2% for Supplier Development and 1% for Enterprise Development (total 3% NPAT) for measured entities.*

Thus, ESD is indeed the largest single lever on the generic scorecard (≈37% of total points). At the Level-2 (95 points) and Level-4 (80 points) thresholds, ESD alone can account for ~42% and 50% of the required points, respectively, illustrating why it is that, when correctly deployed and managed and when preferential procurement and supplier upgrading in particularly are implemented diligently in accordance with their intended purpose, ESD does indeed represent a decisive tool both for scorecard levels and real-economy transformation.

Slightly more formally, Ownership hard-wires inclusion into the production side of GDP; Management Control and Skills Development drive the income and employment side; and SED safeguards social stability. ESD, uniquely, prices the microeconomic growth mechanism, enterprise creation, supplier upgrading, and preferential procurement that place capable firms into real value chains.

This is the rationale behind the ESD focus of the first Transformation Fund Concept Document: despite significant penetration and spend to maintain scorecard levels, there is little credible evidence that prevailing ESD practices have had any noticeably impact on creating the inclusive microeconomic foundation that ought to have driven macroeconomic growth and social stability. The evidence of this is ample: from the ESD participation and spend data in the B-BBEE Commission's 2022 study to regular updates from Stats SA on microeconomic activity and consolidated reports on overall macroeconomic indicators, including but not limited to, the quarterly labour force surveys.

More worryingly, there appears to be no systematic effort to record, at firm level, the progress of companies supported through ESD: their evolution into viable enterprises beyond ESD scaffolding; their expansion into stable income- or growth-stage firms that retain or grow clients and revenue; sustain or grow operations and jobs; maintain or grow profits and wealth; and generate taxes that underpin fiscal and social stability.

We cannot wait to design, implement, and populate perfect new measurement systems before acknowledging the obvious: ESD programmes are not being implemented as inclusive micro-economic foundation pieces for macro-economic growth and social stability, even as the country's economic and social fabric frays.

Accordingly, we retain the transformation objectives above and, drawing on available data, insights, and research, strengthen our approach with a policy-based, deliberately designed, deployed, and managed causal link from an inclusive micro-economy to macro growth and social stability: moving Black-owned firms along capability, demand, and finance frontiers toward measurable productivity, exports, investment (GFCF), and jobs.

The focus going forward. ESD remains the central lever, but we expand the solution set with additional sources of capital and a single, integrated operating model, leveraging the potency of ESD into a stronger, more focused, efficient, and effective collective effort to drive economic inclusion and participation, unlock sustainable growth, and support enduring social stability.

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 is to entrench entrepreneurship by treating these capabilities as shared infrastructure and tying blended, milestone-tranched finance to verified adoption, while organising low friction marketplaces and export corridors that publish onboarding criteria up front. Sector programs run by businesses and 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 in an effort to make inclusion to become part of the production technology, not an afterthought.

The upside is tangible and near-term. For example, in agriculture and fresh produce, structural barriers, including those identified by the Competition Commission, can be matched with shared digital platforms, cold-chain, compliance and finance-ops, converting today's value leakage, evident at the Joburg Market, where ~R4 bn/year of township trader spend accrues upstream and is rising by ~R8–10 m/month, into localised, financeable throughput. Regionally, AfCFTA plus logistics and energy recovery could lift Africa-bound exports by 40–60% off a 2023 base of R547 bn, implying ~R219–R328 bn in extra exports and ~R88–R131 bn in domestic GVA, pre-multipliers, if Tier-2/3 suppliers clear standards and secure working capital. A parallel digital build, comprising identity, payments, trust registries and ~150–250 MW of additional data-centre capacity by 2030, underpins AI-enabled services and exportable standard and AIOPs global business services (GBS). Done together, capability embedding, organised demand and telemetry compress default risk and spreads, crowd-in private capital, raise firm survival and graduation, and show up in jobs, incomes, exports and a thicker tax base, breaking the current low-growth, high-risk equilibrium.

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 GDP growth. In its final form, the concept reframes South Africa's ambition, complementing top-down macro interventions with a deliberate focus on grassroots productive microeconomy that, in aggregate, drives national development and advances the constitutional promise of the new democracy for all.

The Architecture

The Fund's architecture rests on five interlocking pillars: 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. This will be structured as a Special Purpose Vehicle (SPV) or fund-of-funds, with the capital ring-fenced and professionally managed under a singular objective: to invest in productive enterprise and entrepreneurial projects and firms that deliver inclusive economic outcomes. The 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 assistance platform that provides enterprises with the skills, tools, and systems to absorb capital effectively and to meet market standards. This pillar draws on extensive literature showing that bridging the capability, skills and information gap greatly increases the success rate of MSMEs. Through a platform-delivered "capability stack", including but not limited to basic accounting systems, logistics and production management tools, training modules, distributed mentorship networks, the Fund will reduce information asymmetries and improve firms' productivity, creditworthiness and operational credence.

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 buyers, private and public, to form digitally managed marketplaces ("buyer councils") and by 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 remove the network and scale frictions that often marginalize emerging firms.

Telemetry: In an innovative departure from past programs, the Transformation 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 many 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 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, including government, private sector, labour/civil society, will provide high-level guidance and ensure that the initiative remains inclusive in 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 Transformation 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 and more firms graduate 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, in internalising what would otherwise be externalities, such as training costs or market development costs, the platform ensures these public goods are provided for the benefit of the whole economy. In doing so, the Fund therefore responds directly to the literature: it addresses the reality that many high-social-value investments such as market data, environmental information, skills or infrastructure are under-provided by private markets alone, and thus require a coordinated effort backed by blended capital and orchestration by the public sector.

The Theory

The Fund's outcome-based approach and digital operating model are deeply informed by academic and empirical evidence. The Literature Review Annexure highlights how information asymmetry, high fixed costs, and lack of coordination have led to underperformance in MSME and broad-based empowerment initiatives. For instance, research shows that 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.

Similarly, studies suggest that traditional risk assessment tools and collateral requirements systematically disadvantage small and new businesses. The use of real-time performance data and alternative indicators of creditworthiness, such as on-time delivery rates or digital accounting records, means the Fund does indeed pioneer new lending models that better evaluate MSMEs risk and unlock credit, as recommended by experts.

The platform model also draws on the economics of networks: modern development economics literature, including theories of industrial districts and digital platforms, indicate that connecting many producers and consumers on a common platform can overcome scale barriers and spur innovation. The Fund's design embraces these insights, expecting scale economies and spillovers as more participants join, in line with global digital economy trends. Instructively, the academic evidence underlines that capability improvements lead to measurable reductions in default rates and boosts in firm growth, which then aggregate to macroeconomic gains. This tight coupling of theory and practice, using platform economics to address market failures, makes the Transformation Fund a uniquely evidence-based policy tool.

The Summary

In summary, the Transformation Fund is a strategic, high-impact initiative that reimagines South Africa's approach to empowerment and growth. For policymakers (the Presidency, DPME, National Treasury, DTIC 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 program aligned with the Medium Term Development Plan and NDP. Its emphasis on measurable results and accountability provides assurance that resources and policy support will translate into real 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, benefiting 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 fosters entrepreneurship, decent good-quality jobs and reduces inequality, all within a transparent framework that can be scrutinised. The Fund thus builds a broad coalition for change, signalling a shared national commitment to inclusive prosperity.

Ultimately, the re-framed 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 cutting-edge research and practical lessons, is poised to address the information gaps, coordination failures, and historical biases that have constrained the South African economy. In doing so, it offers South Africa a powerful tool to break out of 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, ultimately unleashing the country's full potential.

2. INTRODUCTION

2.1. Converting the Problem Space into an Opportunity Space

Nearly three decades after apartheid, South Africa's economy remains characterized 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 Broad-Based Black Economic Empowerment (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 Report

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 enterprise and supplier development (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 transformative impact of these efforts has been limited, with many beneficiary MSMEs struggle 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) 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 per cent 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, 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.

2.1.3. 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 Report 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, less than 7% of MSMEs under R1 million turnover have loans, while over 57% report no collateral and 81% are uninsured, factors that elevate risk perceptions and push up 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 State'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 & 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 & OEM sourcing, export corridors, (ii) supplier-side capability upgrading: skills, standards & certification, technology, clustering, (iii) finance and incentives: industrial finance, rebates, blended instruments, and (iv) rules of the game: trade & 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 on evidence.

Clothing, Textiles, Footwear & Leather (CTFL). The CTFL Master Plan calls for binding multi-retailer local-sourcing compacts with published quick-response calendars and onboarding criteria; cluster-based capability upgrading such as lean & QR methods, quality and chemical compliance and shared testing/cutting services; targeted incentives and working capital tied to verified local content and lead-time improvements; and enforcement against illicit and under-invoiced imports to level the field. Success is measured in rising supplier counts from historically-disadvantaged persons and MSME on retailer panels, increasing domestic share of retail sales, reduced lead times and decent jobs, mechanisms that convert inclusive participation into sector gross value-add (GVA) at scale.

Automotive. The Automotive Master Plan specifies OEM purchasing roadmaps with component-level localisation targets and transparent APQP & PPAP gates; supplier-park infrastructure and services such as toolrooms, metrology & testing and logistics milkruns, to pull Tier-2/3 and black-owned firms into the chain; tooling finance and performance incentives sequenced to quality milestones; and export-market development. The measurable ambition is higher local content and a deeper domestic supply base feeding stable export volumes, i.e., inclusive supplier development that lifts manufacturing productivity, employment and value added.

Poultry. The Poultry Master Plan commits to expanding domestic production (including contract grower models), sequencing export-SPS market access by country, upgrading bio-security & HACCP/SPS capabilities across farms and plants, and trade remedies against dumping and illicit imports. It pairs these with grower finance, cold-chain investment and retail & QSR off-take. The intended outcome is more emerging black growers meeting formal specs, higher domestic market share, new exports and rural jobs, aggregating into sector GVA growth.

Digital Economy. The Digital Economy Master Plan requires anchored demand and fair platform gateways with published MSME onboarding criteria; MSME-ready security & compliance packs, logistics and payments integration; demand-led digital skills pipelines; and scaling finance for seat-ramp working capital, training subsidies and micro-fulfilment capex tied to verified utilisation and service levels. The measurable end-states, MSME and youth participation in high-value digital work, export services revenue, and productivity uplift, are the channels through which inclusion drives macro growth.

Cultural & Creative Industries. The CCI Master Plan strengthens commissioning and distribution through public and private slates, local-content commitments and platform deals with transparent criteria, production infrastructure such as shared studios and post-production, IP rights monetisation capability, and fit-for-purpose finance in the form of milestone-tranched project and slate facilities aligned to export development.

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, 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 2023; FPMI 2025) finds that market rules and trading architectures systematically disadvantage small and historically disadvantaged producers. 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/centralized/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), in turn, reports that ~2 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 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: Case Study for Turning Consumption Economics Around

The Joburg Market (JFPM) is Africa's largest fresh-produce exchange and represents almost 50% of the total South African market by turnover. It moves ~1.3–1.4 million tons a year and now consistently recording ~R0.9–R1.0 billion in monthly turnover, with several record months above R1 billion since late-2023/2024. Critically, ~60% of purchases are by traders who resell into townships and commuter corridors; the market sees ~14,000 buyers daily and ~600,000 transactions monthly. Revenue allocation is structurally upstream: ~95% to the farmers' value chain: ~7.5% to the farmers' agents and ~87.5% to the farmers' supply chains from farm operations (seeds, fertilizers, utilities, equipment, labour, services etc) to the handover point at the market; only 5% accrues to the municipal market company. Based on observed trading patterns, ~R4 billion a year of informal-trader purchases at JFPM channels township consumer cash up the chain, with the farmers' value chain capturing R3.8billion of this. Tracking 2022–2024, this capital flight from poor households rises by ~R8–10 million per month; in effect, dispersed micro-purchases in low-income areas are aggregated by informal traders into wholesale spend that is realized as upstream revenues, socially essential for food access, but economically extractive for township wealth retention. The critical inclusive microeconomic transformation questions are many and include the extent to which the farmers' value chain is transformed, the barriers to transformation if not, the levers that can be implemented to accelerate this transformation, including creating more balance in the circular economy at the edge. It is indeed possible that a well-designed and run digitally-orchestrated model can convert this extractive loop into microeconomic efficiencies that accrue locally and generate positive macroeconomic impacts.

This pattern highlighted above align with the Competition Commission's broader findings on fresh-produce and platform markets: pricing opacity, weak last-mile bargaining power, and market and agent practices raise participation thresholds and push value upstream, while small buyers lack the data trails and capabilities to negotiate or finance on fair terms.

Finally, the case also exposes the architecture of the current microeconomy that results in income and wealth disparity as documented by the Reserve Bank : the top household decile holds ~68.6% of total assets and ~80.6% of financial assets, while the bottom decile holds ~0.2%, reflecting a structural imbalance reinforced when consumption spend in poor, predominantly black communities systematically capitalises returns for already-asset-rich owners and managers elsewhere. That imbalance is not just unfair; it degrades capital-market efficiency. Thin, volatile cash flows and weak enterprise telemetry in townships elevate default probabilities and risk premia, suppressing intermediation where marginal social returns are highest, and narrowing the investable universe for mainstream allocators.

2.1.7. From Problem to Opportunity: Engineering Inclusivity into the Export Markets

South Africa's intra-Africa export base has strengthened but remains under its potential. Between 2019 and 2023, goods exports to the rest of Africa increased from R343 bn to R547 bn (+59%), with manufactured goods accounting for ~87% of those exports in 2023; Africa already absorbs >25% of South Africa's total goods exports. Government began shipping under AfCFTA preferences on 31 January 2024 and has committed to expand intra-Africa trade as part of a coordinated Masterplan + AfCFTA push. The Medium-Term Development Plan (2024–2029) 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) 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.

The opportunity space to 2030 is material and sector-skewed. If Africa-bound exports expand a further 40–60% off the R547 bn (2023) base by the end of the decade, consistent with the AfCFTA roll-out and logistics recovery, that implies R219–R328 bn in additional exports; applying a conservative ~40% domestic value-added (DVA) share yields ~R88–R131 bn in incremental GVA before multiplier effects. Based on the current Africa basket and masterplan pipelines, a plausible distribution of this headroom is: processed minerals/fabricated metals/chemicals/machinery & energy-related services (~50%), general manufacturing and automotive components (~25%), agriculture & agro-processing, including poultry (~15%), health/pharmaceuticals (~5%), and digital and global business services (GBS) (~5%), with sector growth paths contingent on corridor-specific regulatory alignment, standards adoption, and trade facilitation. At the microeconomic level, the inclusion runway is large but under-connected: South Africa hosts ~3.91 million MSMEs employing ~13.43 million, with ~R5.29 trillion turnover, yet only ~34% sell to large businesses, let alone have access to the export market, and many face a formal-sector credit gap of R86–R346 bn and "finance-readiness" deficits that currently limit participation in formal export supply.

Within agriculture and agro-processing, the near-term gains sit in fresh produce and protein corridors where 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/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 GBS are

smaller in base but can contribute non-trivial increments as regional procurement and platform markets open. Aggregated, these sector opportunities offer a credible route to ~R88–R131 bn additional GVA 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.

2.1.8. From Problem to Opportunity: Deepening Digital Connections

In the 20 years from 2003 to 2023, Africa accounted for essentially all net growth in global annual births, rising from about 30.5 million to 43.0 million (+12.5 million; +41%). By contrast, Asia registered a net decline of about 2.0 million (from about 82.5 million to 80.5 million; −2.4%). In total outside Africa, annual births fell in aggregate by roughly 11 million over the period, underscoring that Africa is the world's primary source of new entrants into education, work, and the digital economy.

In the Reuters Institute's 2025 survey, 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 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 who will need 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 cutting 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 electrical engineering; construction; maintenance & 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. A conservative tranche of 150–250 MW of added data-centre capacity by 2030 with ~40% domestic value-add would generate low tens of billions of rand in incremental GVA over the build window, with an O&M tail that is then layered with growing AI-enabled services and GBS exports, the uplift compounds.

2.1.9. From Problem to Opportunity: Strengthen the Social Impact

From a socio-economic perspective, the slow pace of empowerment exacerbates South Africa's structural challenges.

Social impact and feedback to the economy. Exclusion from formal economic participation, especially among youth, produces immediate, measurable social costs: higher NEET 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. The effects above 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 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-optimise 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.

2.2. Policy Mandate for a Transformation Fund

It is against this backdrop that the proposal for a Transformation Fund (the Fund) has emerged, with the concept of a dedicated platform for providing financial and non-financial support services for empowerment being firmly supported by South Africa's legal and policy framework:

2.2.1. Constitutional Imperative

The Constitution of the Republic of South Africa, in Section 9(2), 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.

2.2.2 National Development Plan

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

Economy and employment. The NDP's jobs-centred growth path targeted specific average real GDP growth rates, increase of 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 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 SA 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 access the centrality of a capable, ethical state: stabilise the political–administrative interface, professionalise the public service, fix intergovernmental coordination with clearer lines of responsibility, and strengthen SOE governance, including credible public-interest mandates, stable boards, and aligned policy–shareholder oversight. Anti-corruption measures include specialised prosecution capacity, central oversight over major tenders, and greater protection for whistle-blowers.

Nation building and social cohesion. Finally, the NDP advances a shared constitutional identity and equal opportunity: popularise the Bill of Responsibilities and the Constitutional preamble in schools and workplaces; run sustained campaigns against racism, sexism, xenophobia and homophobia; broaden economic participation with clearer, more effective equity instruments; and invest in arts, culture and common public spaces to foster shared belonging. A social compact for growth, employment and equity is proposed to align incentives and build trust across society.

2.2.3. B-BBEE Act Requirements

The Broad-Based Black Economic Empowerment Act 53 of 2003 (as amended by Act 46 of 2013) (B-BBEE Act) provides the legislative framework for empowerment. Section 11(2)(b) of the Act obliges 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 aspect of the Act has been addressed piecemeal through various grant programs and financing schemes but no single coordinated financing instrument of the scale envisioned by the Act has been created. The Transformation Fund is thus an implementation of this long-standing mandate – a comprehensive financing vehicle dedicated to B-BBEE objectives.

2.2.4. South Africa's Transformation Agenda

The Department of Trade, Industry and Competition (**the dtic**) and related agencies have repeatedly underscored the need for innovative financing mechanisms to spur transformation. The Fund concept 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, and not 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. The Fund will achieve this re-framed ambition through a strong data-driven, outcomes-based governance operating model that will drive efficient aggregation and use of resources whilst ensuring alignment with national policy guardrails as captured in the industrial policies, competition policies, sector master plans, and social policies, which all include transformation targets.

2.3. The Thesis: an inclusive micro-economy is the engine of macro stability and growth

When we view the sovereign economy through the microeconomic lens, as a firm, the productivity of inputs, Capital (investable assets financial sector, corporate, household and public sector) and Labour (the deployable working population), becomes an important barometer to test efficiency of the state – the government, private business, civil society and citizens - as an engine of economic wellbeing and social stability. In this construct, the strategic and management objective of the management class (government, business, labour and civil society leadership) is to curate and integrate these inputs so that the economy clears the operating cost of labour and the production system and the cost of capital (to attract further investment), within constitutional, social and ecological constraints. Because real labour costs are pinned by a minimum standard of living, and capital mobilises through a combination of voluntary (private businesses and citizens), legislated (government) and incentive-compatible channels (private businesses, civil society, citizens), the binding lever for all is productivity (TFP) - especially at the edge of "the firm" where most South Africans try to attach to production and become active members of the productive economy.

In this light, the national economic problem is, in reality, a low sovereign total productivity trap: many assets (people, land, small business, the informal sector) are seen as sitting below "usable capability thresholds" for the South African private sector risk appetite, and therefore carry direct costs (e.g. social grants) or opportunity costs (e.g. idle capital, persistently low levels of investments). The result is that the output (GDP) per rand of combined inputs is too low, and the country gets trapped into low-growth high-cost cycle.

Two distinct policy paths emerge from this.

2.3.1. Path 1: optimise enclaves of privilege, and inclusion will follow

This view prioritises deregulation in islands of privilege that are already participating or are seen as qualified to participate in the productive economy, pares back gender and race-based redress instruments, and assumes broad-based inclusion will arrive after growth. Recent public remarks exemplify this logic: "remove every impediment… to enable the economy to perform to its potential, and transformation will follow," alongside scrapping BEE and imposing a 10-year moratorium on equity empowerment deals to boost gross fixed capital formation . An earlier critique of a pooled Transformation Fund argues against centralising ESD, insisting support remain embedded in market-anchored corporate supply chains that align public objectives with market realities: "do not centralise ESD; keep support embedded in market-anchored corporate supply chains that already align "public objectives with market realities." Read together, Path 1 ring-fences currently productive capital and perceived qualified labour, seeks growth by lightening constraints inside the enclaves, and expects inclusion to diffuse later.

However, new country-level research, Low Informality Amidst High Unemployment: The Case of South Africa, tests standard barriers to formal wage employment (b_f), including labour regulation and output-employment elasticities, and finds that these are not the primary drivers of South Africa's unemployment.

On the other hand, the paper suggests that what distinguishes South Africa is very high unemployment with unusually low informality and semi-formality (at a minimum, informal, micro and small businesses) for the country's income levels; given the benign impact of bf on unemployment, the paper suggests that the reason may actually well be the high barriers to informal and micro and small business activity (binf), including but not limited to zoning, urban amenities, business licensing, internet access and costs, electricity costs, storage space to operate, transportation, access to land, access to credit and financial skills to owners & employees.

The implication, in terms of our formulation, is that Path 1, focusing only on lowering bf (real and perceived barriers to formal employment), cannot lift the aggregate sovereign total factor productivity enough to close the unemployment gap, and the binding constraint is binf. This is precisely the area of focus of the Fund as currently architected.

2.3.2. Path 2: engineer inclusion by lowering barriers to entry and marginal cost of participation

Following the same formulation, we treat Access to Capability (ATC), delivered as infrastructure and services at the firm edge, as the mechanism to lower binf by design and at scale. The capability stack includes regulatory and compliance rails; spatial/logistics and utilities "as-a-service"; quality/assurance, digital ledgers and traceability; risk services and vetted provider matrices. The shrinking b_{inf} raises survival, reliability, and verifiability; the probabilities of default and credit spreads compress; capital deepens where it was rationed; and the inclusive microeconomy lifts the aggregate into the expenditure identity:

- *C (consumption)* rises as under-productive labour becomes productive and formal;
- *I (investment)* rises as risk falls and telemetry crowds-in blended/private finance;
- *X–M (net exports)* improves as certification and reliability scale across suppliers and into new markets;
- *G (fiscus)* strengthens as formalisation thickens the tax base.

In other words, in our thesis, the GDP: Y = C + I + G + (X–M) is lifted by design, not by hope and the causal link is engineered for success.

2.3.3. The Policy Choice: the organizing logic of the thesis of the Transformation Fund

We're deliberately moving away from Path 1 and it's logic of optimising enclaves and waiting for inclusion. Instead, we're deliberately adopting Path 2 and its design of pooled, rules-based capital; access to capability at scale; quality-assuring digitally marketplaces for buyers and sellers; and telemetry-anchored accountability for total factor productivity and output.

Consistency with broader diagnostics. Our thesis thus aligns with evidence that growth through inclusion, rather than "growth first, inclusion later," is the credible route to escape South Africa's sovereign labour-productivity failure and to convert abundant but under-productive assets into macro-level stability and growth. :

> *To reach its true economic potential, South Africa must include more of its citizens in the growth process. The path to growth through inclusion must include the recovery of state capacity and increasing the power of all members of society to exercise economic choice. The country cannot prosper with over half of its working-age population not working. It cannot afford to keep its citizens spatially disconnected. It cannot expect to grow with a collapsing state that de facto uses its power to limit society's capacity to help accomplish essential goals of the nation. South Africa's economic challenges may seem overwhelming at the current moment, but the promise of the Rainbow Nation is not out of reach. This report seeks to inform new paths to growth that will come through more effective economic inclusion. Inclusion must start by understanding and tackling key issues that drive exclusion. For the economy to function and leverage all the human capabilities, productive knowledge, physical assets, and natural endowments that South Africa has, the government needs to work. South Africa needs a more effective form of statism that does not overburden state organizations with additional goals that undermine their core mission. South Africa also needs to develop new and better mechanisms for driving inclusion, empowerment, and transformation that include far more of society. Central to this challenge is spatial inclusion, which is ultimately about giving people the choice of where to live and what markets to access. This includes not only the labor market, but also markets for ideas, innovation, entrepreneurship, capital, finance, and partnerships that are undermined by the segregation of cities and other spaces.*

Concluding Intent of the Fund. The Fund's intent is unambiguous: 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. We will crowd-in public and private capital, mobilise local and international DFIs and repurpose ESD/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 GVA, jobs, exports and household incomes, especially for women, youth, township and rural enterprises.

Crucially, the Fund is export-led and AfCFTA-aligned: we 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. We will track export intensity, market diversification and on-time-in-full cross-border performance as headline metrics.

In short: we 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.

2.4. The Rest of the Paper

The rest of the document is organized as follows:

Section 3: Engineering Inclusive Growth

This section critiques the failures of existing ESD and transformation initiatives. It documents inefficiencies such as fragmented programmes, compliance-oriented incentives, and poor monitoring of enterprise progression. Empirical evidence, including the B-BBEE Commission's 2022 study and the Sanlam Transformation Gaug, shows that large sums have been spent with little systemic impact. The section argues for a new theory-of-change architecture that pools resources, integrates capital with capability and market access, and builds a direct causal link between firm-level productivity and macroeconomic outcomes

Section 4: Solution Objectives & Theory of Change

The Theory of Change articulates how the Fund will convert inputs (finance, capability, markets) into outputs (viable enterprises, reduced risk, measurable graduation) and impacts (jobs, exports, tax base expansion, fiscal stability). It frames inclusion as the deliberate driver of growth, rather than a hoped-for byproduct. Objectives include mobilising joint public–private investment, embedding non-financial support, facilitating job creation and sectoral diversification, and measuring outcomes through a national Transformation Index. Crucially, it insists on outcome-linked accountability, with finance disbursed against milestones of capability and market readiness

Section 5: Single Operating Model & Pillars

The Fund's architecture rests on five interdependent pillars: Access to Capital, Access to Capability (ATC), Access to Markets, Telemetry, and Governance. Together they create a platform-based ecosystem where enterprise support is scalable, standardised, and measurable. ATC is particularly innovative, treated as infrastructure that lowers marginal costs of participation, raises productivity, and compresses risk spreads. Telemetry and the Transformation Index function as the "nervous system," generating real-time data to allocate resources adaptively. Governance is explicitly cross-cutting, ensuring coherence and accountability across all pillars

Section 6: Access to Capability (ATC)

This section develops the economic logic of ATC. It demonstrates how shared platforms reduce costs (by spreading fixed investments across many firms), raise benefits (through quality, certification, and higher returns), and reduce risk (by making performance verifiable to financiers and buyers). Drawing on international cases, it shows how digital platforms can transform micro-enterprises into globally competitive suppliers. ATC is positioned as "capability as capital," making firms bankable and contract-ready, thereby aligning micro incentives with macroeconomic inclusion

Section 7: Access to Capital

Access to Capital is structured as a blended finance vehicle aggregating ESD flows, Equity Equivalent contributions, DFIs, donors, and private investors. Instruments include grants, concessional loans, equity, guarantees, and milestone-linked tranches. The design explicitly shifts away from one-off grants towards catalytic, patient capital that is conditional on capability improvements. The section shows how the Fund also addresses the needs of the "missing middle" of MSMEs who are too risky for banks yet too large for microfinance. Capability-linked term sheets make capital disbursement a function of enterprise strengthening, reducing default probabilities and crowding in co-investment

Section 8: Access to Markets: Sector ATC Hubs & Buyer Councils

This section details how market access will be institutionalised. Sector ATC Hubs provide shared infrastructure, digital systems, and playbooks for enterprises in industries such as agro-processing, automotive, and digital services. Buyer Councils convene major purchasers to agree on standards, streamline onboarding, and provide assured offtakes. Together, they replace ad-hoc "market access events" with structured demand pipelines. The model draws from global precedents and local analogues to argue that coordinated demand and shared capability are critical to scaling MSMEs

Section 9: Telemetry: Digital Infrastructure, Impact Oversight & MEL

Telemetry is the Fund's digital backbone. It creates a Transformation Index that aggregates firm-level metrics such as capability adoption, organizational, operational and financial performance into a national scoreboard. The system enforces accountability, enables adaptive management, and provides transparency to stakeholders. It also addresses information asymmetries that have long constrained MSME finance, offering alternative data for credit scoring and procurement. This outcomes-based discipline distinguishes the Fund from prior schemes, embedding monitoring, evaluation, and learning at its core

Section 10: Governance & Accountability, Risk & Compliance

Governance is established as a pluralistic, independent structure combining public and private oversight. It ring-fences resources in a Special Purpose Vehicle, mandates open dashboards for reporting, and embeds recognition rules that reward contributors with B-BBEE credits. Risk management covers regulatory alignment (B-BBEE Act, PFMA, Competition Law exemptions), data protection under POPIA, anti-capture safeguards, and cybersecurity. By embedding transparency, audits, and independent review, the section argues the Fund avoids the pitfalls of past development finance institutions and aligns with global best practice in accountability

Section 11: Execution Strategy & Phasing

Implementation is sequenced across four phases: Pre-Launch (setup and governance), Activation (pilot programmes and early adoption), Scale-Up (expansion and mainstreaming), and Institutionalisation (embedding into national financial architecture). Each phase is designed around adaptive learning, transparency, and partnership with corporates, DFIs, and sector bodies. Telemetry ensures that course-corrections can be made in real time. The phasing recognises both absorptive capacity and the need to demonstrate early wins to build credibility

Annexures

The Annexures provide the technical substrata: a legal assessment of competition law compliance, illustrative Access to Capability frameworks across sectors, a multidisciplinary literature review grounding the model in development economics and platform theory, a synthesis of critiques and counterpoints from public consultation, case studies of private-sector models, and a technical modelling blueprint linking Fund interventions to GDP, jobs, household incomes, and inequality outcomes. Together, these annexures reinforce the Fund's evidentiary and methodological foundations

3. ENGINEERING INCLUSIVE GROWTH: RETHINKING ESD AND TRANSFORMATION IN SOUTH AFRICA

3.1. 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 even widened post-1994. Macroeconomic indicators remain troubling: over the past decade growth has averaged only ~0.7% and is 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 a 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 materialized under current policies.

At the micro-economic level, the MSME sector remains stunted and constrained, suggesting that ESD programs and transformation funding have not solved fundamental problems. Small businesses are widely recognized 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 South Africa, indicating that the funding needs of small enterprises vastly outstrip the finance currently flowing to them.

Even when funding is available, many MSMEs struggle to absorb it effectively due to capacity and knowledge gaps. Various surveys show that a majority of entrepreneurs lack financial literacy and don't 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 being 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 programs 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.

3.2. Economic Inefficiencies in Current ESD and Transformation Funding ApproachesTransformation 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 actually declined to 46% during the COVID-19 crisis. In practice, this meant that, of the ~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 programs should be structured for success. 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 efforts17. From an economics perspective, this is inefficient because resource allocation is not structured to maximise overall system utility.

Another glaring inefficiency is the fragmentation and lack of scale in current ESD interventions. Corporate ESD programs will necessarily assist only a handful of beneficiaries, most of whom will be tied to a firm's immediate supply chain, with the firm agnostic and without the need to consider any other system-level (e.g. sector, geography) metric or activity outside its interest areas. 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 it's 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 doesn't, 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 into 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 in "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.

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

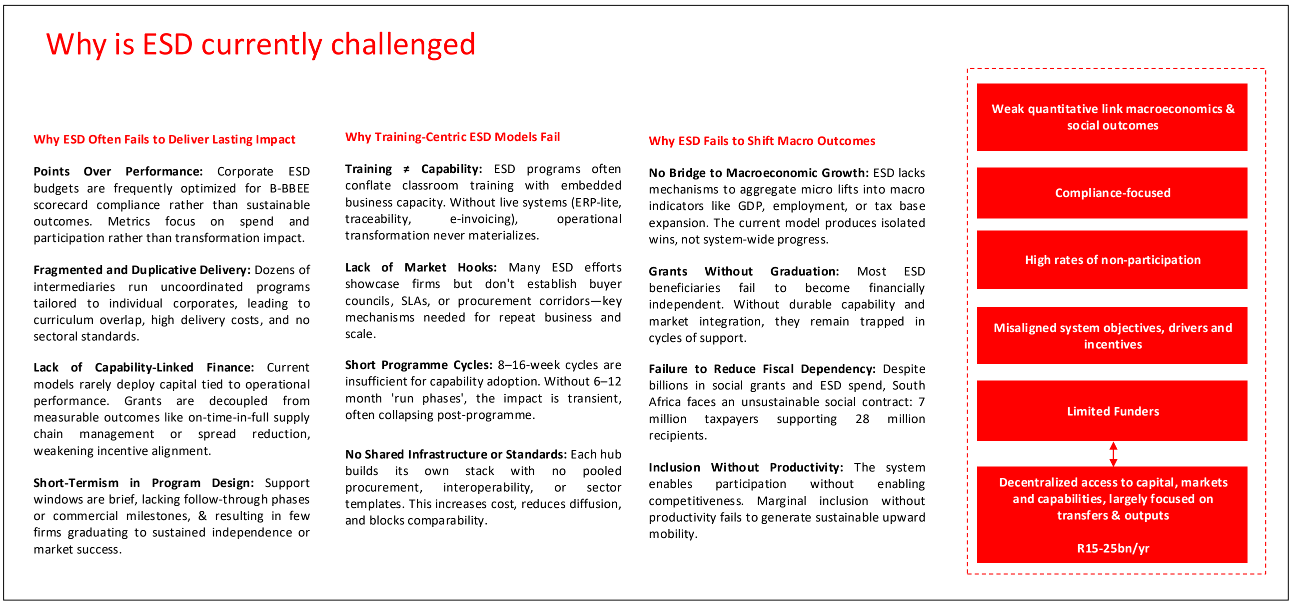


Figure 1 summarises the state of affairs. South Africa's ESD system is structurally inefficient in its current form as a decentralised, transfer and output-oriented system expenditure of roughly R15–25 billion per year, and characterised by: limited funders, misaligned objectives and incentives, high 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 requirements.

The theory-of-change remedy is therefore clear - pool resources and re-platform 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. We set the set basis for this in the next sub-section.

4. SOLUTION OBJECTIVES & THEORY OF CHANGE

Given the shortcomings highlighted above, it is clear that tinkering at the margins 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. The key pillars of the model are as follows:

4.1. 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 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 compliance needs of business and 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 fosters buy-in: companies see ESD and other transformation levers not as a coerced expenses 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 programs can all plug into the same system to offer services to MSMEs, creating a network effect that increases overall impact.

4.2. Mobilize Public-Private Investment for Transformation

The Fund significantly expands the availability of affordable, appropriate finance for Black-owned and managed businesses, especially those that are 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 development finance institutions (DFIs), and even philanthropic donors, into one large pool dedicated to B-BBEE. The allocation rules are clear and simple: leverage each rand for 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.

4.3. 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 programs 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.

4.4. Provide Non-Financial Support and Mentorship

Since the intention is not to simply for the state to "centralise funding and attempt to provide equivalent support from above" 13 and since the intention is to deliberately reduce barriers to entry and marginal costs and risks of participation in the market, to re-balance the information asymmetry from both the supply and demand side of capital and markets, and to subject the entire value chain to rigorous and 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/centralized architecture is a fundamentally digital "Access to Capability" platform. This platform handles tens of thousands of users, leveraging technology to standardize 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

4.5. 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 creates new employment, especially in labor-absorbing sectors like manufacturing, agriculture, services and tourism, and help drive economic activity in their communities. The Fund reduces inequality in 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.

4.6. Facilitate Structural Transformation of the Economy

Beyond supporting individual firms, the Fund pursues structural impact. This involves fostering 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 localization 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 prioritized 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.

4.7. 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, intent 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, 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 incentivized 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 under-performance for corrective action.

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

4.8. 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.

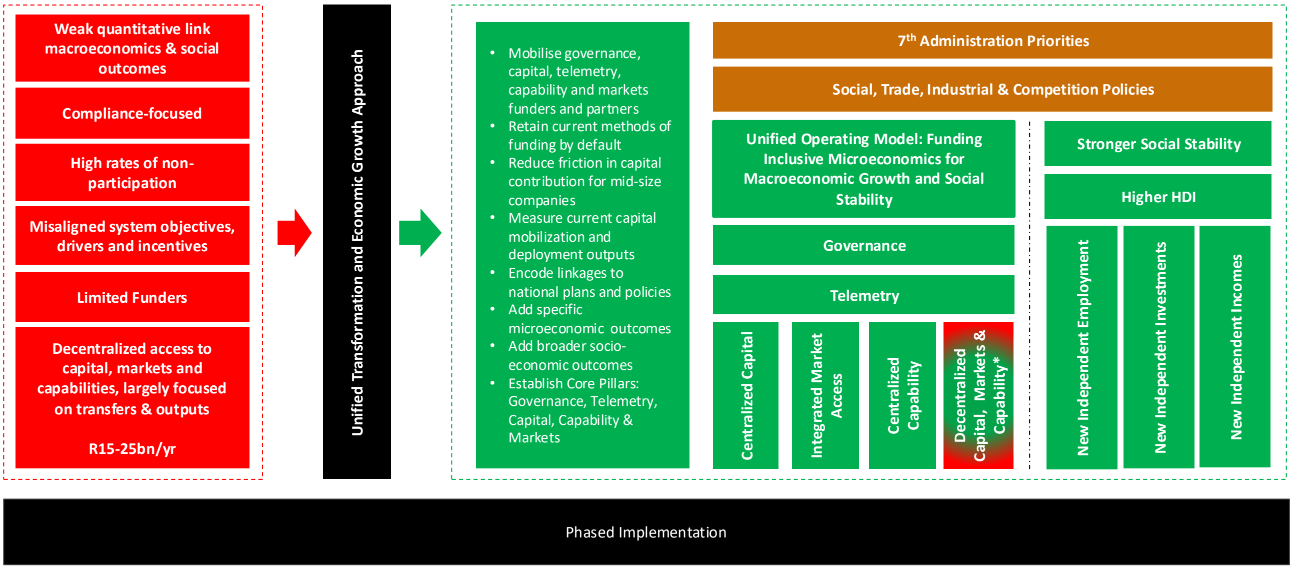
This entails treating enterprise support as an ongoing development of an inclusive market ecosystem, where today's beneficiaries become tomorrow's competitive suppliers and even funders in their own right. The focus on sustainability also means the system build beneficiary graduation pathways upfront: 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 program into unsubsidized 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.

5. SINGLE OPERATING MODEL & PILLARS

5.1. Overview

The Fund's Single Operating Model is built on four interlocking pillars – Access to Capital, Access to Capability (ATC), Access to Markets, a Transformation Index & 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.



* For large companies and independent impact agencies, directly or through industry/sector associations, that align with the objectives, are willing to subject themselves to the same scrutiny on outputs and outcomes as in the centralised capital and capability models, and have tighter loops into their own supply chains to drive access to markets. Such would typically have enough resources to provide the often-times complex capabilities required, the patient capital to support the transformation programs and enough demand in their supply chains to ready the new businesses meaningfully to external markets.

5.2. 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 incentivize capability uptake.

For example, funding may be tranched 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 the Access to Capital 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.

5.3. Access to Capability (ATC)

The ATC pillar is the centerpiece 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 programs 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 standardization and digitization 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.

5.4. Access to Markets

Even with capital and capability, small businesses cannot thrive without reliable demand. The Access to Markets 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 programs, 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.

5.5. Transformation Index & 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 decentralized initiatives, as described later will (auto) feed into a central data repository capturing metrics such as: capability uptake in the form of metrics such as percentage of workflows digitized 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 synthesized 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 fosters 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.

5.6. 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 Telemetry/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 decentralized initiatives to national outcomes through common metrics and transparent dashboards.

6. ACCESS TO CAPABILITY

A core innovation of this architecture is its microeconomic logic: by providing Access to Capability at scale, the model changes the cost-benefit calculus for small firms and their partners. Traditional theory holds that a firm will invest in a new activity if the expected marginal benefit exceeds marginal cost, adjusted for risk. The ATC platform fundamentally shifts this equation in three ways:

6.1. Lowering Marginal Costs

ATC dramatically reduces the marginal cost of participation in productive activities. By sharing high fixed costs across many firms, it allows each firm to access infrastructure or services at a fraction of the cost. For instance, rather than each micro-entrepreneur buying expensive equipment or software, a shared facility or cloud service lets them pay "only 1/N of the cost" – as more businesses join, "the marginal cost per firm approaches zero", effectively removing cost barriers to entry. This enables small producers to engage in activities such as processing, R&D and advanced logistics, that would have been unaffordable individually.

The outcome is a structural decrease in unit costs, which in turn makes these businesses more price-competitive in the market. In practical terms, an ATC-backed cooperative of small farmers can process goods or ensure quality at a unit cost comparable to larger incumbents, because the expensive parts are accessed on a shared platform. Lower marginal costs also mean a given amount of capital goes further, improving the efficiency of every Fund rand invested.

6.2. Raising Marginal Benefits (Productivity and Price Premiums)

Access to Capability also increases the marginal benefits a firm can obtain from any given investment by raising productivity and quality. Capability interventions like technical training, better process controls, or certification can boost a firm's output and the prices it can command. For example, a small manufacturer that attains an industry quality certification, through ATC support, can now bid for higher-value contracts or export orders, thus increasing its revenue potential per unit produced. Similarly, a farmer receiving agronomic guidance can achieve higher yield from the same inputs, effectively raising the productivity (total factor productivity) of her land and labor. In economic terms, ATC shifts the production function upward, so that even a modest investment yields more output than before.

The marginal revenue product of capital and labor increases. This means many projects that previously looked marginal or unprofitable (low expected yield or too low quality to compete) become viable once capability support is introduced. Studies cited in the ATC research show that firms receiving targeted support are significantly more likely to upgrade into higher value-chain activities and realize new market opportunities – evidencing that capability enhancements translate into concrete marginal benefits like broader market access and higher income per unit sold.

6.3. Reducing Marginal Risk

Perhaps most importantly, ATC alters the risk profile of emerging enterprises. High risk (or perceived risk) has historically deterred investment into new black-owned firms and kept credit costs exorbitant. Given that the model embeds firms in a monitored capability platform, it lowers the probability of failure and information asymmetry, thus shrinking the risk-adjusted cost of capital. For instance, using better production techniques and data analytics can reduce variance in outputs (e.g. less crop failure volatility with climate-smart farming practices), while supply-chain support ensures more reliable delivery and fewer disruptions.

Mentorship and robust operating data help entrepreneurs avoid costly errors, addressing the “limited experience” risk. All this translates into more predictable cash flows and a lower risk of default. In financial terms, as a firm’s capability intensity rises, its probability of default declines and its credit spread compresses. Lenders and investors gain verifiable data (e.g. real-time sales, inventory turnovers, quality stats) that reduce information gaps. Indeed, one goal of the telemetry is to demonstrate empirically that firms on the ATC platform become statistically safer credit bets, justifying lower interest rates and greater capital allocation to them.

The Fund will track metrics like spread compression and approval rates as capability rises, explicitly linking capability to improved bankability. Early evidence is promising: pilot programs show that bundling business support with finance greatly improves loan repayment and enterprise survival rates. By de-risking enterprises in this way, ATC enables a self-reinforcing cycle: cheaper capital and insurance, longer-term lending, and more willingness of buyers to rely on these suppliers – all of which further accelerate growth.

In summary, due to its focus on lowering structural costs, increasing returns, and mitigating risks, the ATC pillar creates microeconomic conditions for broad-based participation that simply did not exist under fragmented support models. It addresses the very market failures that have kept most black-owned MSMEs from scaling up. These efficiency gains at firm level aggregate to macro-level impact: more firms crossing the threshold of viability means higher aggregate output and employment, aligning micro incentives with South Africa’s inclusive growth goals.

6.4. Platform Economics: Increasing Returns through Shared Infrastructure

A platform-based approach to enterprise support has fundamentally different economics from traditional one-off programs. It involves a high upfront fixed cost to develop the software, content, and systems, but near-zero marginal cost for each additional user or firm added. In other words, once the platform is built, onboarding the 100th or 10,000th enterprise costs only a negligible amount. This generates economies of scale: as more firms participate, the average cost of delivering support plummets. The marginal cost curve essentially flattens, in stark contrast to conventional mentorship or consulting programs that incur roughly linear costs per additional firm. Every extra participant shares the same infrastructure, so the platform can serve ever more businesses for the same budget, dramatically improving cost-efficiency.

Network Effects and Increasing Returns

Beyond cost savings, a digital platform unlocks network effects that make it more valuable as it grows. The theory behind network effects is that platforms “get better as they get bigger”, benefiting users in increasing measure with scale. As more enterprises join and more data is accumulated, each user can reap greater benefits. For example, a larger user base attracts a wider pool of service providers and mentors, enriching the support ecosystem. Peer learning becomes possible as firms interact and share experiences, and data network effects enable richer insights – such as better benchmarking analytics or improved credit scoring models – which further enhance the service for everyone.

In essence, the platform’s value to each firm increases with the number of participants, realizing increasing returns to adoption rather than the diminishing returns seen in stand-alone projects. Even micro-enterprises can collectively tap into advanced tools and expert networks through a shared platform, achieving efficiencies usually reserved for large corporations. This dynamic is analogous to a “platform cooperative,” where small players band together via a common digital infrastructure to enjoy big-firm advantages in cost and innovation.

Global Examples of Inclusive Growth via Platforms

Real-world evidence from around the globe demonstrates how platform economics drive inclusivity-led growth. A striking example is Alibaba's Taobao platform in China, which has transformed thousands of rural communities into thriving "Taobao villages." By providing a nationwide e-commerce marketplace, logistics, and training support, the platform enabled even remote entrepreneurs to reach millions of customers. The results have been profound. The number of Taobao villages exploded from just 20 in 2013 to over 4,300 by 2019, as network effects drew in more sellers and buyers19. AliResearch (Alibaba's research arm) estimated that these rural e-commerce clusters created 6.8 million jobs in a single year (June 2018–June 2019) across the value chain. Incomes in such villages have surged: a World Bank study found that average household income in Taobao villages is nearly three times higher than the typical rural household's income in China20.

In fact, e-commerce participants now earn incomes comparable to or above urban workers – e-commerce workers in Taobao villages earn more than the national average for urban private-sector jobs. This illustrates how a digital platform can inclusively boost micro-entrepreneurs' earnings and opportunities at massive scale. Crucially, these gains were achieved with a platform model that adds sellers at almost no incremental cost, while each new seller actually enhances the platform's value through greater product variety and local job creation. The network's positive feedback loop – more sellers attracting more buyers, which in turn attracts more sellers – continues to fuel growthError! Bookmark not defined..

This phenomenon is not unique to China. Around the world, digital platforms have empowered small businesses by sharing infrastructure and market access. E-commerce marketplaces like Amazon, eBay, and Etsy connect millions of small sellers to global consumer markets, leveraging the same low-cost digital infrastructure to scale their reach. In Southeast Asia and Africa, entrepreneurs are adapting the Taobao village concept on homegrown platforms to bring rural producers online. In all these cases, the platform economy exhibits a "multiplier effect" on inclusion – once basic infrastructure and networks are in place, the marginal effort to support each additional business is minimal, yet the combined network creates outsized value for all participants.

Efficient Mass Inclusion and Policy Implications

From a microeconomic perspective, the platform-based Single Operating Model is exceptionally efficient for broad-based inclusion. Every Rand spent on capability support goes further as more firms join the platform, because the fixed development costs are spread over a larger base. Serving the 10,000th enterprise is dramatically cheaper – and more impactful – than serving the first, thanks to the high scalability of digital services. This efficiency is not just a theoretical perk; it is essential in contexts like South Africa, where millions of micro- and small enterprises need support but resources are limited. South Africa has roughly 3 million MSME entrepreneurs, accounting for over 13 million jobs – a scale of need that traditional, one-to-one support programs could never cost-effectively reach. A platform model like ATC's ensures that as the number of participating firms grows, the average cost of support declines, allowing far more entrepreneurs to be included for the same budget. It naturally incentivizes inclusion: the system actually becomes stronger and more cost-efficient with each additional user, creating a virtuous cycle of growth.

These dynamics also encourage consolidation and partnership. Because the returns to scale are so high, public and private stakeholders have a strong incentive to collaborate on one national platform rather than fragmenting efforts. When multiple agencies or funders pool their support into a single, shared infrastructure, they avoid duplicating fixed costs and instead amplify the network effects for everyone. The more unified the effort, the greater the payoff per participant – in terms of both lower costs and richer services. This logic underpins initiatives like the Transformation Fund's design as a pooled national vehicle, rather than a scattering of small, isolated programs. In summary, a digital platform approach is a fit-for-purpose strategy for inclusivity-led economic growth: it leverages increasing returns to scale and network-driven value creation to empower vast numbers of small firms, all while using resources in the most efficient way possible.

6.5. A Venture Capital Model for Inclusive Growth

The integrated architecture of Access to Capital, Capability and Markets, together with Telemetry and Governance deliberately mirrors the model of a venture capital fund with a portfolio of startups, adapted for public-purpose outcomes. In venture investing, providing money alone is rarely sufficient – leading VC firms dedicate significant resources to portfolio support services such as hiring advice, product development, governance and customer introductions, and closely monitor each startup's metrics post-investment.

The Transformation Fund's model is not too dissimilar to this approach, at scale: ATC functions as a platform VC portfolio services layer" for the Fund's investees, and the Transformation Index plays an analogous role to a VC's dashboard of portfolio key performance indicators (KPIs). This model marks a departure from government grant programs or corporate ESD schemes that often gave out money with minimal follow-up. Instead, the Fund will "run ATC like a portfolio services function at Fund scale", offering

a menu of business support services with service-level agreements (SLAs), vouchers, and performance-linked pricing where appropriate. Just as a VC firm might have an in-house team to help startups optimize their revenue model or implement accounting systems, the Fund's ATC platform provides talent development, financial management tools, process engineering support, export facilitation desks, and more – all coordinated to boost the human and financial capital productivity of the firms in the portfolio.

Critically, the Single Operating Model also demands the same rigor in outcomes as a private investor would. The Fund is designed with a "clear expectation of commercial outcomes" for supported firms – these being firms owned and operated by previously disadvantaged individuals in law: higher customer retention and revenue growth, faster payback on customer acquisition costs, rising EBITDA per worker. The result of positive performance at this firm-level granularity is less employment, more inclusivity, higher economic growth and stronger social mobility.

These metrics are comparable to what venture investors track for growth-stage companies and are built into the Transformation Index. Underperforming investments can be identified early via telemetry, and course-corrective support or governance interventions applied – much like a VC might intervene in a struggling startup. In essence, the Fund treats each beneficiary not as a grantee but as a portfolio company to be steered toward success. Capital is deployed in a "conditional and catalytic" manner, meaning funds come with strings attached, such as adoption of certain capability measures and hitting milestone targets, and are intended to unlock further growth capital, not just temporarily prop up the firm. This mimics how VC funds tranche their investments and seek to catalyse follow-on funding from the market.

Another hallmark of the VC model is the alignment of incentives – the Fund's governance and incentive structure will ensure that support providers, fund managers, and the entrepreneurs all have skin in the game for achieving results. For example, service providers on the ATC platform might have performance-based fees such as rewarding them for client growth or graduation, and entrepreneurs could receive fee waivers or lower interest rates as their capability maturity increases and risk falls, mirroring how better startup performance attracts cheaper capital.

The net effect is a tightly integrated system where financial and non-financial instruments work as one. Such integration is rarely achieved in traditional development programs. By learning from venture capital's success in nurturing high-growth firms, the Transformation Fund aims to induce high-growth trajectories in a broad base of small enterprises – with the difference that success is measured not just in profit, but in jobs, inclusion and community impact as well.

7. ACCESS TO CAPITAL

7.1. Funding Sources

A crucial aspect of the Transformation 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. Equity Equivalent Investment Programme (EEIP) Contributions

A significant private sector funding stream will come through the B-BBEE Act's Equity Equivalent Investment Programme. 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 Transformation 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 fulfill 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. Enterprise and Supplier Development (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 Transformation 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 recognize contributions to the Transformation Fund as a qualified form of ESD spend, yielding the same or enhanced scorecard points as if the company ran its own ESD program. 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's 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 utilized, 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. Development Finance Institutions (DFIs) and Impact Investors

The Fund will seek complementary funding from both domestic DFIs and international development partners such as multilateral banks, export credit agencies, and impact investment funds. These institutions often have mandates overlapping with the Transformation 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 programs: for example, a grant from a tech philanthropy to set up a technology startup 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 ~R50 million–R1 billion) often struggle with the complexity and overhead of running full ESD programs. 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 utilize 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.

The "BEE3" or Transformation Levy concept been proposed by some members of the business community to address this gap. In broad terms, the proposal argues for a simpler, elective route to empowerment compliance, with a levy collected through the tax system and ring-fenced to finance black-owned MSMEs via an independent, professionally governed vehicle. The proposal's stated intent is to replace fragmented, high-friction and often times, low participation rate or "tick-box", spend with a predictable contribution that can be deployed at scale, transparently, and with clear, measurable impact on enterprise growth and jobs. The Fund recognises the seriousness of purpose behind this idea and the potential complementarities with its mission to expand access to capital, capability and markets for black businesses.

At the same time, the proposal's scope is deliberately wide and reaches well beyond the mandate and governance envelope of the Transformation Fund. It traverses tax policy and administration, amendments to the B-BBEE Codes and sector charters, the treatment of certificates in public procurement, alignment with employment equity and management control objectives, and questions of fiscal design, public finance, and market conduct. These are matters that, by law and convention, must be considered through the state's formal policy and legislative systems rather than through programme instruments such as this Fund.

Accordingly, the current position of the Fund is twofold. First, the Fund acknowledges the proposal in principle and the goal it pursues: to channel larger, steadier flows into high-impact MSME development under strong governance. Second, because of its system-wide implications, the Fund will ensure that the document is processed through the appropriate formal pathways—including policy review within **the dtic**, including the B-BBEE Commission, engagement with National Treasury and SARS on fiscal and administrative feasibility, consultation with the Department of Employment and Labour on equity safeguards, analysis against the socio-economic impact assessment system (SEIAS), and structured social dialogue with NEDLAC and the general public. Should those processes point to legislative change, that work would proceed through the normal drafting and Cabinet cycles.

In the interim, the Fund will continue to operate under its approved design, recognition, and resourcing model, whilst standing ready to contribute technical input to the relevant authorities as they consider the proposal.

7.2. Mobilisation Strategy

To secure these diverse sources, a proactive strategy will be employed. **the dtic**, together with National Treasury and other key ministries, will lead engagements with corporate South Africa, including Business Unity SA (BUSA), Business Leadership SA (BLSA), the Black Business Council (BBC), and other industry bodies. The goal is to secure buy-in and firm pledges from major companies to contribute ESD and EEIP funds into the Transformation 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 addresses any legal/financial concerns upfront.

The Fund will also coordinate with the B-BBEE Commission and verification agencies so that the BEE 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 Transformation 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 Transformation 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 capitalization 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 Transformation 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.

7.3. Investment Approach

7.3.1. Detailed Description of Windows & Investment Instruments

The Transformation 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 startups or underserved sectors, and another might back market access enablers. Importantly, the Fund's governance will formalize the exact terms and criteria of each instrument – the focus here is on the conceptual architecture that departs from business-as-usual.

7.3.2. 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, centralized 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 support).

The Transformation 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 emphasize 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 programs. By ring-fencing critical activities like project prep, 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.

Deal Discovery & 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 programs, or an ERP system subsidized 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 recognizes that many MSMEs fail "less for want of money than for lack of market access and capacity to deliver quality at scale".

Terms & 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 digitizes 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 program 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 productized and measurable, and markets are assured via structured demand linkages. This is a deliberate departure from status quo programs that were fragmented, bureaucratic and disconnected from on-the-ground realities. By embedding simplicity and innovation into each instrument, the Transformation Fund aims to unlock latent enterprise potential that purely private funding mechanisms have left untapped.

7.4. Target Market Segmentation

The Transformation Fund's target market is intentionally broad but segmented to prioritize 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:

7.4.1. Informal and Start-up Enterprises

Very small or informal start-ups such as township traders, emerging farmers and micro manufacturers that need support to formalize 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. The focus on new greenfield projects and early ventures, promotes entrepreneurship, enabling a new and formal industry of innovation startups and also creating a clear path for informal enterprises to enter the formal sector and as a result, benefit from more stable business operations and/or opportunities growth.

7.4.2. 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 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 industrialization directly expands black asset ownership.

7.4.3. Growth-Phase MSMEs

Small and medium firms that have survived initial hurdles and are ready to scale. These include businesses needing finance to fulfill 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.

7.4.4. 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 and geographic extension, including buy-and-build M&A and eventual public listing. The Fund backs these enterprises with growth equity/mezzanine and acquisition finance, 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.

7.4.5. Cooperatives and Collective Enterprises

Enterprises owned and run by communities or member groups such as 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.

7.4.6. 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 such as accepting alternative forms of credibility beyond collateral, and providing linked technical support, the Fund's products will enable more female- and youth-led MSMEs to qualify for capital that was previously out of reach.

7.4.7. 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 centers. In practice, this means prioritizing 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.

7.5. Proposed Investment Products

To meet the needs of its diverse target market, the Transformation 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 – emphasizing 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 support. Below are the key proposed investment products and their intended use-cases:

7.5.1. Startup and Informal Business Grants

Instrument: Small startup 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, or hitting a first sales target). By front-loading technical support alongside funding, the product ensures that even inexperienced entrepreneurs can utilize 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 formalization, 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, digitizing 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.

7.5.2. 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 fulfill 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), recognizing 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% on-time delivery performance, or improving its financial record-keeping. Because these milestones reflect capability improvements (not just financial ratios), the enterprise is incentivized 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 end 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.

7.5.3. 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 startups 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 enterprises 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 programs 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 democratizing 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 benefiting.

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 tranched, 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 signaling that the venture has institutional support and strong oversight, thereby crowding in additional capital to multiply impact.

7.5.4. Blended Finance and Guarantees

Instrument: Blended financing solutions that combine public and private capital, potentially including first-loss guarantees, subsidized 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 underutilized due to cumbersome processes and misalignment with banks' incentives. The Transformation Fund will design its guarantees to be user-friendly for both MSMEs and co-lenders. That means standardizing and digitizing 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 isn't 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 (Section 7) 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" program. Here, ATC 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 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.

7.6. 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 - digitizing 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 digitized 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 recognized quality management system within 6 months", "Adopt inventory/ledger software and achieve 100% e-invoicing of sales", "Maintain an OTIF (On-Time-In-Full 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 license)". 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's 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'll 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 modernization: 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 subsidizes the technical support to achieve those milestones – so the entrepreneur is not left alone in meeting the conditions. It's 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 Transformation 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 end 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 Transformation Fund de-risks the previously "un-bankable" segment and paves the way for true financial inclusion.

8. ACCESS TO MARKETS: SECTOR ATC HUBS & 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 centers: specialized 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 standardized 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 don't 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 licenses, 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 creates 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 specialized small-firm networks can be highly competitive globally . 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: specialization, 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 digitized 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 MSMEs . 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 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 street lights, for instance, there's 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 institutionalize 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 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's been collected per the Council's spec) 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 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 programs have successfully paired emerging suppliers with guaranteed offtake agreements or mentoring from lead firms. The Buyer Councils take such bilateral efforts to a multi-lateral, ecosystem level, ensuring that it's 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 commercialization – 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 Transformation 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 programs 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. TELEMETRY: DIGITAL INFRASTRUCTURE, IMPACT OVERSIGHT & 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, analyze, 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.

9.1. 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 systematized – 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.

9.2. Impact Dashboard & Analytics

The incoming data streams feed into an interactive dashboard accessible to the fund's managers and oversight bodies. This impact dashboard visualizes 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.

9.3. 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.

9.4. Metrics

To illustrate how key metrics are monitored and managed through digital means, the table below outlines several core indicators, along with their rationale & interpretation, specifics and collection method, and potential actions by the fund:

9.4.1. Inputs

Metric	Rationale & Interpretation	Specific Measure & Digital Collection	Potential Fund Response
Discovery – qualified pipeline	Gauges market reach and investable opportunity; a growing, diverse and well-scoped pipeline indicates healthy deal flow; low quality implies mis-targeting.	# of qualified opportunities by segment/region; conversion rate from lead to decision point; auto-sourced with eligibility screens and time-stamps.	Refocus sourcing partners/ sectors; sharpen screening; adjust outreach in under-represented regions/ segments.
Discovery – eligibility rate	Shows fit between applicants and mandate; rising rates mean messaging and criteria are clear.	% of leads passing mandate or eligibility checks; auto-calculated.	Update guidance; run pre-screen clinics via ATC Hubs; expand mobilisation reach.
Enrollment – cohort intake	Tracks on-boarding pace and inclusion mix; diversity signals mandate fidelity.	# enterprises enrolled by size, sector, demographics, geography; captured via onboarding portal.	Rebalance intake to meet inclusion targets; open themed calls.
Enrollment – time-to-enroll	Measures friction; shorter cycle reduces attrition.	Median days from expression of interest to enrollment; system time-stamps.	Improve automation; Streamline processes; add support; simplify documentation.
Capital deployment rate	Ensures capital is put to work; low rates signal pipeline or execution bottlenecks.	% of available capital disbursed (monthly/quarterly); finance system & investment database.	Unblock approvals; stage tranches; accelerate co-investment/guarantee usage.

Metric	Rationale & Interpretation	Specific Measure & Digital Collection	Potential Fund Response
Time from approval to first disbursement	Operational agility indicator; long lags erode impact.	Median days from approval to first tranche; workflow time-stamps.	Improve automation; Pre-clear legal packs; parallelize conditions precedent; deploy standard term sheets.
Allocation by enterprise development window	Checks strategy execution across windows (startup/growth/venture/strategic).	% deployed per window/sector vs plan; BI pull from portfolio database.	Rebalance pipeline; adjust targets if market reality dictates; open new calls.

9.4.2. Operational

Metric	Rationale & Interpretation	Specific Measure & Digital Collection	Potential Fund Response
Supplier development – OTIF (On-Time, In-Full)	Core reliability KPI; high OTIF/ low defects →buyer confidence and larger orders; low OTIF reveals process/capacity gaps.	% OTIF; defects/returns rate by supplier/sector; API from buyer ERP/WMS; e-PODs; ATC QA logs.	Trigger ATC sprints (planning, QA, logistics); link next tranche to sustained OTIF; route high performers to Buyer Councils.
Digital capability adoption	Proxy for operational maturity; higher adoption lowers cost/risk.	% ledgers live; % e-invoices; % shipments traceable; platform telemetry & API to ERP/POS/ track-and-trace.	Issue vouchers; mandate modules pre-tranche; peer clinics via Hubs.
Certification & assurance coverage	Market access prerequisite; low coverage constrains revenue.	#/share with required certificate document uploads & verifier API.	Fund audits; group certification cohorts; unlock Buyer Council pilots.
Portfolio ROI & financial sustainability	Ensures fund viability; poor ROI threatens recycling and scale.	Portfolio IRR/ROI; system cashflow model; quarterly.	Tighten underwriting; rebalance instruments; reduce costs; pursue exits.
Crowd-in/ leverage ratio	Tests catalytic effect; higher ratios indicate blended finance working.	Rand private/DFI capital mobilised per Fund rand; transaction records.	Scale guarantees; showcase cases; engage additional co-investors.
Credit performance, PD & spread compression	Validates capability-linked de-risking; falling PD/spreads mean bankability rising.	Default Probability change; bps spread change at renewals; lender data + covenant dashboards.	Increase CLF usage; negotiate better pricing; add CFO support.
Working capital efficiency	Operational finance health; improved cycles free cash.	DSO/DPO/DIO changes; ERP extracts.	Implement receivables finance; inventory planning sprints; supplier terms programs.

9.4.3. Microeconomic Outcomes

Metric	Rationale & Interpretation	Specific Measure & Digital Collection	Potential Fund Response
Revenue growth	Validates business traction; broad stagnation signals market/ capability gaps.	YoY revenue growth per investee; financial uploads/API; verified annually/quarterly.	Tailored go-to-market; Buyer Council intros; adjust product/sector mix.
EBITDA per worker	Productivity proxy; rising values indicate capability gains.	EBITDA/employee trend; financials + HR portal.	Lean ops sprints; automation vouchers; management coaching.

Metric	Rationale & Interpretation	Specific Measure & Digital Collection	Potential Fund Response
Stage graduation rate	Pipeline health; rising rates show effective support; stagnation = constraints.	% moving Stage n→n+1 within SLA (e.g., 12–24m); milestone engine (ERP, QA, OTIF, controls).	Diagnose; reallocate vouchers; refine playbooks; tweak milestones.
Drop-out rate (with reason codes)	Early warning for mis-fit/overload; protects portfolio quality.	% exiting before completion; reason codes; CRM workflow + exit survey.	Pre-diagnostics; right-size cohorts; add hands-on cadence; pause tranches if needed.
Successful system exit rate	Sustainability beyond Fund; frees resources.	% transitioning to commercial finance/anchor contracts/listing and off-support ≥12m; evidence uploads & third-party verification.	Strengthen market access; CFO/governance sprints; design follow-on instruments.
Bankability score	Measures readiness for market finance; upward trend confirms model.	Composite (audits, controls, collateral, PD/spread, covenants met); lender API & portal docs.	Bridge with guarantees; targeted compliance support; re-sequence milestones.

9.4.4. Macroeconomic Outcomes

Metric	Rationale & Interpretation	Specific Measure & Digital Collection	Potential Fund Response
Employment – net jobs	Primary societal outcome; jobs/R invested shows efficiency.	Net jobs created/retained; jobs per R1m invested; HR portal + payroll uploads; verified samples.	Shift toward higher job multipliers; scale proven models; intensify hub support.
Employment – inclusion quality	Ensures equity; women/youth/ township share tracks mandate.	% jobs for women/youth; formalisation/benefits; geo distribution; HR portal + geotags.	Targeted programs; incentives for inclusive hiring; regional hub boosts.
Export revenue	Diversification/FX earnings; tracks AfCFTA corridor uptake.	Export sales share; # markets; AfCFTA certificates/logistics lanes; customs/third-party data + uploads.	Export readiness sprints; certify cohorts; logistics finance; buyer matching.
Taxes & formalisation	Broadens fiscal base; sustainability of transformation.	Growth in VAT/PAYE/CIT paid; # entering tax net; SARS proof uploads (with privacy controls).	CFO clinics; compliance vouchers; formalisation pathways.
Industrial policy alignment	Ensures coherence with national priorities.	% capital into priority sectors/ masterplans; localisation content; township/rural share; green KPIs.	Rebalance pipeline; localisation sprints; green/ transition instruments; escalate successes to policy forums.

Table: Key Metrics for Impact Oversight – *showing why each metric is tracked, its type, how it is collected digitally, its interpretation, and how the Fund may respond to the insights.*

The above metrics are continuously monitored via the fund's digital systems. Management and the Board can drill down into each indicator's details 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. GOVERNANCE & ACCOUNTABILITY, RISK & COMPLIANCE

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 recognizing stakeholder contributions.

10.1. Structure & Committees

10.1.1. SPV Legal Structure

The transformative investment 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 foster 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 & 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 & 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 & 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 & 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 fund'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 emphasizes accountability, expertise, and checks-and-balances.

10.1.4. Accountability: Public Reporting & 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 incentivize 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 Enterprise and Supplier Development 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 recognizing 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 recognized 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.

10.2. Risk, Safeguards & Compliance

10.2.1. Regulatory & Policy Alignment

The Transformation 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.

Medium Term Development Plan (MTDP) 2024–2029: The Fund is also aligned with the MTDP's developmental priorities. The MTDP emphasizes 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 71 of 2008: The Fund's SPV will be incorporated in line with the Companies Act, 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 utilize 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 rigor 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 utilized, 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 ethos 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 (FICA) to implement anti-money laundering controls, and any licensing 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 & 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 Acts 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.

10.2.2. Data Protection & Cybersecurity

The Fund recognizes 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 (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 IoT-enabled telemetry to track usage of assets financed. These technologies improve oversight but also introduce specific cyber risks.

10.2.3. Anti-capture & 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.

10.2.4. 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.

10.2.5. 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.

10.2.6. 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 programs – 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 addresses this through clearly articulated and managed procurement and contracting policies.

10.2.7. 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 organizations, 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.

11. EXECUTION STRATEGY & PHASING

The Transformation 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, development finance institutions (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 special purpose vehicle (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 and DFI partners through MOUs. 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 Activation 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 Enterprise & Supplier Development spend into the platform. Early wins and lessons from Activation 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 & 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.

Scale-Up 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 programs 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.

P**hase 4: Institutionalisation (Sustainability & Policy Embedding).** In the final phase, the Transformation 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 Transformation 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 Medium Term Development Plan 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 end result is an institutionalised Transformation 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.

12. 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 Transformation 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 under-investment 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 – a Special Purpose Vehicle (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 Access to Capability (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 Transformation 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 Transformation Fund is in full alignment with South Africa's national development vision and international development principles. Its objectives directly support the Medium Term Development Plan (MTDP) 2024–2029 priorities of building an inclusive, job-rich economy, and as results, it represents an important tool in advancing the National Development Plan'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 Transformation Fund is more than a new government programme; it is a strategic institution 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 foster 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.

ANNEXURE: LEGAL ASSESSMENT OF THE TRANSFORMATION FUND UNDER SOUTH AFRICAN COMPETITION LAW

1. Overview of the Transformation Fund and ATC Platform

The Transformation Fund is a proposed R100-billion public-private fund aimed at accelerating economic transformation in South Africa. It introduces a third pillar of support – Access to Capability (ATC) – alongside access to capital and markets. Central to the model is a digital ATC platform that functions as a comprehensive ecosystem or one-stop support hub for emerging businesses. Through this unified platform, underserved entrepreneurs can access financing, training, mentorship, market linkages, and business tools in one place. The platform also incorporates a central telemetry and data dashboard to track firm performance and measure outcomes of support interventions over time. This single operating model – effectively a pooled SPV under independent oversight – seeks to align and centralize capital, market access, and capability-building tools for inclusive growth.

The ambitious scope and centralized design of the ATC platform promise scale efficiencies and network effects – it can accommodate tens of thousands of users and standardize support services nationwide. However, this very centralization also raises potential competition law considerations under South Africa's Competition Act, No. 89 of 1998. In assessing the Fund's design, we examine whether aspects of its architecture might risk contravening provisions on abuse of dominance, collusion, restrictive practices, foreclosure, price discrimination, or essential facilities.

2. Relevant Competition Act Provisions and Competition Concerns

South Africa's Competition Act 89 of 1998 prohibits a range of practices that could lessen competition or exploit market power. Key provisions potentially relevant to the Transformation Fund and ATC platform include:

Abuse of Dominance (Section 8): A firm is dominant if it has ≥45% market share (or ≥35% with market power). Dominant firms may not abuse that position through exclusionary or exploitative conduct. Section 8 lists specific exclusionary acts (e.g. exclusive dealing, tying, predatory pricing, refusal to supply) which are per se prohibited for a dominant firm absent offsetting pro-competitive gains. It also broadly prohibits any other exclusionary act by a dominant firm that has an anti-competitive effect not justified by efficiency or technology benefits. Additionally, a dominant firm may not charge excessive prices to the detriment of consumers (8(1)(a)) or refuse access to an essential facility (8(1)(b)) without just cause.

Restrictive Horizontal Practices (Section 4): Agreements or coordination between competitors are forbidden if they substantially lessen competition, unless efficiency or public interest benefits outweigh the harm. Certain hardcore cartel conduct – price-fixing, market allocation, bid-rigging – is flatly illegal between competitors. Notably, even a "decision by an association of firms" that limits competition can fall afoul of Section 4.

Restrictive Vertical Practices (Section 5): Agreements between parties at different levels of the supply chain (vertical relationships) are prohibited if they have an anti-competitive effect and no countervailing pro-competitive gains. For instance, exclusive supply or distribution arrangements that substantially foreclose rivals could violate Section 5(1). Minimum resale price maintenance is specifically prohibited (Section 5(2)), though that is less likely to apply here.

Price Discrimination (Section 9): A dominant firm, when selling goods or services, may not discriminate between purchasers by offering different prices or terms for equivalent transactions if this is likely to substantially lessen competition or impede small/HDI firms' ability to compete. The Act specifically protects MSMEs and historically disadvantaged persons (HDPs) from unfair discrimination by dominant suppliers. Different treatment is allowed only if it's cost-justified, in response to changing market conditions, or meets other defences in Section 9(2)-(3).

Essential Facilities (Section 8 & definitions): The Act defines an "essential facility" as an infrastructure or resource that cannot reasonably be duplicated and is necessary for competitors to provide services to their customers. A dominant firm's refusal to give a competitor access to an essential facility (when economically feasible to do so) is prohibited. This principle ensures critical inputs or platforms are available on fair terms to avoid foreclosure of downstream or upstream markets.

With these provisions in mind, we analyze the Transformation Fund's model for any structural or behavioural competition concerns. The analysis is grounded in South African competition jurisprudence – including past Competition Tribunal cases, Competition Commission guidelines, and the Act's own objectives of promoting participation and fairness. We distinguish areas where actual legal risk is low (but stakeholder perception of anti-competitive risk may be high) versus areas that might pose substantive competition law issues requiring intervention or safeguards.

3. Potential Abuse of Dominance and Exclusionary Conduct

Dominance of the ATC Platform: If the ATC platform succeeds at scale, it could become the primary (perhaps sole) gateway for MSMEs to obtain business development support and access key markets. The platform's design explicitly aims for scale economies and network effects, given high fixed costs and near-zero marginal costs. This implies a natural tendency toward a single dominant platform: the more users and partners it attracts, the more valuable and entrenched it becomes. Should the Transformation Fund's platform attain a dominant market position in, for example, the "enterprise support services" market or as an intermediary for MSME financing/procurement, it would come under the purview of Section 8. A dominant platform operator (even if an SPV or public-private entity) would need to avoid the exclusionary abuses enumerated in the Act.

Exclusive Dealing and Foreclosure: One concern is if the Fund or its platform requires exclusivity from participants. For instance, imagine the platform inducing corporate buyers or service providers "not to deal with" any alternative MSME support platforms or funds – this could resemble the kind of exclusive contracting that Section 8(d)(i) outlaws for dominant firms. In the Computicket case, a dominant ticketing platform enforced long-term exclusive agreements with event venues, preventing them from using competing ticket services. The Competition Tribunal found this to be an abuse of dominance, as it foreclosed competitors from reaching the scale needed to compete effectively. By analogy, if the Transformation Fund's SPV were to sign exclusive deals (say, with training content providers, or with certain corporate procurement programs) that lock in key partners and exclude rival initiatives, it could risk a similar finding. The foreclosure of markets is a central concern: the Commission would ask whether the Fund's arrangements make it unduly difficult for any alternative channels or support providers to exist. Any tie-in arrangements – e.g. making access to funding conditional on using the ATC platform's own software or consultants – would also raise flags under Section 8(d)(iii) (prohibited tying/bundling by a dominant firm).

It is crucial that the ATC platform remains open and non-exclusive: MSMEs should be free to use other services, and corporates should be free to maintain independent enterprise development programs if they wish. The Fund's design should avoid any perception of "all-or-nothing" participation that might exclude or punish those outside the platform. Not only does this reduce legal risk, but it also counters the perception that the Fund is a monopolistic "walled garden." Fortunately, the stated intent is to be an inclusive ecosystem; enforcing that intent through clear policies (no exclusive dealing clauses, flexible participation terms) will help guard against Section 8 violations.

Refusal to Deal and Access Discrimination: A dominant ATC platform would also have to guard against exclusionary refusals to deal – for example, arbitrarily denying a qualified MSME access to the platform, or blocking a particular supplier of capability tools from integrating. If the platform becomes essential for reaching certain markets (see Essential Facilities below), denying access without objective justification could constitute an abuse. South African case law underscores this: in the Telkom case, Telkom was found to have abused dominance by refusing competitors access to critical telecom lines, which were deemed an essential facility because they couldn't be feasibly duplicated and without them ISPs could not provide services. Similarly, the Fund's operators must not "freeze out" any class of users to favour others. Robust, transparent eligibility criteria and appeals processes can mitigate perceptions of bias or exclusion. Even where actual risk is low (the Fund presumably wants to onboard as many MSMEs as possible), perceptions may run high among those who fear being left out. Proactively communicating that access will be broad-based and non-discriminatory is therefore as important as the legal safeguards themselves.

Predatory Pricing or Margin Squeeze: The Fund might offer heavily subsidized services or finance (e.g. below-market interest loans, free training modules) to MSMEs. Normally, low pricing to spur MSME uptake is pro-competitive and aligns with developmental aims. However, if the platform were private and dominant, sustained below-cost pricing intended to drive out other MSME support providers (for example, private consulting firms or incubators) could be construed as predatory under Section 8(d)(iv). Given the Fund's public-interest motive, predatory intent is unlikely – but it should still ensure that any pricing strategies (such as the proposed Ramsey two-sided pricing model) are transparent and objectively justified (e.g. cross-subsidies from corporate analytics fees are to maximize network benefits). Likewise, if the platform intermediates between funders and MSMEs, it must avoid a margin squeeze scenario – for instance, not setting usage fees for MSMEs and analytics fees for funders at levels that squeeze out third-party intermediaries or fintech firms. These possibilities are remote at this stage, but as the platform grows the governance should include competition compliance reviews to adjust any practices that could inadvertently distort competition.

In summary, the Transformation Fund must be vigilant as it scales up: once a firm (or platform) is dominant, conduct that was innocuous when small can become unlawful. The Fund's governance structure – with independent oversight and ring-fenced accounts – is a good start, as it can help ensure no single stakeholder uses the platform's dominance to exclude rivals or exploit participants. Continued oversight (possibly involving the Competition Commission in an advisory capacity) could further bolster legal robustness on this front.

4. Risks of Collusive Behaviour (Horizontal Agreements)

The Transformation Fund is inherently a collaborative venture – it pools capital and resources from multiple firms (including private corporations) in a single vehicle. This raises the question of whether such collaboration could be seen as an agreement between competitors that has anti-competitive effects, contravening Section 4(1) of the Act. Several potential scenarios require careful management:

Collective ESD Funding Decisions: Firms in the same industry might ordinarily compete (at least implicitly) in how they find and develop suppliers or earn black economic empowerment (BEE) credits. If they agree to channel all their enterprise/supplier development spend through one Fund, is this anti-competitive "collusion"? On its face, pooling ESD funds doesn't restrain competition in a product market – it may even enhance competition by strengthening suppliers. However, there is a theoretical risk if the arrangement leads to a standardization of behavior that lessens competition. For example, if firms use the Fund as cover to agree not to poach each other's MSME suppliers or not to outbid each other in supporting certain startups, that could reduce rivalry in developing supply chains. Section 4(1)(a) prohibits any horizontal agreement that substantially lessens competition, absent pro-competitive gains. The pro-competitive justifications here are strong (capability-building efficiencies, avoidance of duplicative efforts, greater overall inclusion), and they would likely outweigh any slight lessening of competition in "ESD rivalry." Still, the optics matter – the Fund should avoid any semblance of firms partitioning the MSME development market among themselves.

Information Sharing: The ATC platform's telemetry and data dashboard will collect sensitive data on MSMEs' financials, operations, and possibly on corporate procurement needs and performance. If competing firms (say two banks, or two large buyers) both participate, there is a competition law duty to prevent strategic information exchange. Directly sharing future procurement plans, pricing intentions, or other non-public market data among competitors can amount to a concerted practice under Section 4. A worst-case example would be if two corporate contributors use the platform's data to coordinate their procurement or bidding strategies (which could be collusive). To mitigate this, data governance protocols must strictly segregate and anonymize competitively sensitive information. Each firm should access only what it needs for its own purposes, and aggregate analytics should be handled by neutral staff. The Competition Commission has flagged concerns in digital market inquiries that platforms not become a conduit for collusion or self-preferencing. In our case, the Fund's administrators should implement Chinese walls and perhaps consult the Commission on an acceptable information-sharing policy. This will address a high-perception-risk area: businesses might worry the platform allows big players to compare notes on suppliers or prices. Clear safeguards can assure them the platform is not a cartel toolkit but a development tool.

Association of Firms Decisions: The Fund's governing SPV could be seen as an "association of firms" if its board comprises representatives of multiple companies. Any decision of that board that influences how those companies behave in the market could fall under Section 4 scrutiny.

For example, if the Fund's board decided that all member companies should collectively boycott a certain supplier (perhaps due to non-compliance or other reasons), that could be deemed a concerted refusal to deal – essentially a coordinated boycott, which would likely contravene Section 4(1)(b) as an indirect form of market allocation or collusive conduct. To avoid this, the Fund's governance should focus decisions on the Fund's own operations, not on dictating independent competitive behavior of its contributors. Each firm must remain free to make its own business decisions outside the Fund (aside from the agreed contributions). The charter and minutes should reflect that the SPV does not serve as a platform for competitor coordination on pricing, market share, or other competitive parameters. Keeping a compliance lawyer or observer in key meetings would be prudent.

It is worth noting that South African competition policy does allow certain collaborations in the public interest, provided they are properly approved. Section 10 of the Act enables firms to apply for exemptions if their agreement "contributes to socio-economic objectives" like the development of MSMEs or expanding economic opportunities for HDPs. In fact, in 2024 the Minister and Commission introduced a block exemption to encourage MSME participation, exempting certain joint R&D, production, and joint purchasing/selling arrangements among smaller businesses. While that exemption is aimed at cooperation by MSMEs, it reflects a broader willingness to relax restrictions when the goal is to empower smaller players.

The Transformation Fund consortium could similarly seek an exemption or comfort from the Competition Commission for its cooperative framework. For example, the Minister might issue a block exemption for transformation collaborations under Section 10(10), declaring that agreements to pool resources for MSME development are exempt because they give effect to the Act's purpose of increasing ownership opportunities for historically disadvantaged persons. Even absent a formal exemption, the Commission's public statements and the Act's own preamble support the idea that transformation and inclusion are in the public interest. The Fund should leverage these provisions to ensure it remains on the right side of the law. In practical terms, this might mean obtaining a formal legal opinion or advisory from the Commission early on, and if necessary, structuring certain cooperation agreements to fall within existing exemptions (such as treating the Fund as a legitimate joint venture with integration, rather than a naked cartel).

In short, blatant collusion risks are low if the Fund is operated with proper checks – all participants share the goal of MSME empowerment rather than fixing prices or divvying up markets. However, perceived risks could be high if sceptics view the Fund as "big business clubbing together." Proactive measures – transparency, competition compliance policies, and perhaps regulatory pre-clearance – are essential to maintain trust and legality.

5. Restrictive Vertical Practices and Market Foreclosure

The ATC platform sits at the nexus of multiple vertical relationships: between the Fund and MSMEs (investor–recipient), between MSMEs and corporate buyers (supplier–customer), and between the platform and various service providers (platform–third-party tools). Vertical arrangements in these contexts must be scrutinized for any restrictive terms that could lessen competition or foreclose market access for certain players, in violation of Section 5(1).

Integration with Procurement (Buyer Power Concerns): One of the Fund's aims is to improve market access by integrating MSMEs into supply chains. If large corporate buyers or government entities commit to sourcing via the ATC platform, this creates a vertical linkage between the platform and these buyers. On the positive side, it guarantees market opportunities for MSMEs. The risk is if these arrangements become exclusive – for instance, if a government department agrees to use only ATC-registered suppliers for certain tenders. This could inadvertently foreclose MSMEs who, for whatever reason, are not on the platform. It might also disadvantage any alternative intermediaries or incubators trying to place MSMEs with buyers. Foreclosure can occur when a dominant buying group or platform locks up a critical mass of one side of the market, leaving no room for competitors. To avoid this, any procurement programs leveraging ATC should not preclude other qualified suppliers. A balanced approach would be to allow ATC to complement existing supplier development channels, not replace them outright. If ATC effectively becomes a mandatory gateway for doing business (especially with the state), then regulations ensuring open enrollment and fair access become even more vital (or else legislative authorization is needed to legitimize such a requirement in light of competition principles).

Supplier Restrictions and Vendor Lock-In: Conversely, consider the vertical relationship between the Fund (or platform) and the MSMEs it supports. The Fund might provide capital or technical support in exchange for certain commitments from the MSME. If these commitments include restrictive provisions – say, the MSME must sell a certain percentage of output through a particular partner or cannot seek funding from other sources – that could hinder the MSME's freedom to compete. One can imagine a scenario where an MSME in the Fund's portfolio is effectively tied to serving one large customer (perhaps one of the corporate funders) through an offtake agreement facilitated by ATC. While such arrangements can provide stability and guaranteed sales (pro-competitive for a newcomer), they should be carefully reviewed to ensure they don't constitute exclusive dealing that forecloses the MSME's access to other markets or other buyers' access to that MSME. If the Fund were dominant and it induced MSMEs to not deal with any other financiers or buyers, it could trigger Section 8(d)(i) liability (exclusive dealing) as discussed above. Even if not dominant, a network of such vertical restraints could raise Section 5 concerns about a substantial lessening of competition in procurement markets.

Vertical Integration and Self-Preferencing: The platform might offer its own suite of services (training modules, ERP-lite software, etc.) and also allow third-party providers to offer services to MSMEs. If the platform operator also competes with those third-party service providers, there is a temptation to favour its own services – for example, highlighting its proprietary ERP tool on the dashboard while burying a rival's offering. In digital markets globally, such self-preferencing by platform owners has drawn antitrust scrutiny (as seen in cases involving Amazon, Google, etc., albeit under different jurisdictions). The Competition Commission's ongoing inquiries into online platforms indicate a sensitivity to how platform operators can vertically integrate and potentially crowd out competitors through unequal access or promotion. The ATC platform should adopt a neutral, open architecture approach: if an MSME needs an accounting app or a logistics solution, the platform could list multiple vetted options rather than only one tied to the platform sponsor. This prevents vertical foreclosure of competing service providers who might otherwise innovate in MSME support. It's also simply better for the MSMEs to have choice and competitive pricing among providers.

Foreclosure of Competing Funds or Platforms: A broader concern is whether the Transformation Fund's sheer scale will deter any other private sector or civil society initiatives from operating in the MSME development space. If all major corporates are directing funds into this single vehicle (perhaps encouraged by BEE points and Ministerial pressure), independent enterprise development funds might wither. While not a classic antitrust "market" issue (since ESD programs are typically not profit-seeking competitive enterprises), there is a policy question of monopoly vs diversity in support ecosystems. The risk of perception here is high: stakeholders might fear that a government-backed fund will "take over" all incubation and funding, potentially stifling creativity or competitive pressure to serve MSMEs better. Legally, unless the Fund actively blocks others, having one dominant fund is not an offense – but it could be if combined with actions that prevent the emergence of alternatives. The best remedy is to ensure the Fund partners with, rather than displaces, other accelerators and financial institutions. For example, it can co-invest or provide second-tier funding to smaller funds, rather than monopolize all resources. This collaborative stance would alleviate concerns of vertical restrictive practices, as it shows the Fund is not using contractual muscle to exclude others, but rather building a symbiotic network.

To ground this in precedent: consider how the Commission and Tribunal have viewed exclusivity and foreclosure in other vertical contexts. In the South African Airways (SAA) cases, the dominant airline's incentive schemes with travel agents (a vertical relationship) were found to exclude rival airlines and were deemed an abuse of dominance – effectively a vertical practice causing horizontal foreclosure. In Computicket, as noted, an exclusive vertical contract (ticketing service to venue) had horizontal effects (competitors foreclosed). The theme is that vertical agreements are problematic if they shut out competitors from a significant portion of the market without adequate justification. The Transformation Fund should eschew long-term exclusive contracts unless absolutely necessary for viability – and if used, should be limited in duration and scope, with periodic reviews.

Conclusion on Vertical Issues: The single operating model and platform can be compatible with competition law so long as it remains flexible and fair in vertical dealings. No participant should be coerced to "only use ATC" to the exclusion of others, and no competitive service provider should be barred from plugging into the ecosystem without good reason (like failing quality standards). By designing the operating rules with these principles (multi-homing, interoperability, time-limited partnerships), the Fund can vastly reduce the risk of contravening Section 5 or related dominance provisions. This will also help counteract any narrative that the Fund is "foreclosing" the market – instead, it can be positioned as expanding the market of empowered suppliers and service providers.

6. Price Discrimination and Fair Access to the Platform

Price or Service Discrimination: The ATC platform's business model, as described, involves differentiated pricing – MSMEs may pay little or nothing to use the platform (subsidized to encourage uptake), whereas funders (banks, corporates) and buyers might pay for analytics, compliance verification, or other services. This kind of two-sided market pricing is common and can be efficiency-enhancing. However, once the platform achieves a position of market power, it must be cautious that its fee structures don't cross into prohibited price discrimination under Section 9. Price discrimination in SA law requires that similar transactions

are treated differently in a way that likely harms competition or small players. In our context, one could imagine potential complaints if, say, two comparable MSMEs receive very different terms for platform services without clear justification, or if the Fund offers a better interest rate to one corporate's suppliers than another's. The likeliest focus of Section 9 in this scenario is actually protective of MSMEs – it was amended to explicitly outlaw dominant firms discriminating in a manner that impedes MSME/HDP firms from effective participation. Paradoxically, the Fund's purpose is to boost MSME participation; thus, its pricing strategy (charging MSMEs minimal fees) is the opposite of harmful discrimination – it's affirmative support. This should not pose any legal issue; in fact, differential treatment that favours MSMEs might be seen as pro-competitive, improving their ability to compete (the Act's concern is stopping discrimination that impedes MSMEs).

However, internal fairness and transparency in how costs are allocated will still matter. If certain MSMEs or certain groups feel they are being charged more or offered less access due to subjective criteria, it could become a political issue if not a legal one. The Fund should implement uniform, objective pricing or subsidy criteria – for example, all MSMEs below a certain size or in certain sectors get full subsidies for the first year, etc. If there are to be tiered service levels, they should be clearly explained and based on legitimate factors (such as higher-intensity support for less experienced entrepreneurs). This way, even if one were to apply the Section 9 test, the Fund could show any differential is not on a like-for-like transaction or is justified by cost differences or public interest aims (which, while not a codified defence under Section 9, would certainly weigh in enforcement discretion).

From a competition perspective, one area to watch is if the platform eventually serves as an intermediary for product sales (say, an e-commerce marketplace for MSME goods). If it did, and if it gave preferential visibility or better transaction terms to some sellers over others, that could be considered a discriminatory practice by a dominant intermediary. This edges into platform neutrality issues seen in online marketplaces. The best practice would be to establish fair, transparent rules for ranking or promoting MSMEs on the platform, so no one is unfairly hidden or charged excessive commission in a way that skews competition among MSMEs. Given the Fund's mandate, blatant discrimination is unlikely – but these details become important as the platform grows into a sort of digital "essential facility" for market access.

Essential Facilities and Non-Discriminatory Access: This brings us to the essential facility doctrine. If the ATC platform becomes the central infrastructure for MSME support and market linkage in South Africa, it could be argued to be an essential facility – a resource that competitors (in this case, perhaps other financiers or support providers, or even the MSMEs themselves as competitors in their markets) cannot practically duplicate and need access to in order to compete. Under Section 8(1)(b), a dominant firm controlling an essential facility must not refuse access to a competitor when it's economically feasible to provide access. The classical example in SA was Telkom's telephone network for ISPs, but one could envision, for instance, a private MSME incubator arguing that it needs access to certain data or tools on the ATC platform to effectively help its clients – and if the platform denied any integration or data-sharing, that could be seen as denying access to an essential input.

To pre-empt this, the Fund's operators should incorporate principles of FRAND (fair, reasonable and non-discriminatory) access in the platform design for any external party that has a legitimate need to interface. For example, if a bank outside the Fund wants to use the telemetry data (with consent) to assess an MSME for credit, the platform should not unreasonably block that access, provided privacy and security are respected. Or if a provincial government has its own MSME program, the platform might allow inter-operability or data exchange rather than erecting silos. By being collaborative rather than insular, the platform avoids setting itself up as an indispensable gatekeeper that others might accuse of exclusion.

It's also important that access for MSMEs themselves is not discriminatorily tiered. The concept of an essential facility typically involves competitors needing access, but one might extend the spirit to ensure all qualifying MSMEs can access the platform's benefits without arbitrary discrimination. If, hypothetically, the platform started favouring one racial group of entrepreneurs over another, or one region over another, that would raise not only public interest concerns but could also spark a novel competition complaint (arguing that denial of access harms those MSMEs' ability to compete in the market). The Fund's governance charter and legislative framework should enshrine broad and equal access – which aligns with its transformation mission anyway.

In conclusion, price discrimination law likely poses low substantive risk to the Fund's model – indeed the pricing structure is intended to be progressive and inclusive. But ensuring fairness and avoiding any hint of exploitative pricing or biased access is critical for legitimacy. Where perception could be high is if, for example, large corporations feel they are being "overcharged" to subsidize MSMEs – they might not sue under the Act (since Section 9 protects buyers who are MSMEs, not big buyers), but they could lobby against the Fund politically. Transparent accounting for how fees are determined and how they benefit the system will help manage such perceptions.

7. Governance Safeguards and Legal Robustness of the Fund's Structure

Given the above analysis of potential risks, it's clear that strong governance and design safeguards can make the difference between a pro-competitive, legally resilient platform and one that inadvertently stumbles into competition law violations. The Transformation Fund's concept already includes some notable safeguards in its structure: it is to be run via an SPV with independent oversight, ring-fenced accounts, and a Transformation Index for monitoring. These features should be leveraged to embed compliance and fairness:

Independent Oversight Body: A board or committee that is independent (including possibly members from government, civil society, or competition experts) can oversee that no single funding partner or interest group uses the platform in an anti-competitive way. For instance, independent oversight can ensure that if Company A sits on the board, it cannot steer benefits only to its own supplier network or raise barriers to competitors' suppliers. The oversight body should have a mandate to ensure open access and prevent conflicts of interest. This directly addresses potential dominance abuses or collusion – the independent directors act as guardians of the platform's neutrality.

Competition Compliance Program: The Fund should institute a compliance program with periodic audits and training regarding Competition Act provisions. This is common for large firms, and a multi-stakeholder initiative like this would benefit from it as well. All staff and board members should be sensitized to issues like information sharing, exclusionary strategies, etc., with legal counsel periodically reviewing platform rules and agreements. If any exclusive arrangement or major partnership is proposed, it should trigger a competition law review internally (and externally if needed) before approval.

Transparent Operating Rules: All key rules – how MSMEs are selected, how funds are allocated, how service providers are chosen, how data is shared – should be published or at least clearly documented. Transparency reduces suspicion of favouritism or anti-competitive dealing. It also provides a paper trail to justify actions if ever questioned by the Commission. For example, if an MSME is removed from the platform for poor performance, a transparent rule in the participation agreement can show this was based on objective criteria, not an arbitrary or exclusionary motive.

Legislative and Regulatory Alignment: The Fund is pursuing a "coherent legislative scaffold" (as mentioned in its concept). If enabling legislation or regulations will underpin the Fund, these should be crafted in consultation with competition authorities. In some cases, Parliament can include provisions that explicitly require the Fund to operate in a competitive-neutral manner. Alternatively, the legislation might grant the Fund certain exemptions or permissions – for example, allowing the Minister of Trade, Industry and Competition to approve cooperative agreements under Section 10 of the Competition Act as part of the Fund's rollout. We have seen the Minister hinting at using Competition Act tools (merger conditions) to channel contributions to the Fund. It would be prudent for the same Ministry to proactively secure any needed exemptions for the Fund's operations, so that well-intentioned collaboration is shielded from legal challenges. The law could also mandate non-discrimination by the platform (echoing essential facilities doctrine) to reassure all stakeholders that the Fund will be run fairly.

Stakeholder Communication and Perception Management: Legally robust design is half the battle; the other half is convincing the public and market participants that the Fund is a force for competition, not against it. This might involve publishing periodic reports on how the Fund has increased the number of suppliers in markets (enhancing competition) or how many new entrants it has helped create. The Competition Commission itself often highlights outcomes like new MSME inclusion as pro-competitive public interest outcomes in merger cases. The Fund can borrow that narrative – essentially framing itself as an extension of the Competition Act's purpose "to provide all South Africans equal opportunity to participate fairly in the economy". By highlighting pro-competitive outcomes (more players, reduced barriers, innovation), the Fund not only reduces political/regulatory risk but also counters any perceived high risk that it's a monopolistic structure. Where there are areas that might appear problematic (e.g. centralizing data), the Fund should openly explain the safeguards in place (e.g. data will be aggregated, anonymized, and not used anti-competitively).

Examples and Precedents as Guideposts: The Fund's governance can learn from precedents. For instance, the Telkom settlement in later years involved behavioural remedies – Telkom had to grant access to competitors on agreed terms. The Fund should voluntarily adopt a stance of "open access on reasonable terms" to avoid getting to that enforcement stage. Another example: the Banking Association during COVID obtained an exemption to allow banks to coordinate relief efforts, with strict conditions to prevent exchange of competitively sensitive info. The Fund could similarly operate under an understood exemption with conditions, essentially formalizing good behavior. On the flip side, studying the Computicket ruling reminds the Fund to avoid long-term exclusivity and to allow contracts to be terminable without penalty after a reasonable period. Embedding such lessons (e.g. no automatic multi-year renewals without review) in the Fund's contracts will keep it out of trouble.

In essence, the Fund's structure and governance need to double as a compliance mechanism. Many of the goals – independent oversight, transparency, broad inclusion – are inherently aligned with avoiding anti-competitive conduct. By reinforcing those aspects (perhaps with formal competition law oversight via a sub-committee or an ombudsperson), the Fund can be quite legally resilient while pursuing its mandate.

8. Recommendations for Policy, Governance, and Legislative Interventions

To ensure the Transformation Fund and ATC platform not only avoid contravening the Competition Act but actively promote pro-competitive outcomes, we propose several concrete measures:

Enshrine Open Access in Policy: The Fund should adopt an "open access" policy for the ATC platform – any MSME that meets defined criteria can participate, and any corporate or provincial program can plug in via APIs or partnerships. This would preclude exclusive access deals and reduce essential-facility concerns. It can be documented in the Fund's founding regulations or constitution that the platform will operate on fair, reasonable, and non-discriminatory terms for all users, akin to a utility. This policy could be overseen by the Competition Commission or a sector regulator to give it teeth.

Seek a Tailored Competition Act Exemption: Early in the implementation, the Fund (through the DTIC Minister) should consider applying to the Competition Commission for a specific exemption under Section 10 for its collaborative arrangements. The application would argue that the Fund is essential to promote the competitiveness of MSMEs and HDP-owned firms, squarely fitting the Section 10(3)(b)(ii) criteria (promotion of small businesses or firms controlled by HDPs is an objective listed for exemptions). The Commission could grant an exemption for categories of agreements (e.g. all agreements to contribute 3% NPAT to the Fund, or all data-sharing arrangements within the Fund), removing any lingering uncertainty. This exemption can be time-bound and reviewed periodically. If for some reason an exemption isn't sought or granted, an alternative is a Ministerial block exemption (via Section 10(10)) declaring the Fund's operations exempt as a class. This has precedent in exemptions granted for crisis collaborations and most recently to aid MSME development.

Competition Oversight Committee: Establish a small competition oversight sub-committee within the Fund's governance, possibly chaired by an external competition law expert or even a retired Tribunal member. This committee would review any potentially sensitive arrangements (exclusive MOUs, data-sharing protocols, major platform rule changes) and clear them from a competition law standpoint. It would also handle any complaints or concerns raised by third parties about anti-competitive effects, providing a dispute resolution path short of litigation. Having such a body shows a commitment to compliance and could nip issues in the bud.

Avoid/Limit Exclusive Agreements: As a matter of governance policy, the Fund should avoid exclusive dealing unless absolutely necessary. Where the Fund does enter into an exclusive provision (say it negotiates a single ERP software license to offer all MSMEs at a bulk discount), it should ensure this does not lock out competitors longer than necessary. For example, it might do a 2-year exclusive deal with an ERP vendor to get started (for cost efficiency), but simultaneously develop a process to onboard alternative vendors later or allow integration. Any exclusive supply or distribution contract the Fund signs should be short-term and subject to renewal upon performance review, not perpetual. This practice aligns with Tribunal guidance that even a dominant firm's exclusive contracts may be tolerable if they are limited and justified – it's the indefinite and broad exclusivities that caused Computicket's downfall.

Maintain Independence from Competitors' Competitive Decisions: The Fund's leadership should continually remind participating firms that they must make independent decisions outside the Fund. For instance, if two companies are co-funding an MSME through the Fund, they should not use that platform to coordinate how they will each incorporate that MSME into their supply chains – those discussions could stray into market allocation. A code of conduct for corporate participants can clarify dos and don'ts (e.g. "Thou shalt not discuss your pricing, market shares, or strategic plans with other corporates on Fund platforms"). This reduces collusion risk dramatically.

D**ata Governance and Firewalls:** Invest in robust IT controls to partition data. Perhaps create a rule that any market-sensitive data (prices, volumes, customer lists) submitted by one corporate into the system cannot be viewed by any other corporate in identifiable form. Only aggregate benchmarks or anonymized insights should be shared cross-company. Similarly, MSMEs' confidential business data should not be exposed to other MSME competitors in a way that could facilitate collusion on their part either. Essentially, treat certain data as if the platform were a neutral bank that holds it in trust and only releases what is competition-safe. The Fund could even invite the Competition Commission's input on the data management protocol to ensure it's airtight.

Legislative Clarity on Public Interest: If the Transformation Fund becomes a cornerstone of BEE policy (as the Minister's statements indicate), it might be wise for Parliament to explicitly situate it within the competition policy framework. For example, an amendment to regulations under the Competition Act could clarify that contributions to or conduct in line with an approved transformation fund are considered legitimate public interest outcomes, not restrictive practices. Likewise, the merger guidelines could be updated to say that contributing to such a Fund could be an accepted public interest condition (which indirectly signals that such coordinated contributions are allowed). These steps would cement the Fund's legitimacy and reduce the risk of a private party later challenging the scheme as anti-competitive.

Communication Strategy for Perceptions: Finally, the Fund managers should implement a communications strategy to address any perceived competition issues. For areas where actual legal risk is low but stakeholders might be anxious – e.g. "Is this Fund a new monopoly or a cartel of big companies?" – proactively explain the checks and balances. This could include publishing independent assessments (perhaps by the Competition Commission or an academic) that the Fund increases competition by enabling new entrants. Highlight success stories where previously excluded entrepreneurs are now competing toe-to-toe with established firms, thanks to the platform. By shaping the narrative, the Fund can turn what might be seen as a concentration of resources into a story of democratization of opportunity. This not only helps public buy-in but also creates a positive backdrop should any legal scrutiny occur.

9. Conclusion

In conclusion, a well-designed Transformation Fund and ATC platform can coexist with – and indeed further – the aims of South African competition law. The Competition Act seeks to prevent abuses and anti-competitive collusion, but it equally aims to promote economic participation by all and to advance consumer (and public) welfare. The Fund, by providing capabilities to small businesses, has the potential to dynamically enhance competition in many markets (through new entrants and stronger MSMEs). The legal assessment identifies areas to watch: avoid any conduct that looks like dominance-driven exclusion, prevent unintended collusion among contributors, keep vertical dealings fair, and treat the platform as essential infrastructure open to all on equal terms. Each of these risks can be mitigated with deliberate governance choices and, where needed, targeted regulatory interventions. South African competition jurisprudence – from Tribunal cases on exclusivity (Computicket) and essential facilities (Telkom) to Commission guidance on collaboration for MSME development – provides guideposts to steer the Fund's implementation.

Overall, the legal robustness of the Fund's structure will depend on continued vigilance and alignment with competition principles. The Transformation Fund should embrace this as part of its mission: transforming the economy not by shielding favourites, but by empowering many to compete. With the recommended safeguards and possibly supportive legislative tweaks, the Fund and ATC platform can be a model of inclusive innovation that bolsters competition, rather than stifling it. In areas where the actual antitrust risk is low but perception is high, transparency and outreach will be key to reassure stakeholders. In the few areas where substantive risk exists (like potential dominance in the platform market), proactive measures and regulatory engagement can prevent problems before they arise. By threading this needle, the Transformation Fund can achieve its transformative goals without running afoul of the Competition Act, setting a precedent for how collaborative, platform-based solutions can accelerate inclusion in a manner that is both economically and legally sound.

ANNEXURE: ACCESS TO CAPABILITY (ATC) [ILLUSTRATIVE]

1. ATC for General Business Support

(i) **Core Enterprise Management:** Bulk-licensed business management systems (financial planning, ERP accounting, HR/payroll, digital banking interfaces, supply-chain logistics).

(ii) **Capability Building:** Mentorship

2. ATC for Sectors

(i) Agriculture – Agro-Production

- *Core tools:* Farm management platforms with modules for crop planning, input tracking, yield forecasting and digital extension for weather alerts, satellite imagery and similar, precision-agriculture sensors and mobile data-capture for soil health, irrigation control and livestock monitoring.
- *Services:* Agronomic advisory (crop calendars, soil nutrition), mechanization support (tractors, planters), irrigation system installation and training, cooperative formation and farm-business planning.
- *Outcome focus:* 1 000 smallholder and commercial farms achieving ≥20% yield uplift; increased household incomes in rural districts; formalization of informal producers.

(ii) Agriculture – Agro-Processing

- *Core tools:* Cold-chain & processing ERP with batch-traceability, quality-control logs and packaging management.
- *Services:* Value-add product development (drying, milling, canning), compliance coaching for export (SPS, phytosanitary certificates), packaging design and branding, market-entry linkages to retail and export buyers.
- *Outcome focus:* Processing: 200 agro-processors attaining export-ready certification; R500 million in new value-add output sold into SADC and global markets; rural job creation along the value chain.

(iii) Construction

- *Core tools:* SaaS job-card and quotation systems; digital project-management platforms; CIDB compliance trackers.
- *Services:* Skills bridging for artisans (plumbing, electrical, carpentry); Health & Safety and quality-assurance coaching; supplier on-boarding into large-scale public and private contracts.
- *Outcome focus:* Increase in new SME contractors qualifying for CIDB grades 3–6; localized procurement in township and rural housing projects.

(iv) Junior Mining

- *Core tools:* Mine-site operations dashboard; safety and environmental compliance modules; mobile data-capture for artisanal miners.
- *Services:* Geotechnical mentorship; health, safety & environmental (HSE) systems certification; market linkages to beneficiation initiatives.
- *Outcome focus:* Formalization of 500+ junior mining outfits; improved safety records; entry into downstream processing partnerships.

(v) Food & Non-Food Manufacturing

- *Core tools:* ERP modules for production planning; quality digital logs; inventory and cold-chain IoT tracking.
- *Services:* Process optimization; packaging and branding support; compliance with SABS and SANAS standards; buyer-readiness coaching for formal retail supply chains.
- *Outcome focus:* 200 township-based food processors certified export-ready; expansion of non-food micro-manufacturers into regional markets.

(vi) Automotive

- *Core tools:* Digital work-order management; parts inventory optimization; dealer-network integration portals.
- *Services:* Apprenticeship and technical training (mechatronics, auto-electrics); supplier development for OEM components; quality-management system implementation.
- *Outcome focus:* 50 black-owned component suppliers achieving Tier 2 status; new export contracts into SADC markets.

(vii) Transport & Logistics

- *Core tools:* Fleet telematics and routing optimization; digital freight-booking platforms; automated invoicing and payment reconciliation.
- *Services:* Road-freight compliance and operator-license assistance; warehouse management systems; last-mile logistics strategies for township and rural routes.

- *Outcome focus:* 100 new logistics SMEs integrated into regional corridors; increased SADC cross-border freight volumes by targeted beneficiaries.

(viii) Business/Office Management Services

- *Core tools:* Cloud-based CRM and project-management suits; digital HR/payroll; virtual office and collaboration platforms.
- *Services:* Professional services up-skilling (legal, accounting, marketing); ISO 9001 readiness; secure data-compliance frameworks.
- *Outcome focus:* Development of 150 black-owned BPOs and consultancies serving both domestic and SADC clients; increased ICT services export.

(ix) Events & Catering

- *Core tools:* Event-management SaaS; digital booking and payment systems; kitchen and stock-control modules.
- *Services:* Certification in food safety; event-logistics planning; marketing and sponsorship matchmaking; sustainability training.
- *Outcome focus:* 200 event SMEs securing contracts with corporate and government clients; regional event franchises into neighbouring countries.

(x) Tourism

- *Core tools:* Online booking engines; integrated property management systems; guest-experience analytics dashboards.
- *Services:* Heritage-site and community-based tourism training; hospitality service excellence programs; eco-certification guidance.
- *Outcome focus:* Increased bed-night occupancy in township tourism routes; establishment of cross-border tour packages into SADC.

(xi) Sports & Leisure

- *Core tools:* Facility-management platforms; membership and ticketing systems; performance-analytics for sports academies.
- *Services:* Coaching accreditation; event-and-league operations; sports marketing and sponsorship development.
- *Outcome focus:* Growth of community sports enterprises; youth-centric training academies linked to regional tournaments; revenue diversification through merchandise and broadcast rights.

(xii) Township Retail Economy

- *Core tools:* Point-of-sale & inventory systems; digital payment & wallet integration; local e-commerce aggregator platforms
- *Services:* Business formalization support; bulk purchasing & distribution networks retail skills & merchandising training; financial inclusion coaching
- *Outcome focus:* Enterprise growth; employment & local multiplier; digital adoption; market linkages; fixed capital formation

(xiii) ICT Services & Digital Solutions

- *Core tools:* Cloud infrastructure platforms (IaaS/PaaS); devops toolchain; cybersecurity frameworks
- *Services:* Software development studios; managed it & support; data analytics & ai integration; digital skills training.
- *Outcome focus:* Enterprise growth; export expansion; job creation & inclusion; innovation diffusion

(xiv) Municipal Infrastructure Management Services

- *Core tools:* Digital asset register & GIS; IOT monitoring & predictive maintenance; work-order & scheduling systems; citizen engagement portals.
- *Services:* Asset-management capacity building; project & contract management; financial modelling & revenue optimization; emergency response & continuity planning.
- *Outcome focus:* Service reliability; backlog elimination; operational efficiency; citizen satisfaction; investment attraction.

(xv) Community Social Services

- *Core tools:* Case management platforms; digital beneficiary registry & GIS mapping; volunteer & resource coordination systems.
- *Services:* Organizational capacity building; digital transformation; funding & partnership facilitation; community outreach & advocacy.
- *Outcome focus:* Service reach; efficiency gains; impact measurement; sector resilience.

ANNEXURE: LITERATURE REVIEW ANNEXURE: TRANSFORMATION FUND CONCEPT

1. Part 1: Inclusion-Led, Capability-Anchored Development vs. the Growth-First Paradigm

1.1. From 'Trickle-Down' to Inclusive Growth

Traditional development strategy often prioritized rapid GDP growth on the premise that benefits would "trickle down" to the poor. Proponents of this growth-first model, such as Jagdish Bhagwati, argue that high growth driven by free markets is necessary to reduce poverty, with minimal state intervention beyond enabling markets. Bhagwati's laissez-faire stance holds that policies favouring investors and deregulation will eventually lift all incomes, echoing the mid-20th-century "rising tide lifts all boats" hypothesis. In practice, however, the evidence has often contradicted this optimism. Joseph Stiglitz notes that in recent decades a rising tide has "only lifted the large yachts, while many of the smaller boats have been left dashed on the rocks," as inequality soared alongside slowing growth. Indeed, excessive inequality is now understood not as a benign byproduct of growth, but as a drag on sustainable development, leading to weaker economic performance and instability. Nobel laureates Abhijit Banerjee and Esther Duflo likewise caution that asking the poor to bear austerity for the sake of future growth – the essence of trickle-down – "does nothing for growth and even less for the poor". They highlight that in countries like the US and UK, pro-rich policies in the Reagan-Thatcher era enriched elites at the cost of broad well-being without spurring growth, ultimately inciting political backlashes. Such outcomes reinforce Amartya Sen's famous assertion that "economic growth cannot sensibly be treated as an end in itself. Development has to be more concerned with enhancing the lives we lead and the freedoms we enjoy".

This inclusion-led paradigm views improvements in human welfare and capabilities not as a trickle-down afterthought but as central to the development process. Sen and co-authors (Stiglitz and Fitoussi) have argued for broader measures of progress and warned against equating GDP gains with societal well-being. In their capability approach, true development means expanding people's freedoms – through education, health, and empowerment – which in turn makes growth more robust and "durable". Empirical studies support this: Sen points to cases like the Indian state of Kerala and recent China, where early investments in healthcare and education led to improved living standards and more stable growth. By contrast, purely growth-centric approaches can leave fundamental deficits (in skills, health, equality) unaddressed, often resulting in growth that is unstable or jobless. Even the IMF has shifted its stance, acknowledging that "sacrificing the poor to promote growth was bad policy" and now requiring inequality to be considered in country programs.

In short, a new consensus in development economics holds that growth and inclusion must advance together, and that pursuing growth at the expense of broad-based capabilities is ultimately self-defeating. The Transformation Fund's thesis squarely aligns with this consensus: it prioritizes inclusive growth by directly building the capacities of marginalized economic actors, rather than assuming benefits will eventually percolate down from aggregate growth.

1.2. Capabilities, Institutions, and Innovation as Engines of Transformation

Central to an inclusion-led model is the idea of expanding capabilities – the skills, knowledge, and productivity of people and firms – as the primary engine of development. This draws from both Amartya Sen's human development theory and classic human capital economics. By giving individuals and enterprises the tools to participate fully in markets, an economy can unlock "latent productive capacity" that a narrow capital-centric approach would miss. Abhijit Banerjee and Esther Duflo observe that many recent development successes (e.g. dramatic reductions in child mortality or improved educational outcomes) were achieved not by waiting for income to rise, but by direct focus on specific capabilities and needs, such as widespread vaccination, malaria prevention, or schooling access. These targeted interventions, often small-scale and evidence-based, improved quality of life even in places with modest growth. Such findings bolster the Transformation Fund's emphasis on capability-building for MSMEs: it echoes the view that deliberate investments in skills, technology adoption, and firm-level competencies can yield macroeconomic gains from the bottom up.

At a macro level, institutional economists have long argued that the quality of institutions – the "rules of the game" in society – determines whether economies realize their potential. Nobel Laureate Douglass North stressed that institutions provide the incentive structure of an economy; as that structure evolves, it shapes the direction of economic change towards growth, stagnation, or decline. Inclusive institutions (secure property rights, rule of law, broad access to opportunities) encourage the broad public to invest, innovate, and develop skills. By contrast, extractive institutions that concentrate power and wealth "steer the economic rewards toward a relatively small elite," disincentivizing the majority from entrepreneurial effort. Acemoglu and Robinson's comparative history of nations concludes that such inclusive economic institutions – often underpinned by pluralistic, accountable governance – are key to sustained prosperity, whereas extractive arrangements lead to persistent underdevelopment.

This literature provides a theoretical backbone for the Transformation Fund's design choices: by proposing independent oversight, transparency, and broad stakeholder inclusion, the Fund aims to create an inclusive institutional vehicle that channels resources and support to a wide base of entrepreneurs (rather than a narrow few), thereby aligning with what historical evidence suggests is required for genuine transformation.

In addition to formal institutions, social and community factors are critical. Sociologist and Nobel laureate Elinor Ostrom demonstrated through extensive field research that communities can solve collective action problems without top-down control, provided they develop trust, accountability, and appropriate local institutions. She documented cases

of resource users self-organizing to manage commons successfully, and distilled design principles like inclusive decision-making, monitoring, and graduated sanctions for governance systems. One insight from Ostrom's work is that we are not limited to a binary choice between state and market – polycentric arrangements (multiple centers of decision-making) often outperform monolithic ones by fostering innovation, learning, and cooperation at various scales. This ethos is reflected in the Fund's proposed multi-stakeholder governance (with government, private sector, and civil society representation) and its platform-based delivery: it implicitly recognizes that engaging local actors and networks can improve information flow and buy-in, in contrast to one-size-fits-all centralized programs. Indeed, past South African initiatives like enterprise development grants under B-BBEE suffered from a lack of such grassroots alignment – many corporates treated Enterprise & Supplier Development as a "tick-box exercise," spending billions with scant impact because efforts were fragmented and not responsive to actual MSME needs.

The Fund's platform model, by contrast, is conceived to continuously gather data from MSMEs and funders, creating feedback loops from "ground-level data to strategic decision-making". This approach resonates with what William Easterly calls the "Searcher" model of development – solving problems through iteration, feedback, and accountability – as opposed to top-down planners who impose solutions without local knowledge. In sum, the academic literature across economics, sociology, and institutional theory all reinforce the Fund's core premise: that inclusive economic transformation requires investing in capabilities and building enabling institutions. By marrying capital with "Access to Capability" – skills, technology, networks – the Transformation Fund model attempts to operationalize these scholarly insights, positioning inclusion and capability-building not as byproducts of growth but as deliberate pillars of a new development paradigm.

2. Part 2: Thematic Literature Insights for Key Components of the Concept

2.1. Theory of Change and Objectives

A Theory of Change articulates how an intervention's inputs and activities will lead to desired outcomes and impacts. The Transformation Fund's overarching objective is to engineer inclusive growth by elevating Access to Capability (ATC) alongside access to capital and markets. This reflects a holistic logic: providing marginalized entrepreneurs with technical support, skills, and technology (in addition to finance) will enable them to participate in markets more effectively, thereby creating jobs and boosting incomes. Such a theory draws on Amartya Sen's argument that development is "freedom" – expanding the capabilities of people to lead the lives they value. By explicitly targeting improvements in MSMEs' capabilities (e.g. training, process improvements, certifications), the Fund's objectives align with Sen's view that enhancing human and institutional capacity is both a means and an end of development.

In the literature on development program design, it is widely acknowledged that making these causal linkages explicit is crucial for success. Clear objectives and measurable outcomes (such as jobs created, firm revenue growth, or risk reduction) help ensure accountability. Banerjee and Duflo note that one advantage of focusing on concrete problems (education, health, business skills) is that progress can be measured and interventions adjusted based on evidence. The Fund's objectives – for example, increasing MSME participation in supply chains or improving their credit-readiness – are amenable to such monitoring via a proposed Transformation Index and open dashboards for transparency. This approach is consistent with best practices from impact evaluation research, which emphasize well-defined metrics and feedback loops to test whether a theory of change holds in practice.

However, the literature also cautions against overly linear or "planner" mindsets in complex development contexts. William Easterly famously distinguishes between Planners, who design grand solutions without local feedback, and Searchers, who learn and adapt by trial-and-error. A rigid theory of change can fail if it assumes away on-the-ground complexities. For instance, a plan might assume that offering training automatically yields successful new businesses, when in reality complementary factors (like mentorship, market access, or removal of bureaucratic barriers) are needed. Recognizing this, the Transformation Fund's concept builds in adaptability: it combines multiple levers (financial products, technical support, market linkages) and stresses continuous monitoring of results. This design reflects awareness of the "complex tangled web" of obstacles that small businesses face, and thus the need for a multi-faceted theory of change rather than a single silver bullet. In academic terms, it follows the guidance of systems thinking and complexity economics, which argue that promoting development requires intervening on several fronts simultaneously (skills, infrastructure, finance, governance) to move an economy to a better equilibrium.

Notably, the Fund's objectives explicitly prioritize previously excluded groups (township and rural enterprises, women, youth, black-owned firms). This mirrors international development goals such as the SDGs, which emphasize "leaving no one behind." It also responds to local empirical realities: in South Africa, small enterprises account for an estimated 80% of employment but a vast majority operate informally and face obstacles to growth. By setting inclusion targets (e.g. percentage of fund beneficiaries from townships or other designated groups) alongside growth targets, the Theory of Change acknowledges that broadening economic participation is itself a key outcome, not just an input to growth. This approach finds support in the work of Stiglitz and others who argue that inclusivity in who benefits from growth will feedback into more sustainable growth – for instance, through greater social stability and utilization of talent.

In summary, the Fund's Theory of Change and objectives are well-grounded in contemporary development literature: they combine investment in people's capacities with structural reforms, specify measurable outcomes (tied to capabilities and inclusion), and incorporate mechanisms for learning and accountability. This integrated, capability-anchored logic stands in contrast to old "big push" theories that dumped capital into economies without addressing how it would translate to development – a flaw the Fund seeks to correct by clearly outlining the chain from inputs (capability and capital) to outputs (viable MSMEs, deals closed) to impacts (employment, income growth, competitiveness).

2.2. Efficient Markets and Information Distortions

Classical economic theory, epitomized by the Efficient Market Hypothesis (EMH), holds that asset prices fully reflect all available information. In perfectly competitive markets with rational actors, resources are allocated optimally and no arbitrage opportunities persist. However, a rich body of literature challenges this ideal, especially under conditions of information distortion. Information asymmetries – where one party in a transaction has more or better information than the other – can fundamentally undermine market efficiency. Akerlof's seminal "Market for Lemons" showed how quality uncertainty drives good products out of the market, a dynamic later recognized in the 2001 Nobel Prize (awarded to Akerlof, Spence, and Stiglitz for analyses of markets with asymmetric information). As Stiglitz and others argue, real markets often reward not just productive efficiency but the ability to create and exploit information advantages and market. In South Africa's context, where apartheid legacies mean stark disparities in access to information and networks, such asymmetries are especially pronounced. For example, Stiglitz observes that modern economics has revealed how firms succeed by leveraging informational and power advantages – sometimes to the detriment of consumers – rather than purely by superior. This suggests that unconstrained private markets may exclude or exploit less-informed participants, reinforcing inequality rather than ameliorating it.

Beyond asymmetry, other dimensions of information distortion further erode the EMH assumptions. Researchers highlight how the volume and velocity of information in the modern era can overwhelm finite human (and even algorithmic) processing capacity. Pernagallo and Torrisi (2020) present a formal model demonstrating that as information inflows grow beyond a certain point, even costless information will not be fully processed, causing markets to depart from efficient pricing. In essence, too much information can be as distorting as too little – a phenomenon of information overload that leads investors to rely on heuristics or tune out signals.

This is highly relevant to today's fast-paced financial and commodity markets, as well as to South Africa's policy environment where a deluge of data (or policy noise) may confound small enterprises and new market entrants. Moreover, the directionality and inferencing of information – how information is framed and interpreted – introduces biases. Behavioural finance research (including the work of Robert Shiller, another Nobel laureate) documents that asset prices are swayed by waves of optimism and pessimism that have little to do with fundamentals. Shiller notes a growing acceptance in economics of "alternative psychological, sociological, and epidemiological factors" affecting prices.

Social influence and herd behavior can generate bubbles and crashes, with investors basing decisions on others' actions or prevailing narratives rather than independent analysis. Sun & Zeng (2022) even propose a "Sentiment Efficient Market Hypothesis" wherein investor sentiment – shaped by social media, trends, and crowd psychology – becomes a more direct determinant of asset prices than raw information. They argue this framework better explains the many anomalies and bouts of excess volatility that violate the classical EMH. In summary, the literature underscores that when information is imperfect, unequally distributed, overwhelming in quantity, or filtered through human/social lenses, markets will not allocate resources equitably or efficiently.

These insights provide a theoretical basis for the Transformation Fund's focus on improving the information architecture available to historically excluded businesses – addressing not just capital gaps but the informational deficits and frictions that inhibit efficient, inclusive markets.

2.3. Microeconomic Theory in Unequal or Low-Information Societies

Standard microeconomic models often assume a level playing field: rational agents with access to relevant information, operating in competitive markets. In unequal societies marked by historical exclusion, these assumptions break down, limiting the predictive and prescriptive power of traditional theory. South Africa offers a vivid case: decades of apartheid engineered a profoundly uneven playing field, where the majority of the population was denied quality education, business ownership opportunities, and even geographic access to markets. The post-1994 government thus "inherited the economic and social legacies of apartheid…a large pool of unskilled and unemployed labor, acute and widespread poverty, and poor access to education, health and other services". In such conditions of low information and structural inequality, classical microeconomic predictions (e.g. that labor markets will clear, or that entrepreneurship is equally accessible to all with talent) fail to materialize. Instead, we observe persistent high unemployment and a thin layer of highly skilled, network-connected individuals prospering while the masses remain excluded.

Researchers have critiqued the limitations of representative-agent models and other simplistic micro foundations in contexts of pervasive heterogeneity and market frictions. Banerjee and Duflo (2005) argue that if models "veer too far from reality on important dimensions," their policy recommendations will be "off the mark". They specifically discuss how traditional macro-micro models overlooked heterogeneity and frictions (spatial, financial, etc.), leading to misdiagnosis of developing economy challenges.

For instance, models that assumed frictionless markets would misjudge the South African situation where spatial frictions (e.g. townships far from economic centers) and financial frictions (e.g. banks lacking information to lend to new black-owned firms) are pervasive. Nobel laureate Amartya Sen similarly noted that standard economic metrics ignore distributional realities – his "capability approach" calls for understanding the actual freedoms and information people have to pursue economic activity. This has particular salience in historically unequal societies: formal equality may exist, but without capabilities (education, information, networks) for the formerly excluded, real inclusion is unrealized.

Emerging fields like development economics have embraced more realistic, ground-up approaches that account for these limitations. The 2019 Nobel Prize (awarded to Banerjee, Duflo, and Kremer) recognized the power of micro-empirical research in development. Through hundreds of randomized trials, these scholars demonstrated that behavioural responses of the poor often diverge from "hyper-rational" models, yet are perfectly reasonable given constraints.

Banerjee and Duflo famously noted that the poor are "no less rational than anyone else – quite the contrary. Precisely because they have so little, we often find them putting careful thought into their choices". What differs is the context: uncertainty, unreliable information, and institutional voids lead to choices (like informal risk-sharing, or reluctance to invest in schooling due to perceived low returns) that standard theory might deem "irrational." The lesson is that microeconomic behavior is context-dependent. In low-information environments, agents rely on trust, social networks, and heuristics; in highly unequal settings, power imbalances and lack of credible information can produce market failures at massive scale (such as credit rationing to small enterprises, or "lemons markets" in low-income housing).

Nobel laureate Joseph Stiglitz's work on screening and incentive theory further showed that when information is imperfect, market outcomes can systematically exclude the disadvantaged. For example, credit markets under information asymmetry may charge high interest or deny loans to new entrepreneurs (a scenario familiar to South Africa's township businesses), even if many are creditworthy. Standard theory's prediction that profitable opportunities will be financed breaks down because lenders cannot discern risk due to informational gaps. Indeed, Stiglitz and Weiss (1981) demonstrated that lenders may rationally refuse to lend rather than raise interest rates, to avoid attracting only high-risk borrowers – a phenomenon likely contributing to the thin credit markets for black MSMEs in South Africa.

All these insights underscore a crucial point: traditional microeconomic theory requires significant adaptation in unequal, information-poor contexts. Policy models must incorporate heterogeneity, institutional weaknesses, and social factors. Otherwise, "elegant" theories can yield faulty conclusions. This critique justifies the Transformation Fund's empirically grounded approach – borrowing from development economics' focus on micro-level data and experimentation – to design interventions suited for the realities of South Africa's excluded entrepreneurs rather than relying on abstract, one-size-fits-all models.

2.4. Development Economics and Inclusive Growth Models

Inclusive growth has become a central concern of modern economics, blending insights from welfare economics, development studies, and institutional economics. The literature is rich with models and evidence on how growth and inclusion can reinforce each other – and where they diverge. A foundational contribution was by Nobel laureate Simon Kuznets (though often misinterpreted), who hypothesized that inequality might initially rise in early development then fall as more people join the modern economy. South Africa, however, remains an outlier with persistently high inequality even at an upper-middle-income level, suggesting unique structural barriers to inclusion. Here, the work of W. Arthur Lewis (Nobel 1979) is relevant: Lewis's model of a dual economy – with a small modern sector and large traditional sector – resonates with South Africa's reality of a highly productive formal sector coexisting with mass underemployment. Lewis emphasized the need for structural transformation to absorb surplus labor; in South Africa this entails breaking barriers that keep the majority in informal or marginal activity.

More recent Nobel-recognized research by Abhijit Banerjee and Esther Duflo provides micro-founded strategies for inclusive growth. Their experimental approach identifies specific interventions (in education, health, credit, etc.) that enable the poor to participate more productively in the economy.

Crucially, many of their findings highlight that information and expectations shape outcomes: for instance, providing detailed information to farmers about profitable crops, or to students about returns to education, can change behavior and improve incomes, underscoring that the flow of information itself is a lever for inclusion. Banerjee and Duflo argue that evidence-based micro interventions, when scaled, can have significant macro effects. This aligns with the Transformation Fund's thesis that targeted support (technical training, market linkages, etc.) can unlock latent growth potential among excluded groups, ultimately lifting aggregate outcomes. The Fund's approach also mirrors the concept of "capabilities" advanced by Amartya Sen (Nobel 1998), focusing not just on income but on expanding the real freedoms (skills, knowledge, market access) that people need to contribute to and benefit from growth.

International development institutions and scholars have also emphasized inclusive institutions as key to inclusive growth. Daron Acemoglu and James Robinson in Why Nations Fail argue that inclusive economic institutions – secure property rights, equal opportunity, broad access to education and markets – are the fundamental drivers of sustained, inclusive development. In contrast, extractive institutions (which historically describe South Africa's apartheid-era laws) concentrate power and opportunity, stifling broad-based growth. Nobel laureate Douglass North likewise highlighted how historical institutional frameworks can lock in inequality. These perspectives suggest that the South African private sector on its own might not achieve inclusivity-led growth without intentional institutional reform: left to itself, the market often perpetuates the status quo of exclusion because it reflects the initial conditions of wealth and information distribution.

Indeed, a recent World Bank expert panel led by Nobel laureate Michael Spence concluded that South Africa "urgently needs more competitive markets and efficient institutions – not necessarily more money or regulations – to drive inclusive growth". Their report (2025) recommends opening up concentrated sectors, improving state capacity, and investing in people, as "quick wins" for job creation and poverty reduction. These recommendations echo the Nobel-winning insights that market failures must be addressed by policy to achieve inclusion.

In summary, the literature across development economics and growth theory provides both inspiration and caution: inspiration that deliberate interventions (whether via state policy, development funds, or public-private partnerships) can foster inclusive growth by empowering the excluded; and caution that without tackling deep informational and institutional inequities, growth may bypass large segments of society. The Transformation Fund's design is bolstered by this body of knowledge, situating itself as an innovative mechanism to correct market and information failures in pursuit of an inclusive growth path.

2.5. Market Failure and Systemic Barriers

The Fund's concept is motivated by recognition of numerous market failures and systemic barriers that have left South Africa's small businesses underdeveloped. Academic literature offers robust explanations for why private markets alone often under-serve MSMEs, especially those run by historically disadvantaged groups.

Beyond finance, systemic barriers in infrastructure and coordination also plague emerging enterprises. South African policymakers and scholars have noted "infrastructure bottlenecks" – such as unreliable electricity, transport and broadband – that raise costs for small firms and deter investment. The OECD's recent survey of South Africa (2025) highlights that insufficient electricity supply has been a key constraint on growth. Such issues are classic public goods problems: the benefits of infrastructure investment are diffuse and long-term, so the private sector alone underprovides them, justifying government action. Likewise, small firms often face coordination failures: for instance, a food processing MSME may struggle to grow because farmers don't invest in quality improvements without assured buyers, and buyers don't invest in new suppliers without consistent quality – a stalemate first described by development economists in "big push" theories.

In modern terms, solving this requires platform approaches or intermediaries to coordinate multiple actors. The Transformation Fund's platform strategy (creating an ecosystem where producers, buyers, and financiers interact with reduced transaction costs) is an answer to this coordination problem. Economic research on two-sided markets shows that platforms can internalize network externalities – e.g. an e-procurement platform can attract many small suppliers and buyers, overcoming search frictions that kept them apart. By subsidizing MSME participation (the Fund contemplates using "Ramsey-style" two-sided pricing to keep user fees low), the platform can reach the critical mass needed for network effects to take off. This approach draws from industrial organization theory (Rochet & Tirole, 2003) which finds that balancing pricing on each side of a market can maximize total participation – here, charging MSMEs little or nothing for capability services while funding the platform via investors and corporate buyers, who value the influx of reliable small suppliers.

Another systemic issue is the prevalence of informality and entry barriers. Nearly 72% of micro-enterprises in South Africa operate informally, often due to the cost and complexity of formalizing a business. Informality can trap firms in a low-growth orbit – they struggle to access bank credit, government programs, or larger contracts if they lack formal registration, yet they remain informal because compliance costs are high and the perceived benefits low. This is a classic institutional failure: Hernando de Soto and others have argued that cumbersome regulations and weak property rights exclude the poor from formal economies. The Transformation Fund's proposal to work closely with local agencies and possibly advocate for a "coherent legislative scaffold" for MSME support indicates an intent to lower these institutional barriers.

Literature on regulatory reform suggests simplifying business registration, providing one-stop support hubs, and formalization incentives can significantly increase MSME formal participation (Bruhn & McKenzie, 2014). Indeed, South Africa's own Small Business Department has recognized that onerous regulations are a major barrier and has initiated reviews to streamline laws and municipal licensing for MSMEs. The Fund's design, which includes independent oversight and ring-fenced accounts, also tackles the credibility barrier: many past empowerment funds failed due to mismanagement or "fronting" (token compliance). By learning from these failures and building transparency and accountability (e.g. publishing results on open dashboards), the Fund aims to gain the trust of both MSMEs and capital providers – addressing the institutional legitimacy barrier that sociological research highlights as vital for participation (Tyler, 2006).

In summary, the literature strongly supports the need for interventions to fix the market failures (information asymmetry, public goods, externalities) and systemic barriers (regulatory hurdles, historical inequalities) that hobble inclusive MSME growth. The Transformation Fund's architecture – a blended finance vehicle coupled with a capability platform and enabled by supportive policy – is essentially a comprehensive response to these market and coordination failures.

> *As Stiglitz has often argued, when markets "on their own" lead to underinvestment in certain people or sectors, targeted public-private solutions are warranted. There is, of course, some debate: free-market economists might prefer to address failures with lighter-touch instruments (like credit bureaus for information, or broad deregulation for business environment) rather than a new institution. But the weight of developmental evidence – including from East Asian economies that used coordinated public investment to overcome big-push problems – suggests that active facilitation can ignite inclusive growth where laissez-faire had stagnated. The Fund is an embodiment of that facilitative approach, aiming to unlock the economic energies of those long sidelined by systemic constraints.*

2.6. Platform and Microeconomic Justification

The Fund's microeconomic foundation is encapsulated in the Access to Capability (ATC) platform model. At its core, ATC posits that providing small firms with a "capability stack" – from basic digital tools and process standards to market linkages – will improve their performance on multiple fronts, which then aggregates to macroeconomic gains. This theory draws from several strands of literature:

Microeconomic impacts of capability-building: Firms with better operational capabilities tend to achieve higher productivity, product quality, and reliability, enabling them to command better prices and larger sales volumes. For example, quality certification can act as a signal of reliability in supply chains, overcoming the information asymmetry that often disadvantages unknown small suppliers. Empirical studies in agribusiness have shown that when small producers attain certifications, they often gain access to export markets and price premiums previously out of reach. Similarly, lean management or technology adoption tends to reduce waste and unit costs – a point long emphasized in operations research (the Toyota production system being a classic case of capability-driven cost reduction).

The Fund's model explicitly notes that increasing a firm's "capability intensity" (through digitized, verified workflows) can lower its marginal costs by cutting waste/shrinkage and improve output quality. This resonates with studies on MSME digitization: the World Bank's Digitalization and Inclusive Growth review (2024) finds that adopting digital tools like inventory management or cloud accounting boosts efficiency and can raise MSME productivity by ~15%, provided complementary training is in place. The same review highlights that digital platforms help small, remote firms reach broader markets, which narrows urban-rural gaps and raises incomes for previously isolated entrepreneurs. These findings support the ATC premise that a platform-delivered toolkit (e.g. ERP-lite software, e-commerce access, traceability systems) will enhance MSMEs' output and market reach – micro-level changes that cumulatively contribute to growth and job creation.

Risk reduction and access to finance: Another microeconomic justification in the concept is that better capability translates into reduced credit risk – for instance, if a small firm keeps digitized financial records and demonstrates reliable delivery (on-time, in-full), lenders and buyers will view it as less risky, lowering default probability PD(·) and the interest spread s(·) it faces. There is strong support for this in financial economics and fintech literature. Akerlof's theory of the "lemons premium" suggests that more transparent information can reduce the risk premium lenders charge. Recent studies have shown that using digital transaction data and supply chain records can significantly improve credit scoring for small businesses, often outperforming traditional credit bureau scores.

For example, research by the IFC and others finds that when MSMEs adopt digital payment systems, the data trail (invoices, sales turnover) helps creditors assess their true cash flows, resulting in increased loan approvals and lower rates for those firms (Berg et al., 2020). By facilitating such data through the platform (e.g. e-invoicing, inventory and sales tracking), the Fund effectively de-risks previously "opaque" borrowers. This is aligned with Stiglitz & Weiss's insight that credit constraints often persist because of uncertainty; reduce the uncertainty, and more capital can flow. Additionally, when capability improvements lower variability in a firm's performance (e.g. better inventory management reduces stock-outs and income volatility), it can safely take on more debt – increasing its debt capacity, another channel by which ATC can leverage private capital for growth.

Scale economies and platform externalities: Perhaps the most distinctive justification for ATC is rooted in platform economics. Developing sophisticated training modules, software tools, or data systems has a high fixed cost but a near-zero marginal cost to roll out to additional users. This is a defining feature of digital goods and one reason why digital platforms exhibit increasing returns to scale (Arthur, 1996). By making ATC a centralized platform serving many MSMEs, the Fund can spread those fixed costs across thousands of firms, achieving economies of scale that individual small businesses or fragmented programs could never attain.

Carl Shapiro and Hal Varian famously noted that "information is costly to produce but cheap to reproduce" – the ATC platform exemplifies this by creating common solutions (e.g. a cloud ERP or standard operating procedure templates) that firms can access with minimal incremental cost. Moreover, network effects mean the platform becomes more valuable as more participants join. As many small suppliers adopt common standards and become verified through ATC, large buyers find it easier and cheaper to source from the network (reducing their search and assurance costs). This in turn attracts more buyers to the platform, which incentivizes more MSMEs to join, creating a virtuous cycle. Economists Rochet & Tirole (2003) showed that in such two-sided markets, the allocation of costs is key: subsidizing the side that brings network benefits (here, the MSMEs) can maximize overall participation. The Fund's plan for "two-sided pricing" – low fees for MSMEs, funded by contributions from buyers and financiers who gain utility from a larger pool of capable MSMEs – is precisely in line with optimal platform pricing theory. This approach is expected to maximize positive externalities: every additional trained MSME on the platform not only benefits itself but also increases the value of the platform for all other users (more data, more connections). Thus, from an operations research or mathematical perspective, the ATC platform is a solution to a coordination externality problem: it aggregates many small agents to provide public-good-like services (training, data standards, trust signals) that no single MSME would invest in on its own.

It should be noted that not all scholars are uniformly optimistic about digital platforms for development. Some studies point out that without adequate skills and infrastructure, the benefits of digitalization can be uneven. The World

Bank review cautions that developing countries often lag in complementary investments – if MSMEs lack reliable internet or the skills to use new software, the productivity gains may be limited. Additionally, certain advanced digital technologies (like AI or big data analytics) might advantage larger firms with more capital, potentially widening gaps if smaller firms cannot keep up. The Transformation Fund's model appears conscious of these caveats: it proposes to embed human support (e.g. micro-learning, on-site technical assistance) with the tech platform, ensuring that firms are not left alone to navigate new tools. By focusing on appropriate technology (an "ERP-lite" rather than a complex enterprise system, for example) and phasing capability-building, the Fund aligns with literature suggesting "scaling readiness" is crucial – i.e. interventions must match the current capacity of beneficiaries to absorb them (Andrews et al., 2017 on learning-by-doing).

In summary, the platform and microeconomic rationale for ATC is well-grounded in multiple disciplines. It combines insights from development microeconomics (addressing information and capability gaps at firm level) with cutting-edge platform economics (harnessing scale and network effects). The idea that a pooled fund can exploit this microstructure is compelling: by investing in a shared infrastructure of capability (analogous to a public good), the Fund could achieve increasing returns that traditional MSME programs (which work firm-by-firm) could not. This represents an innovative blending of theory – essentially treating capability and data as a form of infrastructure that once built can empower countless entrepreneurs at low marginal cost. The literature on industrial policy has in recent years shifted towards such facilitative roles for the state (Rodrik, 2004): rather than picking winners, create platforms where many can win. The ATC platform embodies that philosophy, and its microeconomic underpinnings are strongly supported by existing research on how lowering transaction costs, improving information, and fostering networks can integrate excluded firms into the economy.

2.7. Funding Models and Investment Products

The Fund's financial architecture is designed to blend public and private resources and to deploy a range of investment products (debt, equity, grants) tailored to the MSME lifecycle. This approach reflects trends in development finance literature toward "blended finance", impact investing, and innovative funding for the "missing middle."

The missing middle refers to the gap where enterprises are too large for microfinance but too small or risky for conventional banks and private equity. International organizations have identified this gap as a major constraint in emerging markets: MSMEs contribute up to ~40% of GDP and 7 in 10 jobs, yet they "usually do not receive the right type of financial solutions to grow". They are caught between microcredit (which offers tiny loans with limited growth impact) and commercial finance (which demands collateral and track record they lack). The UNCDF notes three drivers of this missing middle finance gap: high transaction costs, high risk perception, and low investment readiness among MSMEs.

The Transformation Fund's model addresses all three. By pooling capital in a centralized fund, it achieves economies of scale in transaction cost – due diligence and monitoring can be done by the Fund for many deals, rather than each investor individually bearing those fixed costs. To tackle risk perceptions, it uses blended capital: public or philanthropic money can take first-loss positions or provide guarantees, making it attractive for private investors to co-invest despite higher risks. Indeed, UNCDF's experience with the Blended BUILD Fund indicates that a higher proportion of public capital allows vehicles to be more risk-tolerant and flexible in financing MSMEs. This aligns with the Fund's intent to mobilize enterprise development funds (EEIP/ESD) and possibly government contributions as catalytic capital, which can absorb greater risk and accept lower returns in exchange for impact.

Such layered structures have precedent: for example, the International Finance Corporation (IFC) and other DFIs have used junior tranches from donors to crowd in senior private investors for MSME loan portfolios, an arrangement supported by portfolio theory as it matches risk/return profiles of different investors (Mudaliar et al., 2016).

Another key aspect is offering diverse financial products across the firm growth cycle. Academic and practitioner studies highlight that start-ups and early-stage ventures often need equity-like patient capital or grants (since they have cash flow deficits), whereas more mature MSMEs need debt for working capital or expansion, and some high-growth firms may benefit from equity to scale innovations. By including everything from grant funding (for project preparation or R&D) to concessional loans and equity, the Fund mirrors the approach of integrated development finance institutions.

The literature on MSME finance suggests that flexible instruments like quasi-equity, revenue-based financing, and guarantees can significantly increase MSMEs' access to funds when traditional collateralized loans are not viable (Beck & Demirgüç-Kunt, 2006). The Fund's concept of capability-linked finance – releasing tranches of concessional finance upon the MSME achieving certain capability milestones – is particularly innovative and rooted in the idea of performance-based incentives. This is akin to a social impact bond or outcomes-based financing, where capital is deployed in stages when verifiable improvements (e.g. a certain percentage of processes digitized, or quality standards met) are attained. Such mechanisms draw on principal-agent theory: they align the entrepreneur's incentives with the funder's goals (the MSME gets cheaper finance or grants as it improves its robustness and impact). There is limited but growing literature on this approach in MSME support – it reflects concepts from microfinance (progressive lending) and from impact investing (tranche investment tied to impact metrics). While novel, it is consistent with the Fund's twin goals of ensuring support is effective and that entrepreneurs have "skin in the game" to build capacity, avoiding pure handouts that might encourage passivity.

Internationally, impact investors and development finance institutions (DFIs) have increasingly embraced the kind of model the Fund represents. Impact investment, a field popularized in the last decade, seeks both financial return and social impact. Investors in this space (such as specialized MSME funds in Africa, or global initiatives like the GIIN) often lament the shortage of investible MSME pipelines due to lack of business development support. The Fund addresses this by combining investment with technical assistance, essentially de-risking MSMEs to make them investment-ready. This concept finds strong support in reports by organizations like the IFC and OECD: blended finance is recommended to "provide catalytic capital and technical assistance, de-risking businesses and enabling them to access additional commercial capital". For instance, the OECD (2018) documented that blended finance deals often include a technical assistance facility alongside the investment fund, precisely as the TF does by making technical support an integral pillar. The Fund also aims to "crowd in" private investors (banks, institutional investors, impact funds) by demonstrating viable models and providing co-funding. Literature on public finance suggests that one public dollar in a well-structured blended vehicle can leverage several private dollars if the risk sharing is convincing (Attridge & Engen, 2019).

It is worth noting divergent perspectives: Microfinance, championed by Nobel Peace laureate Muhammad Yunus, once promised to empower the poor at scale with very small loans. By the 2010s, however, studies including randomized trials found that microcredit's effects on poverty and business growth were modest. Some researchers argued that "micro is too small" for transformative impact, as many borrowers were subsistence entrepreneurs who would rather have formal jobs. This critique (Karnani, 2007) led to a shift in focus toward MSMEs as engines of employment. Yet MSMEs themselves face the financing gap discussed.

The Transformation Fund's funding model can be seen as a next-generation response, combining the reach of microfinance (targeting underserved populations) with the scale potential of MSME finance. By ensuring funds are available for early-stage and micro enterprises (via grants or subsidized loans) and for scaling up medium firms (via commercial-ish capital), it covers the full spectrum.

Academic evidence on job creation suggests that young firms and a small subset of high-growth MSMEs create a disproportionate share of new jobs (Haltiwanger et al., 2013). Thus, a portfolio approach – nurturing many small firms knowing a few will become high-growth – is supported by the data. The Fund's risk-tolerant capital can finance these experiments in entrepreneurship that traditional finance would skip.

However, to avoid just subsidizing failures, the Fund's risk management must be robust, selecting firms with sound prospects but unmet credit needs. The mentioned use of data and a Transformation Index for monitoring implies an intent to constantly evaluate risk and impact, echoing best practices in DFI portfolio management.

In summary, the Fund's funding model is firmly grounded in modern development finance principles: blend, leverage, customize, and tie finance to results. It builds on lessons from microfinance (the need for complementary support, not credit alone) and from MSME investment programs (the importance of patient capital and risk-sharing). In prioritizing segments like start-ups, women-owned businesses, or rural firms often ignored by commercial investors, it targets additionality – ensuring its funds add value rather than crowd out what banks would do anyway. If anything, literature warns to be vigilant about governance in such blended funds to avoid conflicts of interest or political interference, a point addressed below. But conceptually, the Fund's financial strategy is supported by a range of studies and reports showing that filling the "missing middle" requires precisely this mix of public-good orientation and private-sector discipline. As one UNCDF report put it, no single actor can solve MSME finance alone: "solving a problem as complex as the missing middle financing gap…requires collective action", and platforms or facilities that take on higher risk and longer horizons are a key solution. The Transformation Fund embodies that collective action approach through its blended capital structure and innovative investment products aligned to developmental outcomes.

2.8. Target Market Segmentation

The Fund outlines a strategy that differentiates among target segments – whether by enterprise stage, geography, or demographic group – rather than treating MSMEs as a monolith. Literature strongly supports such segmentation in designing effective interventions. Different types of enterprises face very different constraints. For example, a subsistence micro-vendor in a township operates informally, with low skills and tiny turnover, facing barriers of basic literacy, security, and local demand. A more established small manufacturer might be formal and relatively skilled but struggling with technology upgrades or export market entry.

Segmenting by size/stage: Churchill & Frankiewicz (2006) argued that microenterprise programs should not be simply scaled up to serve MSMEs – the latter need distinct products (larger, longer-term loans or equity) and services (business development, links to value chains) that typical microfinance doesn't provide. The Transformation Fund acknowledges this by planning dedicated instruments for early-stage, growing, and expanding firms. It also explicitly ring-fences funding for project preparation and market intelligence that very young or innovative firms need. This approach echoes the World Bank's recommendation that MSME support ecosystems include incubation for start-ups, growth accelerators for scale-ups, and export/trade facilitation for mature firms (World Bank, 2017). Segmenting by stage allows the Fund to tailor its investment criteria and support intensity: for instance, start-ups might get smaller grants plus intensive mentoring, whereas mature MSMEs get larger loans with light-touch advisory. Through the strategy of tracking firm graduation rates through the development pipeline, the Fund can also measure how effectively it moves enterprises along the growth ladder – a key objective given South Africa's observed issue that micro firms rarely grow into small or medium ones under current conditions.

Segmenting by sector/cluster: The Fund intends on creating sector-specific capability hubs, for example, for automotive, informal retail, agribusiness, or transport. Sector segmentation is important because industries have different value chain structures and requirements. An agro-processing MSME needs compliance with food safety standards and cold-chain logistics, whereas a tech startup needs intellectual property advice and venture capital. Economic history shows that targeted sectoral programs (such as Malaysia's vendor development programs in manufacturing, or India's IT parks) can catalyse growth by addressing the precise needs of that sector's firms (Arora & Gambardella, 2005). The Fund's sector modules (traceability tools for agro-processing, telematics for logistics, POS systems for retailers) reflect this understanding. They align with the notion of "vertical policies" in industrial policy literature – interventions designed for specific industries with high growth or employment potential (Rodrik, 2004).

While horizontal improvements (like overall ease of doing business) matter, many analysts argue that MSMEs benefit greatly from cluster-based support where firms in the same industry can share specialized facilities, knowledge, and market access initiatives. The cluster-based hubs also fosters peer learning, where entrepreneurs in a hub can learn from each other, something research by the ILO finds especially helpful for very small enterprises who trust peers more than outsiders.

Geographic and demographic targeting: The Fund prioritizes township and rural businesses and designated groups, including black-owned businesses, women, youth, and persons with disabilities. This focus is grounded in South Africa's unique context of spatial and racial inequality, but it is also supported by broader evidence. Decades after apartheid, access to finance and markets for black entrepreneurs remains disproportionately low – the B-BBEE Commission reports that black South Africans still own a small fraction of the economy's productive assets. Many black-owned MSMEs are located in townships or rural areas that lack the infrastructure and networks of urban centers. Studies by development economists (e.g. Banerjee et al. on India's marginalized entrepreneurs) show that targeted programs are often needed to overcome the historical and institutional barriers that these groups face. For instance, female entrepreneurs worldwide tend to have smaller loan sizes and shorter loan tenures even controlling for firm size, often due to bias or lack of collateral, underscoring the need for women-focused financial products (ILO, 2019). Youth entrepreneurs may lack credit history and business experience, so they benefit from mentorship and credit enhancements tailored to first-time borrowers. The Fund's segmentation acknowledges such nuances. In setting aside capital and support specifically for these groups, it aims to correct structural imbalances – a justification in line with the theory of "targeted redistribution as efficiency-enhancing" when markets discriminate (Akerlof & Yellen's work on discrimination suggests the economy is suboptimal when talent is left untapped).

There is, however, a debate in literature on whether targeting specific groups or areas is the best use of resources versus broad-based MSME support. Critics of heavy targeting, sometimes from the public choice perspective, warn that it can invite politicization or that picking certain groups might neglect others who also need help. The key is to ensure that targeting is done in a transparent, impact-driven way. The Transformation Fund seems to build in a data-driven segmentation – using a Transformation Index and rigorous M&E to see which segments respond best. If, for example, township manufacturing firms show high job creation per Rand invested, the Fund can allocate more to that segment. This adaptive targeting is supported by the concept of "dynamical resource allocation" in operations research – continually optimize the portfolio based on performance.

Another potential critique is that focusing on very marginalized groups might raise costs (it is more expensive to reach a rural informal trader than an urban semi-formal business). Here the Fund's blended finance structure comes to play: the social mandate of its public capital tranche can justify that extra cost as part of its mission, while private co-investors focus on the commercially viable subset. This approach mirrors how many impact funds operate, achieving both breadth and depth by structuring different expectations for different capital.

In conclusion, the Fund's target market segmentation is strongly supported by literature across development economics and business strategy. By differentiating interventions for micro vs. small vs. medium firms, and by tailoring support to sectoral and demographic contexts, it recognizes heterogeneity in the MSME universe – a nuance vital for effectiveness.

> *One-size-fits-all MSME programs have often underperformed because, say, a blanket loan fund might be utilized mainly by more privileged firms who meet bank criteria, bypassing the very informal entrepreneurs who needed help most. The Transformation Fund avoids this pitfall by design: its inclusive targeting ensures resources flow to underserved segments, while its graduation model ensures that more advanced MSMEs also have pathways to further growth (preventing a stagnation at micro-level only). This layered targeting aligns with what leading economists like Nobel laureate James Heckman have found in social policy: that targeting investment to those with the greatest barriers can yield the highest marginal returns (the equity-efficiency multiplier effect). The Transformation Fund effectively bets on this principle – that empowering the marginalized MSME segments will produce outsized social gains in employment and equity, to the benefit of the whole economy.*

2.9. Governance and Risk Architecture

Any fund aiming to blend public and private interests at scale must pay careful attention to governance and risk management. The academic literature on institutional design and corporate governance provides ample guidance, much of which appears to inform the Transformation Fund's proposed operating model. The Fund envisions an independent special purpose vehicle with ring-fenced accounts, transparent reporting, and oversight by a multi-stakeholder board. This mirrors best practices identified in studies of development institutions.

One key lesson from history is that governance failures can derail well-funded development efforts – South Africa has unfortunate examples such as state development finance institutions that suffered from politicized lending or corruption in the past. Elinor Ostrom's work emphasizes accountability and monitoring as critical to any successful governance system managing shared resources. The Fund's commitment to publish data on an open dashboard and to have independent evaluation of outcomes provides the transparency and external scrutiny that Ostrom and others would applaud. It fosters trust among stakeholders, which Stiglitz notes is an "essential ingredient" for partnerships – participants need confidence that the rules are fair and enforcement credible.

The inclusion of multiple stakeholders on the oversight board also in line with modern governance thinking. This pluralistic approach can prevent capture by any single interest. Acemoglu and Robinson's theory on inclusive institutions suggests that broadly distributing power ("pluralism") helps ensure that institutions serve the many rather than a narrow elite. In the Fund's context, having, say, both a small business association representative and a National Treasury official on the board means decisions will have to balance development impact with financial discipline. This can mitigate the risk of either extreme: neither pure profit-seeking (which might ignore the poorest beneficiaries) nor pure politicking (which might ignore financial sustainability) should dominate.

Risk architecture refers to how the Fund will identify, mitigate, and allocate the various risks (financial, operational, reputational) inherent in its mission. Blended finance literature

stresses the importance of clearly structuring risk tranches – which the Fund plans to do by using first-loss capital, guarantees, or subordinated debt from public sources to shield private investors. This leverages the comparative advantage of different capital: as UNCDF observed, "the higher the proportion of public capital, the more risk-tolerant and flexible the vehicle can be", enabling outreach to riskier missing-middle clients. The Fund's design echoes this by positioning itself as the risk-taking anchor that makes MSME projects bankable for others. Nobel Laureate Robert Merton's work on financial architecture would view this as creating a form of risk transfer – moving risk to those more willing to bear it (the public sector for social risk, private sector for commercial risk).

Operationally, the Fund must manage credit risk (the risk of MSME defaults), project risk (that technical support doesn't yield results), and even macro risk (business cycles, covariant risks). A robust risk architecture would include portfolio diversification (across sectors, regions, and firm types to avoid concentration risk), setting aside loan loss reserves, and continuous risk monitoring through the platform's data. The Fund's innovation point of tying finance to capability metrics is a novel risk mitigant – it ensures that firms receiving larger financing are also those achieving markers of improved robustness in strategy, operations and management. This is essentially contingent lending based on covenants, a practice well-known in banking where loans have conditions attached, that the Fund now extends to developmental milestones that integrate risk management with development management.

Governance literature also highlights the need for learning mechanisms in innovative institutions. The Fund is breaking new ground in some ways, notably, the national platform for capability. It will inevitably need to adapt. Ostrom's principles would suggest enabling polycentric feedback – local chapters or sector hubs giving input up the chain. The presence of civil society in governance can foster independent evaluations and community feedback channels.

The Fund's open data approach means external researchers or media can analyze performance, adding another layer of accountability and risk management through public scrutiny. This kind of openness is recommended in public sector governance to reduce principal-agent problems – sunlight is the best disinfectant, as the adage goes. It is promising that the concept explicitly cites South Africa's history of failed development institutions due to governance failures and insists "we must learn from that", proposing transparency and oversight to avoid repeating mistakes.

For instance, the failures of certain B-BBEE deals and enterprise funds in the past often involved lack of monitoring and beneficiaries being selected for non-business or cosmetic reasons rather than genuine empowerment. The Fund's use of objective criteria, like the Transformation Index and real performance outputs such as revenue or jobs, to allocate support is a direct antidote to those past issues. It essentially moves transformation support from a compliance-driven model to a performance-driven model, which scholars have long advocated (Klitgaard, 1997 on corruption noted that tying funding to results reduces opportunities for rent-seeking).

Finally, risk architecture must consider macroeconomic and legal risk: For longevity, the Fund likely will rely on some government backing and policy support. Clear legislative underpinnings can protect the Fund from ad-hoc political interference by solidifying its mandate and governance structure in law. This connects to North's idea that credible commitment by the state through laws and institutions that bind future behavior encourages private actors to cooperate and invest. If investors see that the Fund's rules can't be easily changed, they will be more confident to lock in capital for longer-term investments. Similarly, MSMEs will be more willing to join programs if they trust the rules won't arbitrarily shift with a new minister or board. Legal scholars emphasize stability and rule-of-law as crucial for any financial vehicle's success.

In conclusion, the governance and risk architecture of the Transformation Fund, as described, is strongly grounded in cross-disciplinary insights. It attempts to blend the discipline of the private sector - through independent, performance-focused management and risk-adjusted financing, with the mission of the public sector - through transparency, inclusivity, and targeting of development outcomes. Mariana Mazzucato, in advising inclusive economic strategies, argues that public investment should come with reciprocity – private partners should share rewards and commit to national goals, forging a "new social contract". The Fund's governance embodies this reciprocity: it invites private co-investors and corporate buyers but binds them into a framework of shared reporting and societal impact goals, preventing them from reaping outsized gains without accountability. This reflects a synthesis of economic, legal, and sociopolitical research on how to structure public-private endeavours for public value.

If successfully implemented, the Fund could become a model of how good governance enables good economics – demonstrating that with the right checks and balances, an inclusion-driven fund can achieve development results efficiently and honourably. Past failures in MSME support often trace back to poor governance (money wasted, goals not met, stakeholders disillusioned). By adhering to the lessons from both global and South African experience, the Transformation Fund's design significantly ups the chances of avoiding those pitfalls, thereby securing the legitimacy needed to persist until its transformative impacts – a more inclusive, capability-rich economy – are realized.

ANNEXURE: DEBATING TRANSFORMATION ECONOMICS AND THE R100 BILLION TRANSFORMATION FUND: CRITIQUES AND COUNTERPOINTS (2023–2025)

3. Introduction

In 2025, South Africa's Department of Trade, Industry and Competition (dtic) unveiled the concept for a R100 billion Transformation Fund to accelerate black economic empowerment and inclusive growth. The Fund proposes pooling public and private capital (including Enterprise and Supplier Development flows) into a blended-finance vehicle that pairs funding with technical, market-readiness and governance support for black-owned businesses:

> *"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." - Draft Transformation Fund Concept Document - March 2025*

In its final architecture, after the public consultation process and further processing, the Fund argues that transformation policy needs a third pillar—Access to Capability (ATC)—alongside access to capital and markets, delivered through a special-purpose vehicle with independent oversight, a platform-based digital capability model and a deliberate inclusivity-led, outcomes-driven model of economic growth: deliberately activating Black persons, women, and people with disabilities in rural areas and townships, into the productive economy via Black-owned and Black-managed enterprises.

On its release, the plan immediately garnered both support and sharp criticism from across the spectrum: business associations, policy think tanks, political parties, and academic commentators. Many praised the Fund's goal of inclusive growth and acknowledged the persistence of racial inequality. Yet others questioned its assumptions, design, and feasibility, often drawing on South Africa's mixed track record with past empowerment funds. Below, we synthesize major commentaries (2023–2025) and assess their arguments relative to the Fund's own thesis.

On release, the Fund drew strong support for its inclusive-growth ambition and recognition of persistent racial inequality, but also sharp criticism of its assumptions, design and feasibility, often citing South Africa's mixed experience with prior empowerment vehicles. Below we synthesise major commentaries (2023–2025) and assess them against the Fund's thesis, distinguishing:

1. Structural critiques of transformation policy, including but not limited to whether race-targeted instruments aid or impede growth and equity;
2. Concerns about public-sector capacity and political feasibility, including but not limited to, risks of capture, duplication, and absorptive capacity); and
3. Specific objections to the Fund's model, financing strategy, governance, platform and capability-centred design.

For each theme we indicate where commentary aligns with or diverges from the Fund's goals and assumptions, which criticisms the final architecture has addressed, and which remain unresolved.

4. Structural Debates: Transformation Policy Goals and Assumptions

Critiques at the most fundamental level target the premises and objectives of transformation policy itself. Here we see a mix of alignment and divergence with the Transformation Fund's framing. On one hand, there is broad agreement – even among sceptics – on the goal of redressing apartheid's economic legacy. For example, Ann Bernstein of the Centre for Development and Enterprise (CDE) emphasizes that "the goal of creating a more inclusive economy in which historically disadvantaged South Africans own and manage a much larger share of businesses is not in dispute. Achieving that is critical for long-term prosperity and is overdue." Business Leadership South Africa (BLSA) similarly "fully supports and shares government's commitment to transformation", noting that both business and government agree it "should happen faster" given inequities revealed in employment data. Even the Fund's staunch opponents concede the importance of expanding economic participation for the disadvantaged. This alignment reflects a common recognition of the constitutional imperative (Section 9(2)) to promote equality and inclusive growth.

The consensus ends, however, at the question of how to achieve these aims. Critics argue the Transformation Fund is built on flawed assumptions about what drives or hinders empowerment. The Fund's concept paper asserts that lack of money is often not the primary barrier – many MSMEs fail "less for want of money than for lack of market access and the capacity to deliver quality at scale," it argues, elevating technical support and market access to equal footing with finance. In other words, the Fund's thesis is that capability gaps (skills, systems, supply-chain readiness) must be addressed alongside financing. This is echoed in the external critique: BLSA's CEO Busisiwe Mavuso notes that "access to funds alone is demonstrably not the answer" for small business success, citing high failure rates due to "lack of skills, limited access to markets, and insufficient access to funding" in combination. Likewise, Ann Bernstein lists "market access, poor infrastructure, lack of demand, [and] lack of managerial capacity" as the real obstacles "barely acknowledged" in the Fund proposal. There is a meeting of minds in identifying these structural problems – indeed, the Transformation Fund explicitly prioritizes non-financial capacity-building for those very reasons.

Where divergence arises is in the proposed solution and the state's role. Critics contend that the Fund's central premise – that a large, state-coordinated fund can effectively marshal resources to overcome those barriers – is misguided. "The proposal is based on an inaccurate assessment of what transformation requires, and an equally mistaken belief in the state's capacity to deliver it," Bernstein writes, arguing that a "centralised, state-managed behemoth" is unlikely to distribute vast sums effectively or provide the needed mentorship and market linkages. This speaks to a broader theoretical disagreement: Can transformative economic change be engineered by a government-run fund, or does it emerge from broader market growth and education?

Economist Tim Cohen encapsulates one side of this debate in a Daily Maverick column : "Contrary to the simplistic notion of [South African] government officials, capital is not the problem. The problem is a poor skills base, a lack of viable business ideas and, most of all, anaemic economic growth[underlining our emphasis]. Fix those, and the need for yet another transformation fund tax fizzles away." From this perspective, structural reforms (better basic education, deregulation, jobs-rich growth) are the real levers to empower the majority, not creating new funds. The Institute of Race Relations (IRR) goes further, asserting that race-targeted funds and BEE preferences may themselves harm growth and inclusion. IRR analysts argue that Black Economic Empowerment (BEE) policies have chiefly enriched a small politically connected elite while "chok[ing] off investment, growth and jobs," thereby "greatly harm[ing] the great majority of poor black people." They point to South Africa's worsening Gini coefficient and intra-racial inequality since 1994 as evidence that current transformation strategies are "a scam on SA's soul" that betray non-racialism and perpetuate poverty. The IRR and like-minded commentators thus call for scrapping race-based empowerment in favour of a non-racial, means-tested approach – often citing their model of "Economic Empowerment for the Disadvantaged (EED)" which would target people by income level and funnel resources into broad inputs like education, infrastructure, and growth stimuli. From this vantage, a massive BEE fund is not just misplaced but "perverse" in principle.

In defence of the Transformation Fund's approach, supporters counter that market-led solutions and "colour-blind" policies have historically left structural racism and gender exclusion intact. Sarah Mokwebo, writing in the Mail & Guardian, argues that dismissing the Fund as "another avenue for corruption" or an undue burden on business "ignores the necessity of the fund" in tackling entrenched disparities. She notes that the Fund explicitly aims to empower black women, a group doubly marginalized by race and gender, by earmarking support for black women–owned MSMEs and addressing the gendered barriers in finance and markets such as lack of collateral due to historical asset disparities, exclusionary procurement networks. In her view, targeted interventions like this Fund are necessary to "alleviat[e] black women's socio-economic exclusion", diversify sectors such as agriculture, and link empowerment to social programs.

In short, the fundamentals of the debate pit a transformative, state-partnership model against a market-driven, race-neutral model. The Fund's proponents justify their approach by South Africa's stalled progress on black ownership and the constitutional mandate for redress, whereas opponents contend that such state-led efforts are "doubling down on failure", a lose-lose proposition that could "impede redress, choke economic growth and deter investment" simultaneously.

5. Governance and Feasibility: Public-Sector Capacity Under Scrutiny

Beyond ideology, a large portion of commentary has focused on practical concerns: Can a R100 billion Transformation Fund be effectively implemented in South Africa's public sector context? Many observers are sceptical, raising issues of governance, transparency, and political will. Past experiences with development funds and BEE schemes loom large. Ann Bernstein bluntly states, "the most important danger is that [the Fund] will become another slush fund for politically connected players". This fear, that such a vast pool of money might be captured or mismanaged, is widely shared. It reflects a profound trust deficit created by instances of corruption and patronage in prior development financing initiatives. The Fund now explicitly acknowledge this trust issue and calls for an Oversight Board including government, private sector and civil society representatives, with all input, output and outcomes data and results published, subject to privacy laws, on open dashboards to enable public scrutiny. These design features were intended to pre-empt criticisms of opacity or political meddling.

Critics acknowledged these intentions but remained cautious. BLSA, in its formal comments, "commended the government for establishing the Transformation Fund" in principle, but immediately "bemoaned the lack of analysis" of past initiatives and the thin detail on how new governance structures would work. BLSA stressed that clear Key Performance Indicators, independent audits, and strict transparency must be "prerequisites" for any such fund – essentially urging **the dtic** to hardwire the anti-corruption measures it had promised. The Democratic Alliance (DA) was more scathing. DA trade spokesman Toby Chance called the private-sector partnership aspect "misleading", noting that the concept document's only concrete governance detail was "that a Board of Directors will be formed, with two private sector representatives appointed by the Minister." In his view, this hardly guarantees independence – it "fails to convince anyone" that political influence would be kept at bay. Thus, while the co-governance model was "particularly welcome" to business groups in theory, the devil is in the details: Who controls the money, and will merit truly prevail over political considerations in funding decisions?

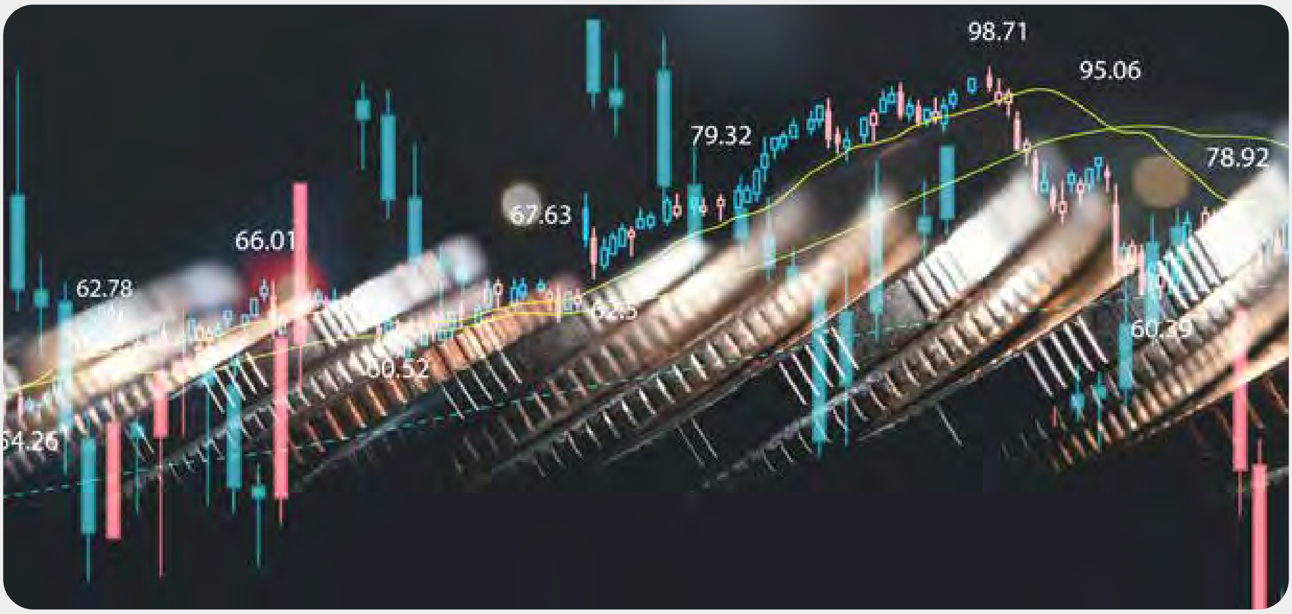
Another feasibility question is the Fund's sheer scale and source of funding. The concept envisions raising R20 billion per year for five years. Critics across the board labelled this unrealistic absent some compulsion. Moneyweb, for instance, noted the "fanciful target" of R100 billion given the difficulties existing MSME funds have in disbursing even smaller amounts. The draft concept suggested multiple funding streams – "mobilising public and private capital (including EEIP/ESD flows)" – effectively tapping money that companies already spend on BEE Enterprise & Supplier Development (3% of NPAT for large firms), and "equity equivalent" contributions from multinationals, plus some government seed funding and donor investments.

Minister Parks Tau has emphasized that the Fund is meant to be voluntary and "does not replace any well-functioning [BEE] vehicles already in place. Instead, it seeks to amplify what is already required" under BEE laws. In practical terms, firms can channel their existing 3% ESD contributions into the Fund if they choose, as an alternative to running standalone projects. No "big stick", Tau insisted – "no new codes will be amended, and no extra percentage levies imposed" beyond what current BEE rules demand.

This reassurance came after strong pushback from business: initially the draft hinted that companies failing to direct ESD spend into the Fund might lose out on state contracts or that merger approvals could enforce Fund payments. Those possibilities raised alarms. The IRR decried such tactics as effectively "exacting contributions from the private sector" by threat of sanctions, tantamount to a "new tax on corporate profits" in disguise . Indeed, IRR's submission warned that if voluntary donations fall short, "government may resort to making these contributions compulsory as suggested in the document," which would "impos[e] a new tax" and likely face constitutional challenges. The DA likewise argued that in a stagnant economy, "introducing a new tax on business [is] inappropriate," and called the Fund "a rebranding of failed programmes with no real change" beyond extracting more money from the private sector.

Facing these critiques, dtic officials adjusted their messaging. By late April 2025, Minister Tau publicly clarified that participation would be voluntary and collaborative, not coercive. The public comment deadline was extended after stakeholders asked for more time to digest the implications. Furthermore, **the dtic** explicitly stated that no company would be compelled to cede equity to the Fund; support would come via debt, grants, or minority equity stakes so as not to punish businesses for not "transacting" ownership. These and other steps indicate that some criticisms were anticipated and have been addressed in the final framing: notably the fear of a "backdoor corporate tax" has been countered by promises of voluntarism, and the spectre of an unaccountable slush fund has been met with detailed governance pledges, systems and processes.

Commenting further on feasibility concerns, BLSA noted that even if funding is raised, absorptive capacity is a concern: "How can we ensure that this amount is deployed…with appropriate risk management and recovery? How could this level of funding be adequately supported through mentorship?". In other words, can the Fund find enough viable projects and skilled implementers each year to spend R20 billion effectively? The National Empowerment Fund (NEF) projected if it was appointed to manage the fund, its assets under management would balloon from R4.6 billion to R72 billion by 2028/29 with the Transformation Fund, and that 700,000 jobs would be created. The DA viewed these forecasts as "unrealistic, especially in an economy growing at less than 2%". Indeed, a pervasive sentiment was that government tends to over-promise and under-deliver on such grand schemes. This caution is why BLSA urged that the Fund be "developed gradually based on evidence of its effectiveness," perhaps starting with pilots or scaling up only once demonstrable results are seen. The recommendation to phase the implementation of the Fund has been acknowledged and incorporated in the final model of the Fund.



6. Design & Strategy: Platform Model, Financing Mechanisms, and Capability-Centered Support

Critiques have also zeroed in on specific aspects of the Transformation Fund's design, questioning whether its innovative features are strengths or potential failings. Four key elements face scrutiny: (1) the Fund's relationship to existing programmes, (2) its financing strategy, (3) its governance architecture (structure and oversight), and (4) its "platform" model of delivering support and building capabilities.

6.1. Overlap vs. Novelty

A common refrain is "Why do we need a new fund at all?" Observers note that South Africa already has a landscape of development finance and BEE support instruments – the NEF, the Industrial Development Corporation, sector-specific funds, the Black Industrialists Scheme, and various MSME funds. Both BLSA and CDE criticized the concept paper for failing to analyze past efforts or clearly justify the Fund's added value. BLSA pointed out that the draft "does not provide a comprehensive overview of these existing funding mechanisms, nor does it justify why a new R100 billion structure is necessary instead of enhancing existing models." Similarly, CDE's Ann Bernstein argued the proposal "skips over fundamental questions" like "Why is another fund necessary when entities such as the National Empowerment Fund, the Black Industrialists Programme and numerous other B-BBEE-linked mechanisms already exist? What has been learned from their successes and failures? What has worked, what hasn't, and why? None of this is addressed." The concern is that the Transformation Fund might merely "recycle[s] failed programmes in new language" – creating "institutional inflation" rather than fixing execution gaps in existing schemes.

In its final version, the Transformation Fund responds by emphasizing how the Fund differs from business-as-usual. It highlights that current BEE funding efforts are fragmented, small-scale, and often misaligned with real business needs. For instance, companies' 3% ESD spending is often spent in siloed projects or tick-box training that don't build sustainable businesses. The Fund aspires to aggregate these resources and deploy them more strategically. It distinguishes itself by ring-fencing budget for typically neglected activities – project preparation, early-stage venture capital, and market intelligence – under a coherent legislative scaffold. It also promises a national "Transformation Index" to track outcomes and a unified framework to avoid duplication.

In theory, this pooled platform could achieve economies of scale and uniform standards that piecemeal efforts lack. "Instead of each DFI or corporation running its own training or lending scheme, they could co-fund the ATC's national programs," the approach states, achieving impact at scale. Moreover, the Fund argues it will target areas conventional funds shy away from: high-risk early-stage enterprises, township and rural firms, and "missing middle" financing needs that fall through the cracks of banks and DFIs. These design choices are meant to answer critics who say "we've heard this before."

6.2. Financing Strategy

The Transformation Fund's financing model draws particular fire. As noted, it relies heavily on redirecting private sector BEE contributions (ESD and Equity Equivalent investments) into a central pot. Critics worry this could be ineffective or even counter-productive. The CDE cautions that "redirecting

ESD spending to the Transformation Fund would be ineffective, expensive and harm existing black-owned businesses that are currently supported through integrated supply chain relationships." In other words, if companies simply pay into a generic fund, the bespoke support they were giving to suppliers or enterprise development partners might wither – leaving those emerging businesses worse off. This is a classic "crowding out" concern.

BLSA similarly argued for building on what works in private enterprise development programs: many corporates have had success integrating black suppliers into their value chains (boosting capacity in a commercially sustainable way). Rather than derail those, BLSA suggests the Fund should "align with existing industry master plans" and let businesses share their lessons and best practices in co-managing the fund. There is an implicit fear that a one-size-fits-all fund may ignore sector nuances or the trust relationships that existing programmes cultivated.

the dtic's rejoinder is that the Fund will "amplify – rather than supplant – ESD vehicles" already in operation. The Minister has assured stakeholders that "the Transformation Fund does not replace any well-functioning vehicles… it seeks to amplify what is already required under existing B-BBEE legislation." The idea is to offer companies an option: they can continue their own enterprise development initiatives or pool resources through the Fund if that promises better leverage. To sweeten the deal, **the dtic** has indicated that donations to the Fund will count toward BEE scorecards (indeed, likely with immediate recognition of the full 3% contribution). This addresses a practical business incentive: companies could potentially "earn immediate [BEE] points when capitalising the pooled vehicle," as the concept document suggests, streamlining their compliance. Some critics, however, view this incentive as a double-edged sword.

The DA dubbed it "a cynical tactic" allowing companies to "artificially boost their B-BBEE scores while providing absolutely no means of monitoring or tracking the real impact once funds are in government hands." In short, sceptics fear the Fund could become a check-writing exercise that improves scorecards but doesn't tangibly transform businesses on the ground.

A further critique is whether voluntary contributions will materialize at the scale envisioned. Based on historical data, dtic estimates suggest that if all eligible companies routed their existing ESD spend into the Fund, plus multinationals' equity-equivalent projects, around R20 billion per year could indeed be raised. But that's a big "if." In practice, companies might be reluctant to hand over funds unless they see value or unless subtly pressured. Observers note that the political economy could shift from voluntarism to expectation; down the line, government might feel justified in making it quasi-mandatory. This uncertainty leads critics to label the funding plan "implausible" or "riddled with…implausible funding mechanisms", as CDE put it. The transformation fund, they argue, could end up either under-funded (if voluntary uptake is low) or essentially a tax (if government forces the issue) – scenarios that either undermine the Fund's impact or South Africa's investment climate.

6.3. Governance Architecture

As things stand, the Fund will be housed in a special purpose vehicle (SPV) with its own executive team and board drawn from government and business, and it will report to existing oversight bodies. Notably, is the possibility that the SPV might be "anchored, initially, by the National Empowerment Fund," essentially leveraging the NEF's infrastructure as a starting point. To some, this is sensible – the NEF has experience (albeit limited by capital) in empowerment financing.

To others however, it is cause for worry: the IRR's Dr. Anthea Jeffery argues that channelling funds through the NEF without a new statute could violate constitutional rules on how public money is handled. In her reading, Section 213 of the Constitution requires that all money received by the national government go into the National Revenue Fund unless an Act of Parliament allows otherwise, suggesting that a law will indeed be needed to establish the Transformation Fund legally. Jeffery further alleged that what the Minister "seems to want is a large pot of money that can be used for public service salaries and other state spending under the fig-leaf of a BEE intervention". This claim underscores the depth of mistrust: the fear that even a ring-fenced SPV could be siphoned off for unrelated purposes under political pressure. **the dtic**'s strong insistence on ring-fenced accounts and reporting is meant to allay this, but the proof will be in strict financial controls and perhaps oversight by an independent trustee or auditor – aspects commentators urge to be built in upfront.

Another governance design point is who holds decision-making power in the Fund. The initial concept envisioned a multi-stakeholder board, but as mentioned, the concern of some commentators is that if the government appoints even the private-sector representatives, the power dynamic could remain weighted towards the state. BLSA recommended a truly joint management team and possibly co-selection of board members to ensure credibility. **the dtic** has emphasized plans for "stringent due-diligence procedures and objective decision-making frameworks" to prevent favouritism. **the dtic** has furthermore stated its intention to leverage private sector expertise in credit processes and merit-based investment criteria to select and monitor projects. If implemented, such measures could answer critics who worry politically connected firms will get loans or grants regardless of merit. However, those critics note that South Africa has had many well-written frameworks on paper; the challenge is enforcing them without fear or favour.

6.4. Platform and Capability-Centered Design

The most distinctive aspect of the Transformation Fund – and the one that could answer some critiques if it works – is its "platform-based model" focusing on capability-building. The Fund isn't envisioned as a simple piggybank; it is conceived as a platform for technical assistance, digital enablement, and market linkages that rides alongside the money. Concretely, the final architecture of the Fund describes building a technology platform and network of "ATC Hubs" to provide an "Access to Capability (ATC) stack": everything from basic enterprise software (accounting, ERP-lite, payment systems) to sector-specific tools (e.g. traceability systems for agro-processors, telematics for logistics), plus micro-learning modules, quality certifications, and governance tools for MSMEs.

The goal is to reduce small firms' costs of participation, lower risks for funders and buyers, and increase the benefit of market access by making these firms more efficient and credible suppliers. In economic terms, the Fund sees high fixed costs in acquiring capabilities (training, systems) that individual MSMEs can't bear, but if provided at scale via a platform, the marginal cost drops and network effects kick in (more capable firms attract more buyers/financiers). This is a modern, even techno-centric, approach to empowerment, quite different from old grant or loan programs. It implicitly addresses the exact problem critics like Mavuso highlighted: lack of mentorship and skills. The idea is to institutionalize and subsidize that "mentorship" and systems support through professional hubs and digital solutions, rather than trying to find thousands of individual mentors one by one.

However, commentary on this aspect has been mixed. Some business leaders strongly agree with the premise that capability support is critical – noting that the NEF and others struggled "precisely because of the lack of mentorship capacity in the country", which made their investments less effective. BLSA explicitly asked "how the Fund proposes to improve on aspects related to [enterprise and supplier development] over and above funding," pressing for details on the non-financial support plan. This indicates that while the Fund's intent to provide technical support is welcome, its execution plan was not clearly communicated in early documents. Indeed, Ann Bernstein accused the concept paper of "relying on unsupported assumptions that … a state-managed mega-fund can somehow offer mentorship, skills and other support to small enterprises", calling those assumptions "wrong". To her, the notion that a government platform could successfully deliver the nuanced help each

business needs is doubtful – especially when the concept paper (in her view) read more like "aspirational rhetoric" than a detailed operations manual.

The transformation fund team has been fleshing out this capability model in its working documents, but public commentary has not yet seen those results. Critics remain concerned that bureaucrats might not be the best placed to decide which "capability toolkit" a particular small firm needs, or that a one-platform-for-all approach could be inflexible. On the other hand, if the Fund partners with private tech providers, incubators, and universities for these services (as presumably intended via "partnership of institutions" managing the ATC platform), it might bring in the requisite expertise.

In capability-building, as in funding, the Fund's success will depend on collaboration with those who have done it before. Critics like the DA explicitly ask: "Which private sector programmes under Enterprise and Supplier Development are working, and why? How can these successful initiatives be scaled?" – essentially prodding the government to learn from existing models (for example, some banks' MSME platforms or NGO incubators). The Fund's concept is, in theory, an answer to that: it seeks to "codify lessons and best practices" from business and integrate them into the national platform. BLSA even noted that a joint team could "share and codify lessons" to inform the Fund's design. Thus, there is a potential alignment here: both the Fund's designers and its constructive critics agree that co-design with experienced practitioners is vital. Going forward, this is an area where criticism has been partially anticipated (the Fund clearly sees itself as a "public-private partnership" platform) but not yet fully answered in practice. Until the Fund produces a clear blueprint or pilot for its platform approach, commentators are likely to continue voicing doubt.

In summary, the specific objections to the Fund's model can be seen as a checklist of risks to manage:

(a) avoid duplication and build on what works (to answer structural overlap concerns)

(b) secure sufficient buy-in or mandate for funding (a financing concern)

(c) lock in ironclad governance with real external influence (a governance architecture concern);

(d) operationalize the capability support in a scalable way (a platform execution concern).

The final Transformation Fund architecture acknowledge all these areas; the real test will be whether the final design – and ultimately implementation – incorporates the feedback.

For example, commentators will be looking for the outcome-based targets BLSA demanded (e.g. specific jobs or firm growth metrics) to be built into the Fund's mandate. They will want to see that the Fund's investments align with national priorities without merely chasing political favour – positive signs include the identified focus sectors (renewables, manufacturing, ICT, agro-processing, etc., chosen for growth impact) and the emphasis on supporting "firms owned by women and youth" with technical assistance and market-access programmes alongside finance. These design elements directly respond to longstanding critiques that BEE policies haven't benefited women, youth, or small producers enough. If the Fund can deliver on those fronts, it would address some of the moral and economic critiques head-on.

7. Conclusion: Alignment, Divergence, and the Road Ahead

The public commentary from 2023–2025 on transformation policies and the R100 billion Transformation Fund reveals a complex interplay of agreement and contention.

There is alignment on the end-goal: a more inclusive economy, where success and ownership are not determined by race or gender. The Transformation Fund's premise explicitly endorses this goal, and even its harshest critics concur that "expanding economic participation" for the historically disadvantaged is crucial. Moreover, on certain diagnostics, such as the importance of skills and market access in addition to finance, the Fund and many commentators actually agree, even if unwittingly. For instance, the Fund's emphasis on technical capability development mirrors BLSA's call for mentorship and addresses Bernstein's point that managerial capacity and demand matter. In theory, the Transformation Fund could be a vehicle that both sides might support, if it convincingly incorporated the lessons from past failures and the safeguards demanded.

Where commentary diverges most from the Fund's framing is in its level of optimism about state-led solutions and the specifics of execution. A number of critiques had been anticipated by the Fund documents – notably concerns about governance, duplication, and the limits of finance-only empowerment – and the drafters made efforts to address these. The Fund proposes independent oversight, transparency, and a co-governance structure to preclude corruption. It openly recognizes that many BEE programs underachieved and positions the Fund as a corrective, not just a clone. It also pre-emptively refuted the notion of a *"big stick" new tax, insisting on voluntarism and partnership language to keep business on board. Some criticisms were effectively disarmed by these moves – for example, once it was clear the Fund wouldn't siphon competition penalties or force equity transfers, that particular line of attack lost steam. And by extending consultations and likely phasing the rollout, **the dtic** showed responsiveness to the feasibility concerns.

Yet other criticisms remain unresolved or only partially addressed. One is the call for evidence and detail: multiple commentators noted the concept was heavy on vision, light on concrete mechanics. BLSA and DA both demanded rigorous analysis – of why past funds failed, of how exactly the new Fund will measure success, and of what happens if things go off track. The final architecture of the Fund fills many of these concerns and communication on the departure points between the concept and the final Fund document will need to be deliberate, with the primary focusing being on addressing the critique that the Fund hasn't fully demonstrated its superiority to existing approaches, beyond asserting it. As BLSA put it, "the paper provides no evidence of how the new fund will succeed where others have failed." That statement encapsulates the cautious stance of moderate critics: they are open to being convinced, but the burden of proof lies with the Fund's proponents.

Another area is the ideological or theoretical divide that no single paper can bridge. Those who fundamentally believe that BEE is "misguided" or unconstitutional will not be won over by better spreadsheets or governance tweaks. The IRR, for example, sees any race-based fund as exacerbating division and harming the economy, recommending a total pivot to non-racial empowerment. The Transformation Fund, grounded as it is in B-BBEE policy, by definition does not address that critique – in fact, it doubles down on the idea that properly structured BEE can work for the many, not just the few. This is a philosophical disagreement: Is empowerment policy a necessary correction for inequality or has it become a vehicle for cronyism that itself needs replacing?

The Fund's approach defends the former position – it tries to "differentiate itself from typical ESD funds" by fixing their design flaws, implicitly arguing that the concept of directed transformation is sound, even if past implementation wasn't. Opponents in the latter camp aren't swayed by internal reform; they want a paradigm shift (like EED) outside the BEE framework. It is unlikely, therefore, that criticisms rooted in economic liberalism vs. developmental state models will be reconciled through this Fund – they will likely persist in parallel to any implementation and should be addressed for what they are – political economy ideology.

Finally, commentators delineated different types of objections – structural, administrative, and technical – but in reality these concerns intersect. For example, what some call a "structural" critique (that empowerment policy distorts markets and scares off investment) is linked to a governance critique (that it breeds rent-seeking) and a design critique (that tying empowerment to ticking boxes rather than real outcomes is counter-productive). The Transformation Fund, by introducing outcome metrics and capability-building, attempts to answer the design critique;

by involving business in governance, it attempts to answer the corruption critique. If those aspects function well, they may even alleviate some structural concerns (e.g. proving that empowerment can be done in a growth-friendly way). On the other hand, if the Fund fails or falls prey to the same issues as before, it will reinforce the structural critics' case that South Africa should "get real about what it takes to build an economy that works for everyone" through different means.

In conclusion, the narrative around transformation economics and policies in general, and the Transformation Fund in particular, between 2023 and 2025 has been one of guarded hope meeting hardened scepticism. The public commentary aligns with the Fund on ultimate goals – inclusive growth, more black entrepreneurs, and broad-based prosperity – but diverges on whether the Fund's assumptions and plans can deliver those goals. Many criticisms were anticipated by the Fund's drafters and led to clarifications or adjustments (on voluntariness, oversight, and focus). Yet significant criticisms remain: some have been insufficiently answered (details on execution), some have been acknowledged but need proof (governance and capability rollout), and others stem from fundamental differences in economic philosophy (the role of state and race in transformation).

The Transformation Fund's fate will ultimately be decided by real-world outcomes. As one media headline asked, is it "a R100 Billion Gamble or a Genuine Game-changer?". South Africa's experience over the next few years – whether the Fund is enacted, and if so, whether it demonstrates measurable success or falters – will provide the answer. In the meantime, the commentary from 2023–2025 has been invaluable in pressure-testing the concept. It has surfaced the pitfalls to avoid and the principles to uphold. If the Fund does move forward, those voices have essentially provided a checklist for its architects: ensure robust governance, partner with the private sector, set clear outcomes, build real capacity, and don't stifle what's already working. Adhering to that could mean the difference between the Transformation Fund becoming a celebrated model for inclusive growth – or, as critics warn, "doubling down on failure".

Either way, the engaged debate around the Fund reflects a healthy democratic discourse on economic transformation. It shows that while South Africa agrees on the why of empowerment, the how remains contested – and it is in that contest of ideas that better policies can eventually take shape.

The tables below summarises this analysis:

1. Structural

Specifics of critique	Y/P/N	How addressed (for Y/P) Why not (for N)	Next Steps (for P)
Misdiagnosis: money isn't the main constraint; it's demand, skills, management capacity; sceptical that a centralised fund can fix these.	P	Fund's ATC pillar centres capability & market access; platform & Buyer Councils aim to tackle demand & quality gaps; phased rollout to reduce risk.	Publish evidence from pilots on capability-linked gains codify "what's different" vs. past funds.
"Capital is not the problem"; growth-first reforms matter more than a new fund.	P	Fund posits inclusion-led growth: micro capability → macro growth; telemetry ties firm outcomes to macro targets.	Demonstrate macro link via the Transformation Index; show complementarity with broader structural reforms.
Race-based policy entrenches elites, depresses investment; prefer non-racial EED; constitutional scepticism.	N	Fundamental political-economy disagreement: Fund relies on s 9(2) remedial mandate and B-BBEE Act framing; IRR rejects race-targeting.	Keep engaging on constitutional & economic evidence; publish broad-based asset-ownership & jobs outcomes to counter "elite capture" narrative.

2. Governance & Feasibility

Specifics of critique	Y/P/N	How addressed (for Y/P) Why not (for N)	Next Steps (for P)
Welcome intent; lack of KPIs, thin detail on oversight, absorptive capacity (R20 bn/yr), mentorship depth.	P	Final architecture adds SPV, ring-fencing, Transformation Index, independent audits, phased scale-up.	Table clear KPIs/targets in the annual plan; run phased pilots; publish capacity plan (mentors/technical partners) and quarterly scorecards.
Fears of "slush fund"; weak independence (ministerially appointed board reps), unrealistic job/AUM projections.	P	SPV with co-governance; ring-fenced accounts; Parliament/B-BBEE Commission reporting; no "big-stick" tax, voluntary contributions.	Add transparent board appointment criteria, third-party nominations; independent assurance panel; tighten projections with sensitivity ranges.
R100 bn target and R20 bn/yr deployment unrealistic; pipeline & execution risk.	P	Phased mobilisation; multiple windows (prep, growth, venture); capability-linked tranching to pace disbursements.	Publish an annual capital-raising dashboard and deployment SLA metrics; contingency for under-subscription.

3. Design & Strategy

Specifics of critique	Y/P/N	How addressed (for Y/P) Why not (for N)	Next Steps (for P)
Why a new fund? Duplication with NEF/IDC/BIP; no lessons-learned analysis; risk of "old wine in new bottles".	P	Fund differentiates via platform-delivered ATC, telemetry, ring-fenced project-prep, buyer councils; aims to amplify, not replace.	Produce a comparative map; formal MoUs to avoid overlap; joint pipelines where apt.

Specifics of critique	Y/P/N	How addressed (for Y/P) Why not (for N)	Next Steps (for P)
Risk of crowding-out successful corporate ESD supply-chain programmes; needs alignment with masterplans.	P	Voluntary pooling; BEE recognition for Fund contributions; messaging: amplify not supplant; sector hubs aligned to Masterplans.	Governance to include industry co-chairs per sector hub; publish co-design protocols; protect working bilateral ESD with opt-in modules.
Scorecard gaming: contributions could boost B-BBEE points without real impact; monitoring concerns.	P	Outcome-based telemetry + public Transformation Index; performance-linked disbursements (capability-linked tranches).	Release methodology & weights of the Index; commit to independent verification (sample audits) and public micro-data (privacy-safe).
Section 213 (NRF) & routing via NEF without statute; constitutional risk if compelled contributions.	P	Government to legislate the SPV, keep voluntary contributions; Competition/Procurement compliance; ring-fencing and audits.	Publish draft bill early; include FRAND-style open-access and procurement probity clauses; obtain Competition Act comfort/ exemption if needed.
Central platform risks foreclosure, exclusivity, data-sharing concerns.	P	Open-access platform policy; multi-homing; no exclusive dealing; anonymised analytics; role-based access.	Formalise competition-compliance code, periodic third-party audits, and API openness; publish a platform neutrality charter.

Legend: Y – Addressed; P – Partially addressed; N – Not addressed.

The Fund's final design adds (i) an SPV with co-governance, ring-fenced accounts, Parliament/B-BBEE Commission reporting; (ii) a platform-based ATC stack with sector hubs and Buyer Councils; (iii) a public Transformation Index and telemetry for outcomes; (iv) capability-linked finance; (v) phased mobilisation and multiple capital windows; and (vi) a voluntary contribution stance with B-BBEE recognition and alignment to sector Masterplans.

ANNEXURE: LESSONS FROM EXXARO: INTEGRATING DECENTRALIZED “VC-STYLE” INITIATIVES

The Single Operating Model does not start from scratch; it builds on proven approaches emerging in South Africa’s private sector and will incorporate decentralized innovations rather than overriding them.

A case in point is Exxaro, a large mining company that has pioneered an integrated investment-and-support model for enterprise development. Exxaro’s Enterprise & Supplier Development (ESD) program, launched in 2018, functions much like a mini transformation fund with a VC-style ethos. It set up a R438 million ESD fund that provides zero-interest loans to small businesses alongside comprehensive capacity-building support. Rather than viewing ESD as a tick-box compliance exercise, Exxaro embedded a philosophy of “holistic support that must accompany financial support”. Beneficiaries of Exxaro’s program receive hands-on assistance with business fundamentals, operations management, and mentorship. For example, Exxaro created a Contractor Development Programme to help small suppliers overcome typical operational challenges, and partnered with SAICA’s Enterprise Development unit to deliver a Financial Excellence course to its investees. This mirrors the Transformation Fund’s emphasis on making firms investment-ready and sustainable through capability uplift, not just cash injections.

The results have been impressive. By 2021, Exxaro’s ESD fund had disbursed around R367 million in 0% interest loans to 41 beneficiaries, helping create or retain over 1,600 jobs. Perhaps most tellingly, despite the higher-risk profile of these MSMEs, the fund’s impairment rate was only ~7% at its peak – far below industry averages (similar funds saw ~15–30% impairments during the COVID period). Exxaro attributes this success to active monitoring and engagement with beneficiaries, keeping communication lines open and intervening early if issues arise. In other words, their combination of capital + capability support significantly reduced default risk, validating the model’s risk-mitigation premise. Exxaro’s approach also yielded tailored innovations like sector-specific loan products (e.g. agricultural finance adjusted for seasonal risks), developed through close understanding of beneficiary needs. This illustrates how decentralized initiatives can generate valuable innovations and data when they take a comprehensive, data-driven approach.

The Transformation Fund’s telemetry layer will consolidate and scale such learnings into a national system. The intention is not to centralize all activities under government, but to create a common infrastructure where decentralized efforts (whether led by companies like Exxaro, industry associations, or provincial agencies) can plug in, share data, and adhere to shared outcome metrics. For instance, Exxaro’s ESD platform can remain company-specific in operations, but key performance data from its beneficiaries (loans disbursed, repayment rates, jobs created, etc.) could feed into the national Transformation Index dashboard. This would allow government and other stakeholders to see the full landscape of capital flows and outcomes in transformation efforts, improving coordination. It also ensures recognition and reinforcement of private initiatives: companies like Exxaro would effectively get telemetry credit on the national dashboard, highlighting their contribution to the broader transformation goals. In turn, they could benefit from the Fund’s ecosystem (e.g. refer promising enterprises to the Fund for co-investment or additional capability support beyond the company’s scope). This aligns with recommendations to “develop a common MSME data framework for adoption by public and private sector funding providers” to reduce fragmentation.

By standardizing metrics and data collection (through the Transformation Index), diverse programs can speak a “common language” of impact, facilitating co-investment and avoiding duplication of effort. Crucially, this integration is voluntary and supportive. It does not force corporate or local programs into a one-size-fits-all mould, but rather offers them a national platform to amplify their impact. Decentralized innovations – such as Exxaro’s tailored approaches or a sector group’s niche training module – can be shared across the network, while each program retains autonomy in execution. The capable state’s role is to enable alignment without stifling innovation: providing the data systems, coordination forums, and incentive structures so that all these disparate initiatives collectively pull in the same direction. In practical terms, an Exxaro or a Sun International (another ESD case study) can continue their work, but by reporting into the telemetry system, they contribute to and benefit from a national learning loop – where best practices are identified and scaled, and gaps or overlaps in support are quickly seen and addressed at an ecosystem level.

ANNEXURE: NOTES ON TECHNICAL MODELLING

1 Introduction

This section provides a principle-based modelling blueprint for quantifying the Transformation Fund's economy-wide effects over 10 years ($t_0 \rightarrow t_{10}$), with a clear results marker at FY 2029/30. It links the Fund's micro interventions (capital + capability + markets) to macro outcomes using transparent assumptions, standard national-accounts identities, and a telemetry-driven calibration loop that the paper already envisages (see the Transformation Index and metrics). The blueprint is deliberately modular so one can implement it in any modern analytics stack (R/Python/GAMS/Stata). It is furthermore deliberately transparent so it can be audited and updated annually as the Fund's telemetry comes in.

Purpose. Quantify how the Transformation Fund's five-pillar operating model—Capital, Capability (ATC), Markets, Telemetry, Governance—changes the structure and performance of South Africa's economy and society over 10 years, with a mid-course "marker" in FY 2029/30.

Core question. Relative to a credible counterfactual (no Fund), how much does the Fund lift real GDP growth, lower unemployment, raise household incomes (by decile and cohort), and improve an income-implied HDI—and through which channels?

2. Modelling stance and boundaries

Stance. Evidence-led, outcomes-based, telemetry-calibrated. The Fund's own telemetry: adoption of capability tools, delivery reliability/OTIF, default/spread changes, export wins, job creation, graduation off support, is the engine that updates parameters each year.

System boundary. National economy, ten fiscal years from t0 (launch year) → t10, with a formal mid-course evaluation at 2029/30. Unit of account: constant-price rand for real variables; national currency for distributional microsimulation; report PPP caveats when computing the income-implied HDI.

3. Datasets and data architecture

3.1. Macro baselines

- National Accounts / Supply-Use tables (Stats SA/ SARB) for sectoral GVA.
- OECD Economic Survey / NT projections as the growth baseline path.
- QLFS for labour force and sector employment structure.

3.2. Micro base for households

- Stats SA IES 2022/23 (the foundation for household income distribution, sources, and deciles).

3.3. Policy alignment

- Medium-Term Development Plan (MTDP) 2024–2029 (macro anchors, priorities).
- Sector Masterplans and dtic/competition policy where relevant to sector paths.

3.4. Fund telemetry

- ATC adoption: % ledgers live, % e-invoices, % QA/ certification, % traceability, % logistics tracked.
- Operational performance: OTIF, defect/returns rates, debtor days.
- Finance & risk: approval rates, PD/spread compression, graduation to commercial bankability.
- Market linkage: number/size of buyer-council deals; export corridor contracts.
- Inclusion metrics: jobs per R invested, youth/women shares, township/rural shares.
- Formalisation transitions: informal → formal revenue shares.

4. Scenarios that answer policy questions

Run four policy-relevant scenarios for 10 years:

- S0 Baseline (no Fund): National Treasury growth path; actual ESD/MSME trends; status-quo formalisation.
- S1 Core Execution: Fund mobilises capital as planned; ATC adoption follows S-curve; buyer councils active in priority sectors; exports/localisation ramp gradually.
- S2 High Ambition: Faster capital mobilisation; wider ATC adoption; deeper buyer and export corridors; stronger spillovers.
- S3 Headwinds: Slower mobilisation; infrastructure bottlenecks; lower adoption; weaker demand.

Each scenario produces: annual GDP growth, unemployment, household incomes (by decile/segment), income-implied HDI, plus a 2029/30 scorecard.

5. The causal spine: from firm capability to GDP, jobs, incomes, HDI

Households (C) ↑ from higher earned incomes. As firm-level revenues broaden and employment rises, wage and mixed-income flows lift household final consumption expenditure. In today's base, housing, food and transport already account for ~66% of average household outlays (R49.8k, R23.4k and R21.9k per household per year, respectively), so even modest real income gains translate directly into higher C in these divisions. The uplift is strongest for Black African and female-headed households given their lower starting medians, improving both aggregate consumption and equity.

Gross fixed capital formation (I) ↑—especially in under-capitalised local economies. Capability-linked finance and assured demand (buyer/off-take linkages) reduce risk premia and lengthen planning horizons; private wealth formation among MSMEs and new Black industrialists adds to own-equity; and institutional investors (PIC, IDC and co-investors) reweight toward strategic equity and productive assets. Together this crowds in township, rural and secondary-city investment (plant, equipment, logistics, digital) and raises I/GDP. The PIC's current ability to deploy across listed and unlisted asset classes, plus dedicated developmental programmes, provides a ready pipeline and governance chassis for scale.

External balance (X–M) ↑ via a higher export/import ratio under AfCFTA. As more suppliers become certification- and OTIF-reliable, the export bench widens beyond commodities into manufactured and processed goods, while selective localisation trims high-import leakages. AfCFTA's rules-of-origin and preference access unlock nearby markets where South African firms already hold distribution advantages, improving the export/import ratio and sectoral trade multipliers.

General government (G) headroom ↑ through a broader tax base. Formalisation and job creation expand PAYE, VAT and company taxes, easing the thin-base/large-dependency constraint and allowing targeted service-delivery and capability outlays without jeopardising fiscal anchors. Medium-term macro guidance anticipates only modest headline growth absent reform; the Fund's micro-to-macro pathway helps close that gap by lifting the tax-to-GDP ratio sustainably rather than via higher rates.

Linking the three GDP lenses

- **Production (GVA):** at the sector level, the Fund's inputs (capital by window, ATC adoption, off-take linkages) raise total factor productivity and capital deepening—so gross value added rises where elasticities are strongest (manufacturing, agro-processing, tradable services), with employment gains consistent with each sector's output–labour elasticity.
- **Income**: those GVA gains pay out as factor incomes—compensation of employees, mixed income and operating surplus—plus indirect taxes less subsidies; this is the "who gets paid" picture of the same growth.
- **Expenditure:** the very same gains show up as GDP(E) = C + I + G + (X–M): higher household

The modelling framework traces three concrete transmission channels: productivity (TFP), capital deepening (K), and market access (X) that the Fund explicitly acts on:

1. Capability → Productivity (ATC → ΔTFP). When firms adopt ATC (ERP-lite, QA/certification, digital payments, traceability, telematics, SOPs, micro-learning), they:

- Raise output per input (leaner processes, lower waste/shrinkage).
- Command/retain demand (better quality, reliable OTIF → larger orders).
- Reduce risk (PD ↓, spreads ↓ with verifiable data), expanding debt capacity.

This is captured as ΔTFP by sector for treated firms, then aggregated.

2. Capital mobilisation → Capital deepening (ΔK). Blended finance accelerates investment and co-investment crowd-in. Convert disbursements → capital stock with sectoral Incremental Capital Output Ratio (ICOR) /depreciation ΔK boosts GVA directly and supports higher capacity utilisation.
3. Buyer councils/export corridors → Market access (ΔX). Structured offtake increases assured demand, lifting utilisation and sales. Export corridors (AfCFTA) add net-export gains. These are step-change "demand shocks" that scale with ATC-enabled delivery capacity.

The three deltas are computed by sector and then summed to GDP, with feedback to employment and incomes.

6. Sector engine (how the real economy changes)

6.1. Sector mapping

Map Fund activity to a manageable set of sectors - e.g., agro-processing, manufacturing (metals/chemicals/textiles/food), logistics & transport, retail/services, green/renewables. For each sector s define:

- Treated share over time: firms on the platform; % of sector GVA touched).
- ATC adoption path: S-curve: early adopters →majority → laggards.
- Capital inflow path: Fund disbursements and leverage.
- Assured market path: share of output under buyers and export contracts.

6.2. Translate micro gains to sector ΔGVA (constant prices)

For each sector s, year t:

- Expenditure: the very same gains show up as GDP(E) = C + I + G + (X–M): higher household consumption from earned incomes; higher gross fixed capital formation from crowd-in; a better external balance from export-ready suppliers under AfCFTA; and more fiscal space (not necessarily higher G in the short run, but a stronger ability to fund essential services and public capex).

Because each lens is an identity-consistent view of the same economy, the micro→firm→sector causal chain we set out in (a)–(c) must reconcile in (d): more capable firms deliver more reliable output, revenues rise and default risk falls; sectors register higher GVA; the income account records the distribution of those gains; and the expenditure account records where the gains are spent and invested.

This is precisely the engineered loop the Transformation Fund is designed to close—by coupling finance with Access to Capability and market access, then measuring the spillovers into jobs, exports, capital formation and the tax base.

$$\Delta GVA_{s,t} = \underbrace{\beta_s^{TFP} \cdot \Delta TFP_{s,t}}_{\text{ATC/capability gains}} + \underbrace{\beta_s^{K} \cdot \Delta K_{s,t}}_{\text{capital deepening}} + \underbrace{\beta_s^{X} \cdot \Delta X_{s,t}}_{\text{demand: net export/market access}}$$

- ΔTFP: function of ATC adoption × telemetry-measured uplifts (OTIF gains, defect drops, debtor-days ↓). Start with conservative priors (e.g., 5–10% productivity uplift in year 1–3 for treated cohorts in light manufacturing/agro-processing; lower in services), then replace priors with telemetry annually.

- ΔK: apply ICOR and depreciation to net investment; calibrate by sector.
- ΔX: convert buyer/export contracts into real sales volumes via capacity/utilisation assumptions; adjust for substitution vs. new demand; apply SAM multipliers where relevant.

> *Example – agro-processing: ATC adoption reaches 30% of sector GVA by Y3; telemetry shows OTIF rises from 85% → 96%, defects halve, debtor days fall by 10. TFP prior is set to +8% for treated slice, refined by telemetry. Buyer councils anchor 15% of volume by Y3; exports rise through AfCFTA corridors. Disbursed capital + crowd-in add ΔK. Summed effects yield ΔGVA_agro each year.*

6.3. Sum to GDP and annualised growth

Aggregate across sectors:

$$\Delta GDP_t = \sum_s w_{s,t-1}\,\Delta GVA_{s,t} \Rightarrow g_t = \frac{\Delta GDP_t}{GDP_{t-1}}, \text{ where } w_{s,t-1} \text{ are sector weights}$$

Report annualised growth from t_0 to any t, plus average growth to 2029/30 and to t_{10}.

7. Employment and unemployment (why jobs move)

Use two lenses in parallel to triangulate:

7.1. Sector employment elasticities

$$\Delta Emp_{s,t} = \eta_s \cdot \Delta GVA_{s,t}$$

with $\eta_s$calibrated from SA literature (higher in agro-processing/retail, lower in capital-intensive manufacturing). Telemetry on actual jobs per Rand and youth/women/township shares refines these.

Macro Okun's relation check

7.2. Macro Okun's relation check

$$\Delta u_t = \alpha - \gamma\,(g_t - g^*)$$

where u is unemployment; g^*potential growth. Ensure the sum of sector jobs ↔ unemployment reduction is consistent with historical SA dynamics (and reflect participation changes).

Inclusion detail. Track job quality (formal vs informal), demographics (youth/women), and location (township/rural) directly from firm telemetry and HR/payroll uploads. This gives distributional colour to the unemployment number.

8. Household incomes: micro-simulation on Stats SA IES 2022/23

The aim is to move beyond averages and see who benefits. Use the IES 2022/23 to create a synthetic population of households and then project incomes forward under each scenario:

8.1. Initialise the base (t0)

- Classify households by main income sources (wages, self-employment/mixed income, transfers), province, urban/rural, and decile.
- Set poverty lines and equivalence scales; harmonise with Stats SA definitions.

8.2. Wage-earner module

- From sector jobs and wage paths (CBA settlements, productivity pass-through), update employment status and wages for relevant household members.
- Apply formalisation (telemetry-observed share moving to formal) and re-compute take-home income net of PAYE/UIF.

8.3. Self-employment/MSME module

- For households tied to Fund-supported MSMEs, map firm-level revenue/EBITDA uplifts to household mixed income.
- For non-beneficiary MSMEs, apply spillover averages (local demand multipliers, lower risk/cost of inputs from platform effects).

8.4. Tax, transfers, and prices

- Apply VAT/indirect effects on disposable income as appropriate; model personal tax brackets if needed (illustrative, not fiscal scoring).
- Keep consumer price assumptions consistent across scenarios.

8.5. Results

- Produce median and mean household incomes by decile and cohort; poverty headcount; Gini; township/rural splits.
- Ensure macro-micro reconciliation: sums of wages and mixed income match National Accounts within tolerance.

> *Example: In S1, by 2029/30, employment gains concentrate in agro-processing and retail in peri-urban nodes; median income rises fastest in deciles 2–5 as formerly informal earners formalise; transfers as share of total income fall slightly in lower deciles because earned income rises; the poverty headcount drops by x points; Gini narrows modestly as the bottom half gains.*

9. Income-implied HDI (transparent, with caveats)

The UNDP HDI uses income, education, health. If you cannot robustly model education/health over 10 years, report an income-component HDI (and flag the limitation).

- Compute income index using the UNDP non-linear scaling:

$$I_{income} = \frac{\ln\left(GNI_{pc_{ppp}}\right) - \ln(100)}{\ln(7500) - \ln(100)}$$

- Approximate GNI_{pc} from household micro-simulation (or from national accounts adjusted to PPP).
- Optionally, provide a sensitivity band reflecting plausible improvements in education and health under MTDP.

Outcome. A simple, comparable index change for 2029/30 and 2034/35 that tracks the income channel of human development.

10. The 2029/30 "marker" (what we will publish)

Create a mid-course results scorecard with:

- Macro: real GDP level, annual growth and average growth since t0; unemployment level/rate; sector GVA shifts.
- Incomes: median/mean by decile; poverty headcount; Gini; township/rural splits.
- HDI (income implied): index vs baseline; sensitivity notes.
- Transformation Index: headline + sub-indices (capability, risk/finance, market, inclusion); adoption stats (% ledgers live, % QA/traceability, % OTIF > 95%, PD/spread movement).
- Cost-effectiveness: jobs per R1m; Rand of private capital crowd-in per Rand of Fund capital; revenue gains per Rand deployed.
- Attribution & robustness: counterfactual comparison; sensitivity/Monte Carlo ranges; discussion of external shocks (energy/logistics).
- Decision rules: which sector windows/instruments scale up; which are paused/refined; recognition rule tweaks; governance notes.

11. Parameterisation, calibration, and updating

11.1. Priors (illustrative starting values—refine yearly):

- ATC productivity uplift (treated slice): 5–8% (manufacturing), 6–10% (agro-processing), 3–6% (services/logistics).
- Employment elasticities: 0.3–0.6 agro/retail; 0.1–0.3 manufacturing; 0.2–0.4 services (calibrated to SA literature).
- ICORs by sector: manufacturing ~4–6; agro-processing ~3–5; services ~5–7 (adapt to SA data).
- Formalisation transition: 3–8% of treated informal units per year move to formal (telemetry-verified).
- Buyer/export conversion: 30–50% of hub graduates secure at least one offtake in Y2–Y3; average contract size sector-specific.

11.2. Telemetry-driven learning (annual)

- Replace priors with observed uplifts (OTIF, defects, revenue growth, PD/spread compression, jobs/Rand).
- Update adoption curves and treated shares.
- Re-estimate sector elasticities via matched diff-in-diff (portfolio firms vs comparable non-participants).
- Store parameter versions and publish changes in an annual methods note.

11.3. Uncertainty and sensitivity

- Scenario analysis (S0–S3) captures policy and execution variability.
- Sensitivity bands on key parameters (ΔTFP, elasticities, formalisation).
- Monte Carlo draws for parameters produce fan charts for GDP, unemployment, median income, poverty, HDI.
- Stress tests for energy/logistics shocks - apply demand/supply penalties and observe resilience.

12. Reporting, governance, and reproducibility

- Public dashboard (quarterly/annual): macro, micro, and telemetry KPIs; parameter values; versioned codebooks.
- Reproducible pipeline: lock inputs, parameter files, and code by year; publish a methods note with each release.
- Assurance: invite independent review of parameter choices and results narrative; disclose limitations.

13. 90-day implementation checklist

- Data room: ingest National Accounts/Supply-Use, QLFS, IES 2022/23, NT projections; build sector classification.
- Baseline build (S0): project GDP/unemployment to t10; construct household micro base (IES) and verify with macro totals.
- Intervention map: quantify capital paths, adoption S-curves, buyer/export commitments by sector.
- Prototype sector engine: compute ΔTFP, ΔK, ΔX → ΔGVA; sum to GDP; apply elasticities to jobs; run first micro-simulation.
- 2029/30 marker drafts: produce preliminary scorecards for S1/S2; identify data gaps to be filled by telemetry.
- Telemetry → model API: define extract layout, timing, and validation rules with the platform/data team.
- Governance sign-off: agree parameters, scenario narratives, and publication cadence with the SPV Board/Impact Committee.

14. What this buys you

- A clear, credible causal narrative: ATC and market access don't sit in a PowerPoint—they move TFP, capital, and demand.
- A countrywide answer rather than a portfolio-only view: macro, jobs, and household incomes (rooted in IES 2022/23).
- A living model: the telemetry the Fund collects becomes the learning system that tightens estimates every year.
- A 2029/30 decision instrument: a mid-course scoreboard with rules for scaling what works and fixing what doesn't—before the decade is over.

15. Scope, scenarios and outputs

15.1. Scope & horizon

(a) Geography: Republic of South Africa (national).

(b) \Horizon: 10 financial years from launch (t0) with an evaluation checkpoint at 2029/30.

(c) Population & labour base: Stats SA mid-year estimates and QLFS; income base from IES 2022/23 for household micro-simulation.

(d) Sectors: map Fund activities to sectors.

15.2. Scenarios

(a) Baseline: OECD/National Treasury macro path, observed sector trends, current ESD performance.

(b) Core Execution: Fund reaches planned mobilisation, ATC adoption grows on S-curve; buyer councils active in 5–7 sectors.

(c) High-Ambition: faster mobilisation, broader ATC take-up, deeper buyer participation, export corridors (AfCFTA) mature earlier.

(d) Low Execution: slower mobilisation, bottlenecks in capability build-out, adverse shocks (load-shedding, logistics).

.15.3. Primary Outcomes

(a) GDP level and annualised growth path, year-on-year and average.

(b) Unemployment rate and employment levels with sectoral composition.

(c) Household incomes (distribution and medians/means) using IES 2022/23 as base.

(d) HDI (income-implied index) from GNI/household income, noting that full HDI also includes education and longevity.

15.4. Secondary Outcomes

(a) Poverty headcount, Gini.

(b) Tax take (CIT, VAT and PAYE) uplift from formalisation.

(c) Export revenue gains and localisation content.

(d) Transformation Index headline score and its sub-indices (capability, risk, markets, inclusion) at t0, 2029/30, t10.

16. Causal chain and data architecture

16.1. Micro → Macro chain (as per Sections 3–7 of the paper)

(a) Fund inputs: capital deployed by window and sector; ATC adoption; buyer and off-take linkages

(b) Firm-level changes: productivity ↑, OTIF ↑, default probability ↓, working-capital cycles improve, revenues ↑

(c) Sectoral outcomes: GVA ↑ via TFP and capital deepening; employment via sector elasticities; exports

(d) Household socio-economic changes: unemployment ↓, household incomes ↑, household expenditure ↑, income-implied HDI ↑

(e) Economy wide: GDP ↑: GVA ↑; Incomes ↑; Expenditure↑

16.2. Data & telemetry loop

(a) Use the Transformation Index telemetry to observe: ATC adoption (% digital ledgers, QA/certification), OTIF, revenue growth, PD/spread compression, jobs per Rand (pp. 46–49)

(b) Calibrate model parameters annually to measured uplifts (e.g., productivity deltas; credit-spread compression; formalisation rates).

(c) Maintain versioned parameter files so ex-post results can be explained

17. Macro-micro modelling blocks and equations

17.1. GDP growth decomposition

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LIST OF ABBREVIATIONS

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










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