An Alternative to the Transformation Fund

May 2025

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Summary

The draft concept document, released by the Department of Trade, Industry and Competition (DTIC) on 19 March 2025, proposes the establishment of a R100 billion Transformation Fund (hereinafter the "Fund").[1] The Fund, anchored in Broad-Based Black Economic Empowerment (B-BBEE) policy, is framed as a flagship initiative to accelerate transformation and support black-owned enterprises, particularly Small, Medium, and Micro Enterprises (SMMEs). It is intended to be capitalised through voluntary contributions from various stakeholders, including the government, corporations and other entities.

However, the proposed Fund constitutes a recycling of the same failed, centralised, race-based funding models that have consistently underdelivered in terms of economic inclusion and sustainable development outcomes. Essentially, it is a new vehicle for old, failed policies, where state-led, racially exclusive initiatives have consistently failed to deliver meaningful, broad-based economic empowerment. South Africa's previous experience with similar funds has demonstrated a record of poor governance, financial mismanagement, high loan impairments, and negligible impact on job creation and entrepreneurial growth.

Instead of learning from two decades of failed B-BBEE interventions, there is a persistent tendency for the ANC to double down on ideologically rigid, state-controlled schemes that undermine private sector efficiency, crowd out market-led solutions, and discourage investment.

The DA unequivocally rejects the proposed Fund for the following reasons:

- The Fund repeats the same race-based interventions that have failed to deliver broad-based economic redress, by focusing on racial ownership targets instead of addressing real barriers to inclusive growth such as red tape, infrastructure, and skills shortages.
- Similar funds have consistently underperformed, been plagued by corruption, inefficiency, and poor repayment rates. There is no evidence this new Fund will avoid the same failures.
- Expecting multinationals to contribute 25 percent of equity equivalents into a central fund will deter investment, adding risk and bureaucracy in an already unstable policy environment.
- The proposal ignores the private sector Enterprise and Supplier Development (ESD) ecosystem already in place, risking duplication, inefficiency, and the loss of direct supplier development relationships.
- The Fund provides no clear mechanism to address the lack of collateral-free finance for SMMEs, leaving a major market failure unresolved.

- By focusing only on black-owned firms, the Fund undermines inclusive growth and value chain competitiveness, contradicting the Government of National Unity's (GNU) stated goals.
- The concept lacks detail on how it will extend market access, business support, and capacity to underdeveloped provinces and diverse sectors.
- The Fund faces significant scepticism from the business sector.

The DA opposes the ideological intent behind the Fund and offers, in this submission, a comprehensive critique of the proposed Fund as per the draft concept document, supported by evidence, stakeholder insights, and alternative policy recommendations rooted in practical, non-racial, enterprise-led economic reform and inclusive economic growth.

The Transformation Fund Concept

The proposed Fund aims to establish a R100 billion aggregated vehicle to address a funding gap for businesses owned and managed by black entrepreneurs.

The stated objectives of the Fund include:[2]

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

Furthermore, the draft concept document provides that the Fund will be managed through a Special Purpose Vehicle (SPV), which will be a tax-exempt entity and a registered Financial Services Provider under the Financial Advisory and Intermediary Services Act (FAIS) Act (No. 37 of 2002).[3] The SPV will have an eight-member board appointed by the Minister, including two representatives from the private sector. Funding for the Fund will come from the government, public entities, donor agencies (including international organisations and development banks), and the private sector.

Two main sources of private sector funding highlighted in the concept document are:

1. The *Equity Equivalent Investment Programme (EEIP)* allows multinational businesses to earn B-BBEE ownership points without black shareholding by contributing to B-BBEE initiatives approved by the DTIC, corresponding to 25 percent of the value of their South African operations. Few of the equity equivalent schemes reported by the B-BBEE Commission involve direct cash grants or loans to black-owned businesses, but rather the funding of skills and supplier development programmes managed by specialist business support organisations. It is unclear how the Fund is anticipated to raise cash from these EEIPs that will be directed to the Fund's capital raising efforts.
2. Allowing companies to earn *Enterprise and Supplier Development (ESD)* points toward their B-BBEE rating by contributing to the Fund. This would involve amendments to the current Codes of Good Practice under the B-BBEE Act (No.53 of 2003) to adjust how ESD contributions are measured.

An additional funding mechanism was initially envisaged when Minister Tau announced the Fund in November 2024. It was envisaged that companies involved in mergers and acquisitions would be required, under the Competition Act (No. 89 of 1998) public interest provision (Section 12A), to contribute a portion of the value of the transaction into the Fund. However, the DTIC dropped this requirement from the Concept Document due to strong opposition from business at this attempted overreach.

The Fund rests on five pillars: prioritising *Technical Support and Market Access* to address capacity gaps; improving *Accessibility* for majority black-owned businesses, especially in townships and rural areas; offering *Financial and Non-Financial Support*, including grants, loans, and business services; dedicating funds specifically to *Township and Rural Economies*; and focusing on *Productive Sectors* like agriculture, tourism, services, and township enterprises.

While the purpose of the proposed Fund is understandable in its intent to address historical exclusion and support enterprise development, it is inherently flawed.

Weaknesses of the Proposed Transformation Fund

Continuation of Failed B-BBEE Policy

The proposed Fund is essentially an extension of the B-BBEE policy architecture, which has failed to redress historical injustice and improve upward social mobility for the vast majority for previously disadvantaged individuals in South Africa. This is acknowledged within the draft concept document itself, which states:

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

***The majority of black people are still excluded from the economic mainstream.** As a result, government has a responsibility to assist black enterprises to increase their economic participation and income-earning potential. The increased economic participation of black people will in turn lead to increased contribution towards economic growth and a substantively equal society."*[4]

This admission underscores the central weakness of the Fund, aiming to address persistent structural inequalities through the same narrowly targeted, race-based interventions that have demonstrably failed to deliver inclusive economic growth over the past two decades. Instead of fostering a competitive, opportunity-rich environment for all South Africans, the fund risks entrenching the inefficiencies and rent-seeking behaviours historically associated with B-BBEE policy implementation.

Instead of addressing systemic barriers to entrepreneurship, such as regulatory red tape, infrastructure deficits, skills shortages, and access to affordable financing for all existing and emerging enterprises, the Fund is likely to reproduce the same patterns of elite enrichment and limited job creation that have characterised previous ANC transformation initiatives.

More than two decades after the adoption of the B-BBEE Act, its effectiveness in driving meaningful economic transformation remains unproven. Efforts have been focused on ticking compliance boxes, without clear evidence that the policy has uplifted the disadvantaged meaningfully. Currently, existing analyses remain limited to compliance trend reports, which show incremental improvements in B-BBEE ratings without confirming broader outcomes like job creation, growth, or sector diversification.[5]

The data supports B-BBEE Commissioner Tshediso Matona's call for a review: "*It is now more than 20 years of B-BBEE law, and I believe the Act is due for a comprehensive review and amendment*".[6] Matona also notes the lack of embedded monitoring and evaluation mechanisms, which renders B-BBEE susceptible to anecdotal assessments instead of evidence-based analysis.[7]

The Fund assumes B-BBEE's effectiveness and focuses on accelerating compliance without interrogating whether current incentives and penalties, such as public procurement conditions and licensing requirements, are achieving their goals.[8] The Fund continues a pattern of "inputitis" - focusing on inputs like funding levels without defining measurable outcomes or a monitoring and evaluation framework.[9]

The draft concept document claims the Fund will introduce "*comprehensive monitoring, evaluation and reporting mechanisms*"; however, it lacks a theory of change or clear success indicators. This raises concerns about its capacity to deliver "*insights into financial performance, job creation, and transformation outcomes*".[10,11]

Track Record of State-Led Funding Failures

The government allocates funding to support businesses' access to finance through various departments and agencies. These include DTIC initiatives such as the Black Industrialist Scheme (BIS); Department of Small Business Development (DSBD) funding schemes; Small Enterprise Development and Finance Agency (SEDFA); National Empowerment Fund (NEF); Industrial Development Corporation (IDC); National Youth Development Agency (NYDA); sector-specific platforms like the Technology Innovation Agency (TIA); as well as provincial economic development agencies, for example, the Gauteng Enterprise Propeller (GEP).[12]

Despite these efforts, some funding entities face significant challenges that hinder their effectiveness. The NEF, for example, a South African government agency established in 1998 under the National Empowerment Fund Act (No.105 of 1998), is considered to be a driver and thought-leader in promoting and facilitating black economic participation by providing financial and non-financial support to black-owned and managed businesses. However, the NEF has historically faced issues of undercapitalisation, corruption and poor administration. The NEF's operating expenses are high, averaging 49 percent between 2001 and 2017.[13] For the financial year (FY) 2023/24, the NEF has recorded an impairment[i] to book ratio of 33 percent, compared to a target of 25 percent, stating that the target was not achieved due to a challenging economic environment characterised by weak growth.[14]

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[i] Impairment here refers to the reduction in the recoverable value of an asset, such as a loan or investment, when it is unlikely that the full amount will be recovered.

Furthermore, SEDFA (established by amalgamating Small Enterprise Finance Agency (SEFA), Small Enterprise Development Agency (SEDA), and the Co-Operatives Development Bank (CBDA)) reported impairments on its loan book that call into question its viability as a going concern in the absence of annual government bailouts. A concern is the non-achievement of the loan impairment ratio target, which was 58 percent as of the end of FY2023/24, against the five-year target of 32 percent.[15] The impairment ratio at the end of Quarter 2 of FY2024/25 stood at 60.7 percent, exceeding the 45 percent target.[16] As of 30 September 2024, the total loan book (SEFA's amortised total loan book in particular) stood at R4.7 billion. The overall portfolio at risk (PAR) rose from 48 percent in FY2022/23 to 65 percent by the end of FY2023/24. The target is 45 percent.[17] These figures all demonstrate that a growing proportion of SEDFA's loan book is at risk of not being repaid, reflecting serious financial sustainability and credit risk management challenges within the entity.

The proposed Fund is unlikely to differ from poor-performing initiatives like the NEF and SEDFA. The concept document is silent on how the SPV will expand its fund management capabilities and avoid loan approval and disbursement bottlenecks, which are a persistent source of complaints by small businesses applying for finance.

R100 billion, split into equal R20 billion amounts over five years, is unlikely to deliver tangible outcomes.[18] Furthermore, the Fund's reliance on existing tools, such as EEIP and ESD, signals a lack of innovative thinking.

Instead of proposing a new fund, an urgent and honest evaluation of existing instruments should be undertaken to assess their effectiveness.[19] Assessments could determine potential overlap and duplications, of which underperforming and duplicative funding entities and programmes should be either consolidated, fundamentally restructured, or discontinued, with resources redirected toward a streamlined, transparent, and performance-driven enterprise support architecture.

Barriers to Foreign Investment Ignored

The proposed Fund provides that 25 percent equity equivalent expenditure by multinational companies on ESD will be channelled into the Fund.[20] Without strong oversight mechanisms, there is a risk that these funds may be misused for personal or political gain. Previous initiatives have emphasised the need for stricter auditing and monitoring to ensure that funds are utilised as intended.[21] Additionally, bureaucratic inefficiencies could slow down the disbursement of funds, ultimately diminishing their impact.[22]

From a foreign investment perspective, the Fund could deter investment opportunities. South Africa is already competing in a battle for the deployment of funds by global investors and multinational businesses.[23] Concerns about corruption, inefficiency, and policy uncertainty may dent investor confidence, deterring both domestic and foreign investors. There has already been a decline in Gross Fixed Capital Formation (GFCF) over the past decade, which has contributed to sluggish economic growth and hindered the country's ability to tackle poverty and inequality.[24] The ratio of GFCF to nominal GDP decreased from 32.1 percent in 1976 to 15.2 percent in 2002. It subsequently rose to 23.5 percent in 2008, following the longest recorded business cycle upswing, alongside an average growth of 7.4 percent per annum in real GFCF during the 2000s.[25] However, the ratio of GFCF to GDP decreased again to 17.9 percent in 2019 and fell further to 16.2 percent in the second quarter of 2020 (below its average of 18.3 percent during the 1990-2019 period).[26] The ratio of nominal GFCF to nominal GDP decreases from 14.9 percent in 2023 to 14.5 percent in 2024.[27] This persistent decline signals a weakening investment environment. Introducing instruments like the Fund risks deepening this trajectory and further limiting the country’s prospects for inclusive and sustained economic growth.

Lack of Focus on New Business Formation and Growth

The World Bank’s South Africa Economic Update report, Building Back Better from Covid-19, showed that only 10 percent of employed people in South Africa are self-employed compared to 30 percent in other upper-middle-income countries.[28] The report further estimates that if South Africa could match the self-employment rate of other upper-middle-income countries that unemployment would be approximately half its current rate, and that employment would increase by approximately 3.5 million.[29]

The Fund makes no mention of the role it could play in new business formation and growth. This includes how the stimulating entry of informal businesses into the formal sector would stimulate business growth and job creation. A critical review of the B-BBEE framework, which the DA has called for, would place high emphasis on this metric as a measure of South Africa’s economic dynamism and job creation potential.

No Alignment with Existing ESD Ecosystems

ESD is a key priority under B-BBEE, with entities collectively spending R20 - R30 billion annually, far exceeding public sector allocations for small business support.[30,31] Yet, despite this scale of investment, there are no credible impact evaluations of ESD’s effectiveness in promoting sustainable, inclusive growth.

Furthermore, while the draft concept document proposes aggregating ESD funds from companies not currently spending their 3 percent of NPAT into the centralised Fund to enable them to obtain their BBBEE points, it lacks detail on how it will deliver the mentoring, technical assistance, and sector-specific expertise needed to integrate small businesses into complex supply chains. Instead of encouraging companies to contribute to effective, company-led ESD programmes, this risks displacing them without offering a viable, high-impact alternative.[32]

The current framework for measuring a firm's ESD score involves assessing a firm's supplier development (SD) and enterprise development (ED) contributions to firms which are at least 51 percent black owned and have a total annual revenue of R50 million or less. A firm's SD and ED score is measured with regard to targets based on its net profit after tax (NPAT) (2 percent for SD and 1 percent for ED). The key difference between SD and ED is that an SD beneficiary is an existing supplier, whereas an ED beneficiary is not an existing supplier. The Codes provide that if a firm fails to score at least 40 percent of all the available points for SD and ED, its BBBEE rating will automatically be downgraded by one level if its total annual revenue exceeds R50 million. ESD accordingly constitutes a key part of determining a firm's BBBEE rating.[33]

The concept document indicates that a firm could earn ESD points "*immediately*" by merely contributing to the proposed Fund. This could save the firm significant time and costs if it did not have to implement its own ESD programme. However, the draft concept document is not exactly clear on this point, but it states that a "*participation agreement*" will need to be concluded with the SPV. The terms and conditions of such an agreement must be carefully considered, particularly if it aims to impose obligations beyond the contribution to the Fund.[34]

The concept document states that a firm may decide whether to contribute to the Fund, i.e. contributions will be voluntary. Presumably, a firm will be able to choose not to contribute and rather continue with its own ESD programme, although the concept document is not clear in this regard. Much will depend on the detail of the proposed amendments to the Codes.[35]

The current framework envisages direct business relationships between private sector firms and ESD beneficiaries. The concept document envisages interposing the SPV as a third party between the private sector and ESD beneficiaries. The SPV will collect and distribute funds and implement its own ESD initiatives. This adds complexity to the delivery of ESD contributions to beneficiaries and may adversely affect the benefits for beneficiaries of such direct business relationships.[36] Interposing an additional layer risks diluting accountability, reducing responsiveness to beneficiary needs, and creating inefficiencies in fund allocation.

No Solution for Collateral-Free Lending

Banks are currently the largest source of SMME funding in South Africa (capturing around 60 percent of the share), but generally avoid issuing loans without collateral, a requirement that most applicants to the Fund are unlikely to meet.[37] It remains unclear how the Fund intends to address applications without collateral, what the intended mix of grants, equity, and loans will be, and whether it is expected to generate financial returns.

SMME's are already struggling with finance. SMMEs are rightly seen as a critical engine for job creation and inclusive economic growth. South Africa's own National Development Plan (NDP) envisions that by 2030 these businesses will contribute between 60 percent to 80 percent of GDP growth and create 90 percent of 11 million new jobs.[38] Yet, despite their substantial potential to tackle South Africa's unemployment crisis, the local SMME sector continues to confront structural and systemic barriers that impede its capacity to grow, create jobs, and contribute significantly to the economy.[39]

A key challenge lies in persistent and widespread barriers to accessing finance. Although a well-established banking sector exists, SMMEs in emerging markets like South Africa face disproportionate difficulties in securing funding. A survey conducted by FinMark Trust revealed that 87 percent of small formal sector firms had never accessed credit.[40]

There is a large financing gap among SMMMEs.[41] Although most banks recognise the SMME market as promising potential, many continue to rely on traditional credit scoring models and distribution channels, leading to market failures. The 2016 Global Entrepreneurship Monitor (GEM) report further emphasised that financial constraints were responsible for closing 28 percent of small businesses in 2016. Underlying this is a significant credit gap, driven by market failures such as high transaction costs, inadequate collateral, and rigid, one-size-fits-all credit scoring models. The estimated SMME credit gap in South Africa is between R86 billion and R346 billion.[42] Poor credit information infrastructure and high search costs for both funders and entrepreneurs exacerbate these challenges.[43] If these systemic barriers are not addressed, South Africa risks missing out on a critical opportunity to leverage its SMME sector as a catalyst for employment and economic recovery.[44]

Contradiction to Inclusive Growth Commitments

The Fund's exclusive focus on black-owned enterprises fails to recognise the complex, interdependent nature of value chains that drive economic growth and job creation. Sustainable, inclusive development cannot be achieved by targeting one segment of an industry while neglecting the broader ecosystem. This narrow approach undermines the efficiency and resilience of value chains, harming the very black-owned businesses it seeks to empower. Furthermore, it fails to uphold a core priority of the GNU - inclusive economic growth. The Statement of Intent emphasises inclusivity, yet there is still utilisation of exclusionary race-based policies, excluding other disadvantaged groups and non-black-owned enterprises that also contribute meaningfully to economic activity and employment. A credible, future-fit transformation strategy must focus on enhancing the competitiveness and inclusivity of entire value chains, ensuring participation opportunities for all.

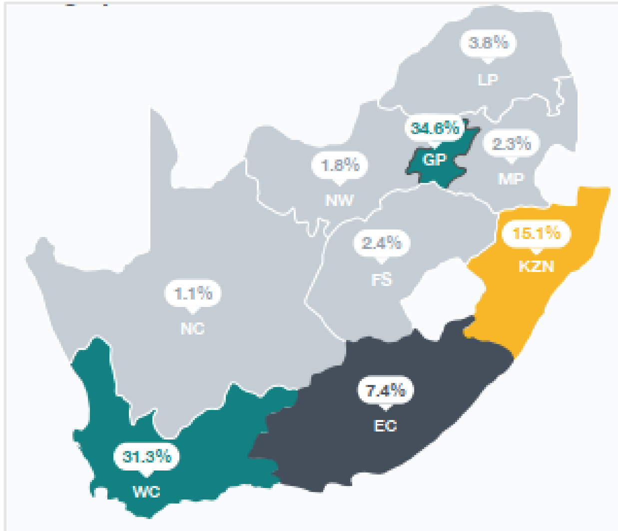
Section 11.1 of the Statement of Intent – Government of National Unity:

"*11. As Parties to this GNU, we agree that the 7th administration should focus on the following priorities:*
11.1 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. Macro-economic management must sustainably support national development goals."

Insufficient Clarity on Market Access, Support, and Ecosystem Integration

It is unclear how the proposed fund will effectively serve South Africa's vast, unevenly developed SMME sector.[45] A fundamental question is whether the Fund will have physical infrastructure and human capacity in provinces with the least developed SMME ecosystems, like Limpopo, Free State, Mpumalanga, North West, and Northern Cape, which collectively account for 11 percent of SMMEs (see Figure 1).[46] Yet, the concept document is silent on how the Fund's budget will be allocated to resourcing and maintaining this infrastructure.[47]

Figure 1: Geographic distribution of SMMEs



Furthermore, while the Fund prioritises "productive sectors" like agriculture, mining, and manufacturing, where SMME activity already exists, it risks neglecting other segments.[48] Despite acknowledging challenges like market access, regulation, crime, and financing, the document offers little detail on how its support services will be structured or staffed, nor how it will manage potential outsourcing to Business Development Support Practitioners (BDSPs) in a largely unregulated environment.[49]

Business Sector Concerns

Major business organisations and experts have been vocal in their criticism of the proposed Fund.

Business Unity South Africa (BUSA) has strong reservations about the idea of centralising ESD funds into a state-controlled vehicle. Chief Executive Officer (CEO) of BUSA, Khulekani Mathe, indicated that the discussion document on the Fund provided minimal information, making it difficult to assess the proposal properly.[50] He furthermore expressed that there was no compelling evidence that a centralised fund was necessary and that the existence of ESD funds that fail to meet their objectives also does not justify the creation of such a fund.[51]

Khulekani Mathe, CEO, BUSA – "*While the document and the minister reference the constitutional imperative for transformation — an aim we fully support — this conflates the nobility of the objective with the appropriateness of the proposed solution. The noble intent does not rectify the inherent flaws in the concept of a centralised fund*."[52]

Business Leadership South Africa (BLSA) welcomed the introduction of the Fund but raised serious questions.

Busisiwe Mavuso, CEO, BLSA – "*We are going to have to address what forms of funding this fund will provide. Is it equity and debt? What kind of risk management will the fund deploy? What sectors will it target? How will funders be able to direct their contributions to these targets? How much money will it utilise? It will be pointless if R100bn is raised for the fund and R50bn goes towards administration."*

"*It is undeniable that South Africa remains untransformed, stagnant and in need of more diverse economic participants. Big business plays a crucial role in accelerating transformation, and we understand what the government seeks to achieve. However, the question remains whether the Transformation Fund is the right instrument to address this challenge, as we must acknowledge it is not a silver bullet.*"[53]

Izak Odendaal, Chief Investment Strategist, Old Mutual MultiManagers, indicated that making participation voluntary and ensuring independent oversight would render the idea more acceptable to the private sector; however, this did not imply that the fund was a good idea.[54]

"*One could argue that pooling the resources of enterprise and supply development programmes could increase scale and save costs. Some companies might also prefer to outsource this function to the fund or another third party. However, I would imagine that companies would prefer to do this in-house, given that they ultimately rely on their suppliers performing well*."[55]

Furthermore, leading practitioners in the ESD ecosystem have concerns which can be summarised as follows:[56]

- *"Will the fund, in its operating model, mandate and funding strategy, be private sector demand-driven? In other words, will it fund black-owned businesses that do or have the real capability to deliver goods and services to meet real market needs, and thus be able to productively invest, grow SME revenues and support efficient and productive supply chains? If not, what is the fund's real strategic contribution to the economics of ESD?*
- *Companies now have a line of sight and can follow their ESD funding to the point of utilisation, and can thus measure the economic value to the beneficiary and to their own business. To what extent will the Transformation Fund be accountable to the private sector shareholder-owned businesses whose funds are in effect being expropriated? How will individual company*

contributors to these pooled funds be able to measure the economic value of their contribution to their operations?

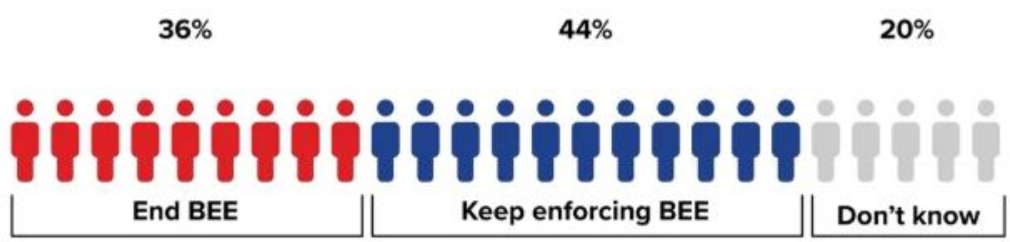
- *Companies implementing ESD strategies and programmes base them on years of testing various models and activities. They need to not only meet transformation objectives but align with company strategic business objectives and operational needs. Many of these programmes are so successful — including for the beneficiaries — that they constitute intellectual property.*
- *Will the fund, by requiring a pooling of funds into a pot for deployment in what will have to be generic or sectoral programmes, remove the incentive for companies to continually refine and innovate in the design and implementation of ESD?*
- *Will it take account of sector diversity, as various sectors have nuanced ESD obligations, and ensure a predictable way of awarding ESD points to corporates on contribution versus when the funds are disbursed to beneficiaries?*
- *Will the fund have nonfinancial support and investment-readiness components to ensure adequate support to SMEs and start-ups?*
- *Is funding the pressing need in the SMME ecosystem, or are there more fundamental, structural impediments to genuine transformation that need to be addressed first?"*

Industry players are not fully in support of the Fund proposal. The lack of detail, concerns over operational misalignment with private sector priorities, and the risk of stifling proven, business-driven ESD innovations have left many questioning its efficacy and necessity. This scepticism adds weight to the view that the proposed Fund is a flawed intervention that should be shelved.

Black Economic Empowerment vs Non-Racial Economic Empowerment

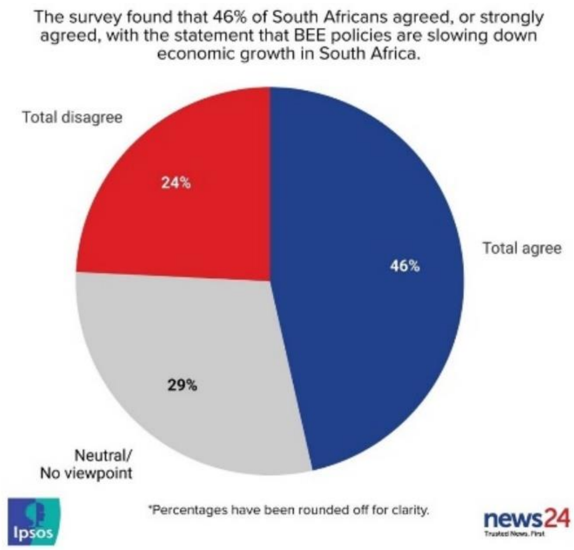
An Ipsos survey commissioned by News24 reveals that 11 out of every 25 South Africans (less than half the population) believe the government should keep B-BBEE in place. 9 out of every 25 (over a third of the population) believe the government should end all BEE policies.[57]

Figure 2: South Africans' Views on BEE: Ipsos-News24 Survey Results[58]



The same survey found that 46 percent of South Africans agreed or strongly agreed with the statement that B-BBEE policies are slowing down economic growth. Around 24 percent disagreed or strongly disagreed, while 29 percent had no viewpoint or did not know if BEE was impacting the country's growth.[59]

Figure 3: BEE and Economic Growth[60]

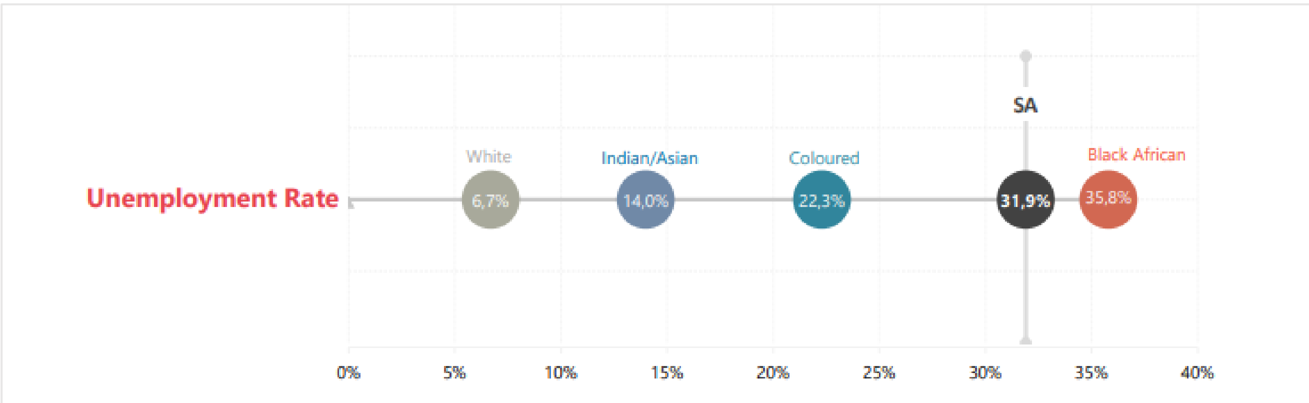


Polling conducted by the South African Institute of Race Relations (IRR) in March and April 2025 shows a clear national majority, across various demographic groups, in favour of policies that prioritise merit, value-for-money government spending, the expansion of choice in essential services, and the protection of property rights. These findings indicate that registered South African voters oppose significant existing transformation policies and laws, particularly regarding employment equity targets and expropriation without compensation.[61]

Unemployment and job creation rank highest as the preferred national priority among voters. Job creation remains a top national priority, reinforcing a multi-year pattern in IRR polling. Furthermore, merit trumps race. A large majority of (84 percent) support merit-based appointments to all jobs.[62] Moreover, value-for-money trumps race-based procurement targets. 81.7 percent indicated the state to buy from the best-priced supplier. This figure includes those who favour value-for-money procurement without racial considerations (54.1 percent) and those who support value-for-money procurement, where racial considerations are only tiebreakers if two companies present equal monetary value (27.6 percent).[63]

The above findings reflect agreement: BEE has failed to achieve its stated goal of broadening ownership and opportunity to the black majority. After 20 years, structural issues remain: high unemployment, low fixed investment, and a few large players' dominance of key sectors. According to Stats SA, the unemployment rate for Black South Africans stood at 35.8 percent in Q4:2024, compared to just 6.7 percent for White South Africans.[64]

Figure 4: Underemployment rate by population group, Q4:2024[65]



Between 2014 and 2024, black unemployment has risen by 8.6 percentage points, while white unemployment has dropped by 1 percent.[66] It is well documented that B-BBEE has fostered rent-seeking, fronting, and high premiums on imported goods rather than genuine enterprise development. Many so-called empowerment deals benefit institutional investors more than the unempowered.[67]

B-BBEE legislation that classify companies with turnover of less than R10 million as exempt micro enterprises and those with less than R50 million turnover as qualifying small enterprises places an artificial ceiling on business growth. In order to benefit from ESD and preferential procurement opportunities, companies have a perverse incentive to remain small rather than grow and become globally competitive. Simply raising the turnover threshold will not eradicate this problem, it will just mitigate it for smaller companies. This is a fundamental flaw in the B-BBEE framework that the Fund will only exacerbate.

South African companies also find themselves at a competitive disadvantage compared to international firms that are not required to operate under the same B-BBEE policies.[68] To strengthen South Africa's economy and enhance its global competitiveness, the government must develop policies that promote efficiency, cost-effectiveness, and global competitiveness.

The DA's Economic Justice Policy

The DA's *Economic Justice Policy* offers a tangible and targeted mechanism for addressing inequality and expanding opportunity without resorting to racial, non-inclusive policies.

The DA's policy advocates a different approach to transforming the economy through socioeconomic interventions by state and private entities, targeting the United Nations (UN)-endorsed Sustainable Development Goals (SDGs) as an alternative to a narrow race-based scorecard. The SDGs are a globally recognised set of metrics for socioeconomic development, which companies can easily incorporate into improving and measuring their impact on uplifting the marginalised.

The main indicators of the SDGs are as follows:

- No poverty;
- Zero hunger;
- Good health and well-being;
- Quality education;
- Gender equality;
- Clean water and sanitation;
- Affordable and clean energy;
- Decent work and economic growth;
- Industry, innovation, and infrastructure;
- Reduced inequalities;
- Sustainable cities and communities;
- Responsible consumption and production;
- Climate action;
- Life below water;
- Life on land;
- Peace, justice, and strong institutions;
- Partnerships for the goals.

As the Economic Justice Policy points out, these goals offer "*a useful, internationally recognised and supported framework for every stakeholder to identify and address the goals they are best fit to address*".

The DA advocates for a scorecard demonstrating contributions toward SDGs as an alternative to B-BBEE, offering a practical, non-racial, and outcomes-driven framework for assessing empowerment initiatives. Such an alternative scorecard will allow companies to measure their impact on key factors such as new business formation and success, job creation, skills development, and exports, thereby promoting broad-based, sustainable economic inclusion.

DA Proposals to Achieve Inclusive, Non-Racial, Growth-Oriented Economic Empowerment

The DA has a comprehensive suite of policy alternatives that offer a more effective and inclusive approach than the proposed Fund. These proposals aim to unlock inclusive economic opportunities, particularly for businesses, by addressing key structural and operational barriers that inhibit business growth, competitiveness, and job creation – something which the Transformation Fund will fail to do.

Our policy proposals include:

- **Focusing on getting the basics right** (**infrastructure, security, and education**). Instead of focusing on specific "Productive Sectors" like agriculture, tourism, services, and township enterprises, the DA believes in getting the basics like infrastructure, security, and education right, by ensuring that laws are enforced, crime is reduced, infrastructure is built and repaired, and our education system is improved. In addition, instead of implementing selective policies targeting specific sectors or industries (vertical focus), fostering horizontal (cross-cutting) policies that promote collaboration between the public and private sectors can drive overall economic growth. To achieve these goals, the DA will utilise recommendations found within our Crime Prevention and Criminal Justice, Education, and Energy and Electricity policies, amongst others.

- **Prioritising a comprehensive review of BBBEE.** In April 2025, the DA successfully secured the inclusion of a recommendation for a review of the BBBEE legislative framework in two reports adopted by the Portfolio Committee on Trade, Industry and Competition. The committee's strategic and annual performance plan report notes that while the private sector has spent over R116 billion on ESD and R186 billion on skills development since 2021, elite capture and limited broad-based impact persist.[69] This calls for a thorough review of BBBEE to assess its effects on the economy and job creation. The DA urges that this review be conducted by an independent body to prevent entrenching vested interests and repeating past mistakes.[70]

- **Reforming the BBBEE Scorecard.** The DA plans to develop a template scorecard that measures and rewards companies' contributions to the SDGs as a non-racial, outcomes-driven alternative to B-BBEE in preferential procurement. (See the DA's Economic Justice Policy*)*

- **Developing policy instruments that focus on building productive capacity** rather than primarily on ownership structures, emphasising skills development, technology transfer, and competitive capabilities. **This would involve:**
    - **Actively engage in and support small business incubation and development projects, enabling small businesses to access skills development opportunities**, business infrastructure, enterprise supplier development links, and investor connections.
    - **Introducing entrepreneurial education programmes in schools** to instil an entrepreneurial mindset in our youth and give them the right skills to succeed. This initiative will be a joint effort by various line departments, including the Department of Basic Education (DBE), the DSBD and the DTIC. The blueprint of the curriculum will consist of various key business areas, such as business planning, financial literacy, market research, innovation, and entrepreneurship ethics.
    - **Initiating technical and vocational education and skills training through three distinct channels within the educational system –** schools, colleges, and universities. The integration of skills training will commence at the secondary school level, establishing dedicated technical schools and implementing technical streams within non-technical schools.
    - **Establishing clear and effective linkages between the DBE and the TVET sector.** This connection will enable learners to seamlessly transition from the school system to colleges, ensuring a continuous and well-supported path for technical and vocational education beyond basic schooling.
    - **Supporting high-quality two-track (work and study) apprenticeship programmes** and increasing the involvement of companies, together with colleges, in training apprentices. The DA will implement a process for recognising apprenticeship work-based learning accreditation. The apprentices' skills will be recognised, ensuring increased access to economic opportunities.
    - **Supporting technology-driven initiatives that support businesses, such as upgrading underutilised digital hubs and innovation centres across the country and rolling out centres where none are present.** These centres must be 4IR equipped facilities, providing relevant training on 4IR matters and facilitate community programmes. These centres will also act as Wi-Fi hotspots and be equipped with hardware, including computers and printers.

Funding can be put aside for awarding to innovative initiatives such as the Khayelitsha Bandwidth Barn (a township-based technology hub), which provides entrepreneurs and small business owners access to multiple resources to grow their business through the provision of technology, innovation and business skills.

- **Leveraging innovative financing models** rather than demanding blanket contributions to support business, **such as:**
  - **Promoting and facilitating microfinance opportunities to enhance small business growth.** Microfinance, when combined with high-touch mentorship and skills development initiatives, is a proven model for promoting inclusive economic growth and poverty alleviation. Microfinance empowers individuals to improve their financial standing. The Grameen Bank in Bangladesh epitomises the success of microfinance in alleviating poverty and empowering the marginalised poor. They offer small loans to support income-generating activities such as small businesses and agricultural ventures. This model has now been adopted by other countries, including Nepal, the Philippines, Indonesia, Kenya, India, and China, and has even made inroads in the United States, illustrating its potential. In South Africa, the Small Enterprise Foundation (SEF) based in Tzaneen, Limpopo, has a proven lending model based on Grameen Bank principles which could be further capacitated to reach a larger pool of loan applicants.[71]
  - **Leveraging the Johannesburg Stock Exchange (JSE) and newly established micro bourses for business growth and job creation.** Listing Small and Medium-sized Enterprises (SMEs) on stock exchanges can create jobs by creating access to capital for expansion, fostering growth, and stimulating demand for services, thereby contributing to economic development. Leveraging the stock exchange has been proven successful, as demonstrated by Sweden. In Sweden, stock exchanges like Nasdaq Stockholm offer platforms such as Nasdaq First North for SMEs to raise capital through IPOs, supported by expert advisers and a diverse investor base that helps businesses grow and scale. Such a platform undoubtedly presents valuable lessons for South Africa to embrace and implement.

- **Prioritising market linkages in public sector procurement, enhancing export readiness, and integrating SMEs into corporate, local and global supply chains** to build a more competitive, outward-oriented economy. This centres on:
  - **Promoting an export-focused trade policy**. When companies engage in exporting activities, they must meet international standards and compete effectively in global markets. An export-oriented approach fosters a natural environment where businesses must continuously innovate

and improve to succeed globally. To achieve this objective, the DA will implement measures to boost the competitiveness of domestic industries in global markets, streamline export processes, lower trade barriers, offer financial and technical assistance to exporters, and cultivate beneficial trade alliances with other nations. This could involve closer collaboration between the DTIC and the Department of International Relations and Cooperation (DIRCO) to turbocharge SA missions abroad as export and investment-promotion centres.

  - **Removing designated goods and industries from our trade policy approach.** Transitioning away from import substitution priorities in trade policy is crucial for promoting a more diverse and competitive economic landscape. However, the government's current policy is to 'localise' the manufacturing sector by designating multiple products, such as processed vegetables, furniture, and solar photovoltaic components, for 100 percent local content. These plans harm the economy, hamper international trade relations, and ultimately impact the cost that consumers have to pay for manufactured goods. The focus should be on removing barriers to market entry and encouraging innovation and entrepreneurship.
  - **Removing all export duties.** Export duties, widely condemned by economists, discourage exporting activities and hinder the competitiveness of local industries in the global market.
  - **Removing all import duties on products not made locally.** While import duties may appear logical to protect local industries and work towards replacing imports through local production, they instead often lead to lowered innovation and lowered competitiveness.

- **Supporting townships and rural areas to become vibrant centres of economic opportunity and entrepreneurship. This involves:**
  - **Removing import duties on essential business tools,** such as single-cab bakkies (pickup trucks), to support small businesses, entrepreneurship, and economic activity, especially in rural areas. Despite South Africa's strong automotive manufacturing sector, locally-made models are still more expensive than imported alternatives. However, current automotive industrial policies inflate cheaper imported alternatives through import duties of 25 percent. For example, removing import duties on cheaper bakkies can encourage entrepreneurship and foster growth and prosperity within rural communities. The DA will also explore the possibility of removing restrictions on second-hand vehicle imports for commercial and resale purposes as another approach to enhancing competition in the market, bringing down the cost and making it easier for people to acquire vehicles, especially for commercial purposes.
  - **Actively engage in and support small business incubation and development projects** that will enable small businesses to access business infrastructure, enterprise supplier

development links, and investor connections, such as the township-based tech hub, the Khayelitsha Bandwidth Barn. The hub not only provides office space for people to run their businesses, but it also provides a computer lab for the local community and teaches them technology and business skills. This is an example of an enabler for inclusive innovation. The DTIC has long been advocating the revitalisation of industrial parks in townships and in the former homelands, but most of them remain dilapidated, overcrowded and poorly managed.[72,73] The DTIC, other relevant departments, such as the DSBD, along with the provincial and local governments where these parks are located, should accelerate the improvement of infrastructure and working conditions in these parks to stimulate local economic development or close them down where they are beyond redemption and build new ones that are privately funded and managed.

  - **Incentivising commercial banks and credit unions to expand their reach into underserved communities** through targeted microfinance programmes supported by regulatory reforms and capacity-building initiatives. These incentives would include subsidies to offset operational costs, tax incentives for portfolio expansion, and credit guarantee schemes to mitigate lending risks.

Other policies to address barriers faced by SMMEs and entrepreneurs include:

- **Improving the Ease of Doing Business for Entrepreneurs:**
  - **Accelerating the roll-out of 'One-Stop-Shops' across the country to reduce the time and cost of opening a business.** These 'opportunity centres' will assist entrepreneurs in registering a company name, lodging their documentation with the Companies and Intellectual Property Commission, and registering with SARS and the Department of Labour - all with a single online form and with a single registration fee. Applicants will be able to follow their registration through an online tracking system. Opportunity centres will also be used as portals to access small business support initiatives and disseminate information on government business tendering. To enhance effectiveness, the DA will also establish a toll-free national call centre and an advanced chatbot service that will provide comprehensive assistance to small businesses, minimising the need for physical presence in most cases.
  - **Developing a comprehensive Business Starter Toolkit, which will serve as a valuable resource for aspiring entrepreneurs.** The Toolkit aims to streamline the business start-up process and provide essential guidance and support. Inspired by the Small Business Administration's (SBA) "Business Smart Toolkit" in the United States, the DA will collaborate with industry experts and local business growth organisations to develop an extensive toolkit

for local entrepreneurs. These toolkits will offer checklists, guides, templates, and tools for all stages of business, including a start-up checklist, legal and regulatory step-by-step navigators, business planning templates, finance resources, networking services, and digital tools such as accounting software and e-commerce platforms.

- **Supporting the Informal Economy:**
  - **Rolling out e-registration nationwide for informal trading permits to simplify applications.**
  - **Establishing a system of differentiated tariffs** to address issues relating to tariffs and 'rents' paid by informal traders, reducing burdens on survivalists while levying reasonable charges on higher-economic-level enterprises.
  - **Identifying trading spaces in middle-income and affluent areas** where there is often a larger market.
  - **Providing functional trading spaces for informal entrepreneurs** close to foot traffic. These spaces should have access to water, sanitation, Wi-Fi, and other enabling infrastructure.
  - **Ensuring that the impounding of the property of informal traders is a last resort** as a sanction for serious offences, as it can be fatal for micro and informal enterprises due to associated fines and recovery costs.
  - **Encouraging entrepreneurs in the informal economy to formalise** and increase the growth potential of their businesses by reducing costs and administrative burdens associated with formalisation.

Binary

Proposed Transformation Fund	DA's Alternative Proposals
Race-based allocation of funding (B-BBEE-linked), reinforcing elite capture and limited broad-based impact.	• Prioritising a comprehensive, independent review of the B-BBEE framework. • Replacing the B-BBEE framework with an SDG-based, non-racial, outcomes-driven framework that rewards new business formation and growth, job creation, skills development, and poverty reduction.

Over-emphasis on ownership structures, neglecting productive capacity development.	• Focusing on building productive capacity through skills development, technology transfer, entrepreneurial education, incubation hubs, and SMME support programmes integrated within schools, TVETs, and communities.
No credible plan to improve SMME's access to skills, infrastructure, or global market linkages.	• Implementing business incubators (e.g. tech hubs like Khayelitsha Bandwidth Barn), enterprise supplier development, export readiness support, and integrate SMME's into corporate and global supply chains.
Fails to address structural issues in the business environment (regulatory red tape, infrastructure, security, education).	• Prioritising infrastructure, policing, and education as foundations for economic growth. • Fast-tracking 'One-Stop-Shops' and national business starter toolkits to cut start-up bureaucracy.
Top-down, centrally-managed funding model prone to political manipulation and inefficiency.	• Promoting innovative, decentralised financing: microfinance schemes, credit guarantees, and SME stock exchange listings (e.g. adapted Nasdaq First North model) to improve access to capital through market-led mechanisms.
Limited focus on townships/rural areas beyond basic funding access.	• Removing restrictions like import duties on essential business tools (like bakkies/second-hand vehicles), supporting township tech hubs, and incentivising banks to expand microfinance services in rural areas.
Focuses on 'Productive Sectors' vertical interventions, leading to uncompetitive, state-protected industries.	• Abandoning vertical sector priorities. Foster horizontal, cross-cutting policies: improve market access, infrastructure, education, and security. • Reforming localisation and import substitution mandates that hamper competition.

Does not adequately address microfinance and small loan capitalisation gaps for startups.	• Promoting proven microfinance models (e.g. Grameen Bank model), creating credit guarantee schemes, and offering tax/subsidy incentives for commercial banks, private investors and credit unions to reach high-risk areas.
Lack of measurable performance metrics and accountability mechanisms for fund disbursement and outcomes.	• Introducing transparent, outcome-based performance metrics tied to job creation, business growth, and skills development, overseen by independent bodies and linked to SDG-aligned scorecards.
Insufficient engagement with the private sector and limited use of market-driven incentives.	• Fostering strong public-private partnerships (PPP) leveraging private capital, expertise, and networks, especially through SME stock exchange platforms and export alliance facilitation.
Heavy reliance on government bureaucracy, increasing delays and inefficiencies.	• Using digital platforms, AI and automation for fund application, monitoring, and reporting to reduce red tape; deploy national call centres and chatbots to provide real-time assistance to entrepreneurs.
Neglect of financial literacy and business skills training, increasing risk of business failure.	• Embedding comprehensive entrepreneurial education across all schooling levels and adult business training programmes, including financial literacy, market research, and business ethics.
No clear strategy to foster innovation and technology adoption in small businesses.	• Prioritising support for 4IR-focused innovation hubs, grant funding for tech startups, and partnerships with universities and research institutions to diffuse technology adoption.
Poor integration of informal and formal economic sectors, perpetuating exclusion.	• Establishing pathways that enable informal businesses to scale and formalise with

	minimal barriers, including phased registration and flexible taxation schemes.
Limited focus on infrastructure bottlenecks critical to business operations (energy, transport, broadband).	• Accelerating infrastructure upgrades, particularly electrification, broadband expansion in rural and township areas, and transport logistics improvements to reduce operating costs.

Transformation Fund Pillars	Issues with Fund Proposal	DA's Proposals
Technical Support & Access to Markets	Limited technical and market access support.	Comprehensive entrepreneurial education, incubation, 4IR tech hubs, and export-focused trade policy enabling SMMEs to compete locally and globally.
Accessibility	Complex, bureaucratic application processes under B-BBEE policies.	Simplified 'One-Stop-Shops', Business Starter Toolkits, e-registration for informal traders, and incentives for financial services expansion in underserved areas.
Financial & Non-Financial Support Instruments	Focus on grants with limited innovation and a lack of integrated support for business growth.	Promotion of microfinance, credit guarantees, stock exchange listing for SMEs, combined with skills training and mentorship.
Focus on Townships & Rural Areas	Insufficient tailored support beyond funding.	Targeted support for township tech hubs, removal of import duties on business tools, and investment in digital and physical infrastructure.
Focus on Productive Sectors	Protectionist, sector-specific interventions that hamper innovation and export competitiveness.	Focus on cross-cutting sector policies: improve market access, infrastructure, education, and security.

Conclusion

The DA strongly opposes the proposed Transformation Fund, as it constitutes another flawed and racially based policy that fails to address the root causes of inequality of opportunity in South Africa. Rather than creating inclusive economic opportunities that uplift the disadvantaged, the fund promotes greater racial division within our society while facilitating the further enrichment of politically connected elites.

The DA advocates for non-racial, opportunity-driven policies that address the structural barriers to economic participation, including inadequate education, excessive bureaucracy, lack of access to capital, and limited skills development. The DA will continue to fight to establish an *open opportunity society for all*, which fosters a competitive economic environment that benefits all, rather than a select few.

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