GUIDANCE NOTE GN600(f)
on
CODE SERIES FS600, STATEMENT 600

RULES GOVERNING THE PROVISION OF BLACK BUSINESS GROWTH FUNDING: EMPOWERMENT FINANCING

The provision of risk capital to support black business was negotiated as part of the Financial Sector Code ("FSC"), as an alternative to the provision of funding to facilitate BEE transactions (FS600 2.2) as well as an additional category of targeted investment by the Financial Sector (FS600 2.1).

The 2017 amended FSC recognises that the financial sector is uniquely positioned to create sustainable wealth across a broad base by leveraging the allocation of resources from savers to those needing capital for growth. This guidance note sets out the rules governing the provision of Black Business Growth Funding (BBGF) as allowed for in the Empowerment Financing element of the FSC.

The provisions of FS600 of the revised FSC are inter alia intended to unlock funding for black business people in key sectors of our economy. The aim is to support the transformation of the economy in general, by providing financial and non-financial support to black owned and black women owned enterprises in line with the objectives of Broad-Based Black Economic Empowerment (B-BBEE).

The overall objective that the FSC is seeking to support is new and existing black-owned companies that create jobs within the economy.

The financing must support businesses that meet the following criteria:

(a) Black people (as defined in the B-BBEE Amendment Act of 2013) must be directly involved in the origination and creation of the business and/or must through the transaction become intimately involved in the management and operation of the business going forward.

(b) The enterprise should be or become a financially sustainable business or cooperative that results in the creation or preservation of jobs in the local economy.

In terms of the FSC, measured entities can allocate capital to BBGF as follows:

Empowerment Financing

(a) Under FS600 (Measurement of Empowerment Financing and Enterprise and Supplier Development), BBGF is included in the Empowerment Financing Scorecard as a type of "Targeted Investment".

(b) Further under FS600, BBGF is included with B-BBEE transaction financing as a category of Empowerment Financing included in the scorecard.

Initial Conditions to be met by the measured entity to claim points pursuant to FS602:

(a) Financing can be counted for scorecard purposes on irrevocable commitment either via:
   (i) formalised capital allocation to an internal business unit structured in accordance with the principles in this guidance note; or
   (ii) via a commitment letter to an external party that complies with the Financing Rules stipulated in this guidance note.

Transformation Credentials

In terms of the transformation credentials of the internal unit or external party deploying the capital:

(a) Within the first 3 years greater than 50% of all new funding commitments need to be deployed by a Black Private Equity Fund, as defined in the FSC, or an internal business unit that reflects the same transformation credentials as set out in the FSC.

(b) Post 3 years 100% of all new funding commitments need to be deployed by a Black Private Equity Fund, as defined in the FSC, or an internal business unit that reflects the same transformation credentials as set out in the FSC.

(c) The internal business unit or external party must be appropriately licensed according to the nature of the financing activities undertaken.

Financing Rules

In should specifically be noted that policyholder / deposit-holder funds are likely to be used to deploy the funding. The measured entity can deploy the funding to beneficiaries over time, and in a manner consistent with fiduciary responsibilities, based on the formulation detailed below, which is based on an accelerated version of the generic code Black Private Equity Fund provisions.

1. Within 1 year of the commitment noted above, 10% of the funding should be deployed to the benefit of companies that are 51% Black Owned or 30% Black Women Owned companies as defined.

2. Within 2 years of the commitment noted above, 20% of the funding should be deployed to the benefit of companies that are 51% Black Owned or 30% Black Women Owned companies as defined.
3. Within 4 years of the commitment noted above, 30% of the funding should be deployed to the benefit of companies that are 51% Black Owned or 30% Black Women Owned companies as defined.
4. Within 6 years of the commitment noted above, 40% of the funding should be deployed to the benefit of companies that are 51% Black Owned or 30% Black Women Owned companies as defined.
5. Within 8 years of the commitment noted above, 50% of the funding should be deployed to the benefit of companies that are 51% Black Owned or 30% Black Women Owned companies as defined.
6. Beyond the 9^{th} year of the commitment noted above, greater than 60% of the funding should be deployed to the benefit of companies that are 51% Black Owned or 30% Black Women Owned companies as defined.
7. In addition to the above, a minimum of 4% of the total Empowerment funding target envisaged (measured annually from the second year post commencing funding), must have been provided to businesses or cooperatives with a turnover of less than R200m that have at least 51% direct black shareholding. This is to ensure this Empowerment Financing pillar provides the essential link for 'missing middle' stage businesses to become black industrialists. This non-fungible requirement will make up 20% of the available points under the Targeted Investments section of the Empowerment Financing element of the Codes.
8. The measurement of greater than 60% of the value of funds invested that must be invested in enterprises with at least 51% direct black shareholding is to be measured with reference to the cost of the investment and the ownership of the investee enterprise should be measured post investment in line with the provisions pertaining to Black Private Equity fund management provisions in the Ownership pillar.

   For the avoidance of doubt, the funding that is provided above is intended to provide capital to operational black businesses and not to create passive empowerment stakes in non-black owned and managed businesses.

Higher Education Funding

A maximum of 20% of all funds committed, can also be provided to support funding of higher education for schemes and individuals that meet the affordability thresholds defined by the higher education ministerial task team, formed in 2016, in response to the National Student Funding crisis.

For the avoidance of doubt, this funding will require specific approval by the FSC Council, to qualify as empowerment financing under this guidance note.

The BBGF Benefit Factor Matrix below should be applied:

DEBT

Risk							
	Stage/Size>>		**EME**	**QSE**	**Small Generic**	**Large Generic**	**Higher Education**
			<10m	**<50m**	**<200m**	**>200m**	**N/A**
	Security	**Effective Rate^**					
Risk	<80%	Prime or less	200%	175%	125%	75%	200%
	<80%	Less than Prime + 5%	175%	150%	100%	50%	175%
	<80%	More than Prime + 5%	100%	75%	50%	0%	100%
	>80%	Prime or less	175%	133%	100%	50%	175%
	>80%	Less than Prime + 5%	150%	100%	50%	25%	150%
	>80%	More than Prime + 5%	50%	25%	0%	0%	50%

OTHER

Stage/Size>>	**EME**	**QSE**	**Small Generic**	**Large Generic**	**Higher Education**
	<10m	**<50m**	**<200m**	**>200m**	**N/A**
Equity	200%	175%	100%	50%	200%
Grants	200%	175%	125%	50%	200%
Support Services	175%	150%	100%	50%	175%

Notes

(a) BBGF funding can only be counted to the extent that it was issued post the date of the gazetting of the FSC Code.

(b) For every job created and proven through the provision of funding, an extra R100k of deemed funding is claimable based on definitions in FSC. If an investee business is in a formal business rescue or turnaround process, the same R100k funding bonus provision will apply to job preservation.

(c) When in doubt as to the nature of funding, (e.g. debt or equity) and which of the above categories to classify it against utilize the capital provisioned/held by the Measured Entity against investment to determine the category.

(d) In order to incentivize funding of priority sectors, the above benefit factors can be multiplied by 1.2, if the funding is provided to companies operating in the manufacturing sector (as per SARB reports).

(e) In the event that capital is committed to a third-party provider it is the nature of capital provided by the Measured Entity to the third-party provider that should determine the BBGF Benefit Factor Matrix classification. The intention is for the underlying investee enterprises of the BBGF to receive preferential financial terms on a risk-reward basis relative to traditional commercial funding. In the event that it is not clear that such funding is preferential at a 3rd party manager mandate level, the instruments provided to the underlying investee enterprises can be further interrogated by rating agencies to verify the nature of capital.

(f) Support Services in the BBGF Benefit Factor Matrix would use the Overhead Costs definition in the Enterprise and Supplier Development Benefit Factor Matrix FS400 (B) annex as a guideline for verification but these cannot be double counted across BBGF & ESD.

(g) This guidance note will be subject to review by the FSC Council, within 12 months of publication