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BUSINESS UNITY SOUTH AFRICA

BUSINESS INPUTS TO CALL FOR COMMENTS FOR PROPOSED TRANSFORMATION FUND

1. Introduction

Business Unity South Africa (BUSA), representing organised business in South Africa, appreciates the opportunity to submit comments on the Department of Trade, Industry and Competition's (DTIC) proposal to establish a R100 billion Transformation Fund. BUSA is committed to fostering a competitive, transparent, and conducive business environment that promotes inclusive growth and sustainable development. We support the transformation objectives outlined in the Constitution and the Broad-Based Black Economic Empowerment (B-BBEE) Act.

We acknowledge the DTIC's efforts to conceptualise an intervention aimed at fostering broader transformation to adequately support small and medium enterprises (SMMEs), drive economic growth, and create jobs. The transformation of the South African economy is a goal we endorse, and we are committed to working with the government to advance it.

Two decades after the introduction of the B-BBEE Act, there is a need to take stock through rigorous research to inform the next phase of the transformation journey. The concept paper on the proposed Transformation Fund raises several questions and concerns outlined below that deserve serious consideration.

2. Objectives of the Fund

The DTIC plans to establish a R100 billion fund to support black-owned businesses in South Africa, with R20 billion to be capitalised annually over five years. The fund aims to address historical inequalities, promote economic transformation, and support job creation, as mandated by Section 11(2)(b) of the B-BBEE Act, which requires the development of a comprehensive plan for financing B-BBEE initiatives.

The proposed fund seeks to consolidate various existing transformation fund streams, particularly focusing on equity equivalent programmes and enterprise and supplier development contributions. While the Transformation Fund is positioned to advance the objectives of Broad-Based Black Economic Empowerment to realise inclusive economic growth in South Africa, it remains unclear why the proposed fund is necessary given the government's existing transformation funds, such as the black industrialist programme and the Township and Rural Entrepreneurship Programme (TREP). Despite the noble focus of these programmes, persistent systemic issues such as low utilisation of available funds, slow approvals, and lack of coordination continue to limit their impact. It is uncertain how the proposed fund will address these challenges.

3. The Rationale and Key Considerations

The document requires a significantly strengthened rationale that clearly articulates the specific gaps the Fund aims to address, which are not adequately covered by existing mechanisms. It should provide compelling evidence for the Fund's necessity and potential impact. The concept paper does not present clear evidence that the Transformation Fund will succeed where previous state-driven initiatives, such as the Public Investment Corporation (PIC), Industrial Development Corporation (IDC), and National Empowerment Fund (NEF), have failed to meet empowerment and ownership targets. Without a comprehensive evaluation of past transformation funds, there is a high risk of repeating previous mistakes.

The concept document lacks clarity in addressing the chronic challenges faced by black SMEs, particularly those in rural and township areas. The challenges constraining the growth and scalability of SMEs extend beyond access to finance. Compared with other developing nations, South Africa has one of the highest failure rates for SMMEs, estimated at between 60% and 80% during the first and second years of a business lifecycle. It is evident that funding alone is not the sole reason small businesses fail. Challenges such as market access, skills development, regulatory impediments, infrastructure constraints, and challenging macroeconomic conditions contribute significantly to the failure of small businesses in South Africa. Developing a holistic ecosystem that supports SMMEs is critical; simply providing funding is unlikely to lead to increased sustainability and the realisation of transformation initiatives.

4. Resource Mobilisation

The concept document mentions a R20 billion annual contribution over a period of five years. The funds are expected to come from government departments and state-owned enterprises, as well as corporate South Africa, multinational corporations, and donor funders (including impact investors, donors, and development finance institutions). Under the current B-BBEE Codes, companies are required to allocate 3% of their annual Net Profit After Tax (NPAT) to Enterprise and Supplier Development (ESD), but the DTIC proposes that this share be redirected to the proposed Transformation Fund. This change is a concern for businesses, as it suggests a restructuring of current ESD programmes and may ultimately undermine the desired link between ESD funds and businesses' supply chain needs.

The success of the fund fundamentally depends on buy-in from public sector departments and entities, as well as South African and multinational corporations. Careful consideration must be given to the messaging in the public domain regarding funding sources. A negative reaction from identified stakeholders is likely, and the initiative will not garner the necessary support if concerns regarding funding sources are not adequately addressed and communicated.

4.1 Public Sector Contribution

The proposal does not provide specific details on the source of public sector funding, raising several questions: Given the current fiscal constraints and high debt levels, where will the seed funding come from? If the private sector fails to contribute as expected, or if the targeted funding is not raised, what is the minimum funding requirement for the Fund to operate sustainably? How will the government proceed if it fails to raise the expected funds, and will it serve as a backstop to cover any shortfalls? Historically, government-deployed funds have not achieved the outcomes stated in the document, which include providing the country with resources to combat unemployment, inequality, and poverty.

4.2 Private Sector

The DTIC is proposing an amendment to the B-BBEE Codes of Good Practice, specifically regarding the Enterprise and Supplier Development (ESD) Codes, to enable Measured Entities to contribute to the Fund and claim ESD credits. The B-BBEE Commission reports that the private sector's average spending on ESD is between 40-60% of the target 3% net profit after tax, amounting to an estimated total spend of R20-R30 billion per annum. The DTIC believes the Fund will drive increased compliance with ESD spending.

A critical consideration for South African corporations will be whether they believe the Fund is better positioned to deploy ESD funds equitably and sustainably than other initiatives currently available to them. If corporations have the option to control their ESD spend instead of investing through the Fund, they may choose to retain their existing infrastructure and resources for deploying ESD funds as they see fit. Companies are likely to prefer deploying ESD funds that directly align with their strategies and have a direct beneficial link to their sectors. Corporates may also want to maintain financial flexibility, avoiding commitments to minimum contributions over a three-year term, as proposed.

The DTIC has also suggested that contributions from the Equity Equivalent Investment Programme (EEIP) from multinational corporations be channelled to the Fund. However, multinational companies with private EEIPs often have their own infrastructure and resources to deploy and monitor their investments. It remains unclear why they would want to shift their investments to a centralised fund and forfeit the ability to choose where and how to deploy their funds. The proposal offers limited detail on why the private sector would be incentivised to contribute voluntarily to the Fund rather than using their existing ESD infrastructure given the complexities surrounding funding enterprise and supplier development.

5. Governance Model

Given South Africa’s history of corporate governance failures in state-administered funds, robust safeguards are crucial to prevent mismanagement, inefficiency, and corruption. The proposed Special Purpose Vehicle (SPV) model, along with the eight-member board proposal, lacks operational details on how oversight will function at both national and provincial levels. The current proposal’s Investment Committee composition, with four members per sector (including two representatives from both the public and private sectors), appears insufficient. A similar approach to that of the Solidarity Fund could be adopted, where the board and management operate independently of the government.

The proposed appointments of the board and oversight by the incumbent Minister undermine the fund's independence and expose it to potential political interference. A Minister-centric appointment process heightens the risk of corporate governance failures. According to the concept document, the National Empowerment Fund (NEF) will serve as the administrator and fund manager. However, the institution’s current challenges in deploying capital raise significant concerns about its operational capacity to manage an initiative of this scale. Given that the NEF is already facing difficulties with its existing portfolio, the proposal seems ambitious but lacks the groundwork to ensure feasibility. Introducing an additional R100 billion in new funding for the NEF to disburse will require alternative capacity solutions owing to past efficiency challenges.

Without a well-defined governance framework and clear accountability measures, the fund risks inefficiency, mismanagement, and ineffective allocation of resources. Heavy reliance on voluntary contributions (from ESD funds and the private sector) may prove unsustainable without strong incentives.

6. Differentiator from Existing Funds

The document references broad impacts like "inclusive growth" and "transformation," yet lacks performance metrics, such as the number of jobs created or businesses supported. The concept document fails to provide a comparative analysis of existing funding mechanisms and does not justify why a new R100 billion structure is necessary instead of enhancing current models. Assessing the successes and limitations of existing funds is crucial to inform how the proposed fund could add value rather than duplicate current initiatives. Numerous funds in South Africa already have overlapping objectives centred on economic development, empowerment of marginalised groups (especially black South Africans and youth), innovation, and job creation.

Table 1: Key SA public sector initiatives to support black-owned businesses

Key SA public sector initiatives to support black-owned businesses	**National Empowerment Fund (NEF):** Aims to promote and facilitate black economic participation through financial and non-financial support to black-empowered businesses
	Technology Innovation Agency (TIA): Provides funding and support for technology-based innovations, focusing on sectors like manufacturing, ICT, energy, and health, with specific programs for youth and SMMEs.
	Development Bank of Southern Africa (DBSA): Focuses on infrastructure development in sectors such as energy, water, transport, and telecommunications, aiming to improve socio-economic conditions.
	Black Business Supplier Development Programme: The Black Business Supplier Development Programme (BBSDP) is a cost-sharing grant offered to small black-owned enterprises to assist them to improve their competitiveness and sustainability. This helps them to become part of the mainstream economy and to create employment.
	Township and Rural Entrepreneurship Programme: TREP provides blended finance and business development support to various sectors with a view of promoting their participation in the mainstream economy.
	DTIC's Black Industrialist Scheme (BIS), and the Small Enterprise Finance Agency (SEDA): BIS provides grants and other financial assistance, while SEDA offers non-financial support and resources for small enterprises.

	Industrial Development Corporation (IDC): A national development finance institution set up to promote economic growth and industrial development. It provides funding and financial products to various industry sectors, including agro-processing, automotive, chemicals, and energy.

The need for a centralised Fund to effectively address the systemic barriers faced by black-owned enterprises, including the lack of collateral and low levels of financial literacy, is critical. However, several previously launched initiatives have already been implemented to improve access to finance for small, medium, and micro enterprises (SMMEs), yet very few measurable outcomes have emerged. It would be beneficial to clarify whether existing initiatives will operate alongside the Fund, be replaced, or if there is a compelling case to do so. A clear mandate is essential to prevent duplication and overlap with current initiatives. Public messaging has not yet effectively articulated the Fund's necessity or how it enhances and improves upon existing programmes.

7. Investment Strategy and Approach

The proposed investment mandate considers a blended finance model through grants, equity, and debt instruments, with no prescribed minimum or maximum investment levels. The Department of Trade, Industry and Competition (DTIC) aims to establish several specialist funds to facilitate the deployment of resources across various focus areas, including:

- SMME Fund
- Development Fund
- Township/Rural/Community Development Fund
- Venture Capital and Corporate Finance Fund
- Strategic Projects Fund

The sector focus of the Fund will span several industries, including renewable energy, mining, agro-processing, information communication and technology, infrastructure, manufacturing, services, and business process outsourcing. However, this mandate appears overly broad and open-ended. A more focused strategy, with funding increased gradually over time rather than a linear investment of R20 billion per annum, should be pursued. Expansion into new sectors and products should occur only after the strategy has been proven.

The proposal lacks a clear explanation of how beneficiaries will be vetted and how impact will be audited. It does not address the fundamental question of whether R20 billion per year can be responsibly deployed in a manner that ensures financial sustainability and impact. The Covid-19 loan guarantee scheme highlighted the challenges of disbursing large-scale SME funding under preferential terms; although it had an initial target of R100 billion, it managed to lend only R18 billion. Without a robust risk management framework, the Fund could encounter similar challenges, leading to slow disbursement or excessive non-performing loans.

The absence of a phased implementation plan is problematic, as it assumes an immediate scale-up without considering the operational capacity required for effective deployment. A more practical approach would involve a phased rollout, beginning with pilot projects to test and refine the funding model before scaling up. The current structure risks inefficiencies and misallocation of resources. It commendably emphasises technical assistance, market access, and rural/township inclusion, not solely funding.

The DTIC must establish clear, measurable key performance indicators (KPIs) to track the Fund's effectiveness and performance concerning socio-economic transformation, particularly regarding inclusivity and compliance with Broad-Based Black Economic Empowerment (B-BBEE) objectives. Although the proposal mentions a Transformation Fund Index as a benchmark, further details are needed to clarify the exact KPIs and measurement criteria.

A critical flaw in the proposal is its focus on input-based targets (R100 billion in funding) rather than clear, outcome-driven goals. Effective transformation efforts should be anchored in measurable objectives that justify the financial commitment required. The Fund should adopt an outcome-based approach by specifying the expected transformation impact in tangible terms, such as the number of businesses it aims to grow, employment targets, or improvements in SME survival rates. For example, a goal of supporting 5,000 black-owned businesses with a 30% annual growth rate over five years would furnish a more practical framework for assessing effectiveness.

Conclusion

The Transformation Fund is not a suitable intervention to address the persistent barriers faced by black entrepreneurs, particularly regarding funding, market access, and technical support. The lack of consultation with the private sector during the concept's design phase is concerning, given that the private sector is identified as a key contributor to the Fund and a potential implementing partner. The Business Unity South Africa (BUSA) remains fully committed to advancing transformation in South Africa. However, the proposed Transformation Fund, in its current form, poses significant risks related to financial feasibility, governance, and economic impact.

We strongly urge the DTIC to reconsider its approach by leveraging existing industry-driven transformation initiatives, ensuring voluntary and incentivised contributions, and implementing robust governance mechanisms. BUSA appreciates the opportunity to engage in this discussion and looks forward to further consultation to ensure that transformation initiatives are evidence-based, well-structured, transparent, and impactful.

Additional comments and recommendations:

Strengthening existing DFI and Transformation Initiatives	Allow businesses to enhance existing ESD programmes rather than redirecting funds into a centralised, untested structure. Leveraging sector charters and industry-specific transformation models will ensure alignment with business needs and economic realities. To enhance the effectiveness of existing Development Finance Institutions (DFIs) like the National Empowerment Fund (NEF) and the Sustainable Energy Fund for Africa (SEFA), efforts should focus on scaling up operations, strengthening governance, and increasing their risk appetite. Recapitalizing these institutions, which already possess deep market knowledge
Incentivise Participation	Offer tax incentives or B-BBEE scorecard enhancements for voluntary contributions and adopt a phased, evidence-based implementation approach, beginning with pilot programmes that are evaluated for effectiveness before national scale-up.
Establishing Robust Governance and Accountability Measures	Develop clear KPIs, independent audits and strict fund allocation transparency. The fund should operate under a robust governance structure similar to the Solidarity Fund, ensuring political independence and private-sector oversight.
Leveraging Existing Private Sector SME Investment Vehicles	The government should partner with existing investment vehicles such as the SA SME Fund and Business Partners to enhance SME development without duplicating efforts. Facilitating public-private partnerships where private-sector expertise can drive fund efficiency and impact is essential. In addition, the fund should build on successful existing ESD programmes that have already cultivated supplier

	pipelines and meaningful market access opportunities.
Addressing Systemic Barriers to SME Growth	Sustainable transformation requires structural reforms in red tape, including improving market access, addressing regulatory hurdles, and investing in skills development. Reducing red tape and creating favourable conditions for SMEs to thrive should be prioritised over merely channelling funds into financial assistance programmes.