

**GUIDANCE NOTE GN600****ON****CODE SERIES FS600, STATEMENT 600****THE MEASUREMENT OF EMPOWERMENT FINANCING****BANKS****1. Introduction**

One of the two unique elements in the Financial Sector Code (FS Code) is Empowerment Financing, which is there to serve as a catalyst for empowerment within the economy. The aim is to ensure support for black owned entities, black agriculture funding, transformational infrastructure financing to South African projects in areas where gaps or backlogs in economic development and job creation have not been adequately addressed and low-cost housing funding.

**2. Objectives**

The objective of this guidance note is to provide clarification on the allocation of empowerment financing targets and the recognition of an empowerment financing transaction undertaken by a measured entity within the Banking Sector.

**3. Targets**

- 3.1 Following the expiry of targets for deals written from 1 January 2012 to 31 December 2017, the new consolidated target for the Banking Sector is R130 billion over the next 5 years starting 1 January 2018 to 31 December 2022.
- 3.2 This target will be split amongst the Banking Association of South Africa (BASA) members using the BA 900 as at 31 December 2017. Newly established banks will be provided with provisional pro-rata targets calculated according to their quarterly BA900 submissions.
- 3.3 Each bank will be measured individually against its own target calculated by BASA. Such target will be recognized cumulatively per annum over the next five years.
- 3.4 4% of the total empowerment financing target envisaged, (measured annually from the 2nd year post commencing funding), will be the minimum target for companies that are at least 51% black owned with turnover below R200 million per annum. (This is a non-fungible requirement which will make up 20% of the available points under targeted investment section of Empowerment Financing as demonstrated in 3.6 below).
- 3.5 Black Business Growth Funding in Targeted Investment (i.e. surplus from 2.2 of statement FS 600) can only be done if the measured entity has achieved the full three points in 2.3 of statement FS600.

- 3.6 The remaining balance of the total target, as per 3.4 above, will be split 60/40 between Targeted Investment and BEE Transaction/Black Business Growth Funding.
- 3.7 The target split for Empowerment Financing as per 3.4 and 3.5 above is as follows:
- Assuming Bank A has a new total empowerment financing target of R15 billion.

Measurement Criteria	Weighting Points	Total Target	2018	2019	2020	2021	2022
BSME Financing (Non-fungible)	2.4 (20% of 12)	R600m (4% x R15bn)	R120m (R600m/5)*1	R240m (R600m/5)*2	R360m (R600m/5)*3	R480m (R600m/5)*4	R600m (R600m/5)*5
Targeted Investment - Transformational Infrastructure - Black Agricultural Financing - Affordable Housing - BSME financing/BBGF (Remains fungible)	9.6      (80% of 12)	R8,640m      (96%x15bn)x60%	R1,728m      (8,640m/5)*1	R3,456m      (8,640m/5)*2	R5,184m      (8,640m/5)*3	R6,912m      (8,640m/5)*4	R8,640m      (8,640m/5)*5
BEE Transaction/Black Business Growth Funding	3	5,760m  (96%x15bn)x40%	R1,152m  (5,760m/5)*1	R2,304m  (5,760m/5)*2	R3,456m  (5,760m/5)*3	R4,608m  (5,760m/5)*4	R5,760m  (5,760m/5)*5
Total	15	R15bn					

- 3.8 In line with paragraph 3.7 of FS600, Empowerment Financing is a priority element where a measured entity must achieve a minimum of 40% of the total weighting points (i.e. 6 points (15 x 40%)). Non-compliance with the subminimum will result in the overall achieved B-BBEE status level being discounted in accordance with Paragraph 3.3.3 of statement 000.

#### 4. Measurement Principles

- 4.1 Only financing deals provided on or after 1 January 2018, that are still in place in the year of measurement will contribute to the targets in 2.1 and 2.2 of statement FS 600 Empowerment Financing scorecard. However:
- 4.1.1 Any additional financing provided after 1 January 2018 to deals that existed before 1 January 2018, can continue to be recognized only from the date when the additional finance has been paid-out. For example: Client A (a 52% black owned SME) had an existing loan with Bank A since February 2017. In March 2019 the loan was increased by R1.5million to R4.5million. In terms of the above, the average balance can only be recognized from March 2019 on the full outstanding balance when the additional R1.5m was paid-out.
- 4.1.2 The Measurement and calculation of Transformational Infrastructure (TI) projects will be through the use of a Municipal Index. The FS Code requires that

the TI matrix be periodically reviewed and adjusted accordingly. (This Annexure will be communicated by the Financial Sector Transformation Council).

- 4.1.3 New deals on Black SME Financing and BEE Transaction Financing/BBGF is measured based on the benefit factor matrix provided in Guidance Note 600(f) for the 2020 measurement period. For avoidance of doubt, 2019 measurements will be based on the outstanding balance with no multiplier thereafter.
- 4.1.4 B-BBEE transaction financing concluded before 1 December 2017, and still in place at the date of measurement, will contribute to the targets in 2.2 of this statement.

4.2 Institutions will be scored according to their contribution towards the individual target.

## **5. Scoring Guidance**

- 5.1 The 2017 – 2022 individual targets will be annualized over a 5-year period and these annual targets will be cumulatively recognized every year towards the full target as depicted in the table above on paragraph 3.6.
- 5.2 If Bank A has contributed a cumulative of R210m towards BSME in 2019, the score will be 2.1 points (i.e.  $(210/240) \times 2.40$  points). R210m being the contribution (i.e. Average balance for all qualifying transaction) and R240m being the cumulative target in 2019.