

GUIDANCE NOTE GN602(a)

on

CODE SERIES FS600, STATEMENT 602

THE MEASUREMENT OF THE EMPOWERMENT FINANCING AND ENTERPRISE DEVELOPMENT ELEMENT FOR MEASURED ENTITIES THAT ARE NOT EXEMPTED FROM CONTRIBUTING TOWARDS EMPOWERMENT FINANCING

TRANSFORMATIONAL INFRASTRUCTURE

1. Introduction

The Financial Sector Code (“the Code”) recognises the need for the financial sector to dedicate funding to infrastructure projects in underdeveloped areas where communities have historically been denied equitable access to economic resources. The definition of Transformational Infrastructure (“TI”) was intended to focus financing efforts on entities that provide infrastructure that will contribute towards reducing infrastructure backlogs and increase the potential for economic growth and development in South Africa.

Transformational Infrastructure projects are projects that support economic development in underdeveloped areas and contribute towards equitable access to economic resources. Such infrastructure projects could be in the following sectors:

- transport
- telecommunications
- water, waste water and solid waste
- energy
- social infrastructure such as health, education, and correctional service facilities
- municipal infrastructure and services

2. Objectives

The objective of this document is to provide a Transformational Infrastructure Municipal Index and guidance on the scoring principles.

2.1.1. Specify the Target Market

2.1.2. Specify the key measurement principles for TI

2.1.3. Specify the process for determining a TI score

2.1.4. Specify the Municipal Index

3. Definitions

3.1. Banked Deals

Transformation Infrastructure deals in place before the commencement date of the Financial Sector Code. Deals done during the period 2009 – 2011 should be according to the Financial Sector Charter and must be audited/verified by an independent party. Reporting for 2012 onwards will be according to the definitions contained in the Financial Sector Code.

3.2. Stock Measurement

This is effectively a measure of the amount (or 'stock') of financing shown on the balance sheet of a measured entity at the measurement date. A weighted average of the monthly balances over the 12 months prior to the measurement date is to be used to smooth out seasonal and other distortions.

3.3. Transformational Infrastructure

Debt financing of, or other forms of credit extension to, or equity investments in South African projects in areas where gaps or backlogs in economic development and job creation have not been adequately addressed by financial institutions.

4. Target Market

TI will be any infrastructure that will promote the social and equitable economic development of a specific location, community, region or district. This will include but is not limited to:

- Education which includes schools, learning centres, higher education, etc.
- Road and rail infrastructure which will include new access roads, upgrading of existing roads, etc.
- Community infrastructure such as water, electricity, sewerage, drainage, purification and treatment, amongst others, except those that are specific to Affordable Housing projects in which case they will be included under that sub-element.
- Safety and security, which includes police stations, prisons, etc.
- All telecommunications infrastructure whether that be land, cellular, or data.
- Health, which includes hospitals and clinics etc.
- Municipal infrastructure and services including Government buildings.
- Industrial Development Zone type infrastructure including logistics hubs.

5. Measurement Principles

The basis of measuring the qualifying funding to TI will be the stock measure.

5.1. Municipal Index

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 reviewed in December 2014 and adjusted accordingly. Annexure 1 contains the latest TI Municipal Index.

5.2. National Infrastructure Development Projects e.g.Parastatal Bonds / Financial Intermediaries

A 25% rating shall apply for the financing of national capital raising initiatives.

Should funding be syndicated, each member will score on their individual contribution subject to any multiplier applicable on the project as a whole.

5.3. Ring Fenced Projects

Projects funded but not measured using the Municipal index approach, or the National rating, will be considered to be "ring-fenced" projects and require the provision of detailed information on transformation impact focusing on economic beneficiaries in order to justify how the scoring will be done if higher than the general Municipal index method. To avoid confusion the ring fenced projects means a funding method which provides for a rating of up to 100% where an entity conducts a fundraising exclusively for transformational infrastructure in an under-developed area of the municipality as defined by the Financial Sector Council.

The following is specifically noted in this regard:

- It will remain the responsibility of the measured entities verification agency to ensure the appropriate calculation of the developmental impact of any project or instrument.
- The verification agency or auditor may rely on a report produced by an independent competent person/s, for this purpose
- The FSC Council will remain responsible for monitoring and overseeing the effectiveness of this process.

ANNEXURE 1 (Example 1)

Calculation of Targeted Investments points:

Formula: $A = (B/C) \times D$ where

A = total points achieved

B = the sum of historic performance and the current performance

C = is the target (historical performance + share of FS Code target)

D = maximum points available

Bank Z's targeted investments target is R10billion for the period 2012 – 2017. As at December 2011, Bank Z already has qualifying assets (from previous FS Charter reporting) of R2.5 billion which are treated as banked deals

Bank Z only did one transformational infrastructure deal in 2012, a correctional service facility in Polokwane. The stock measure method is used. The monthly balances are recorded over a 12 month period. An average monthly balance is calculated. For this example the average monthly balance is R3,000,000,000.00

The index weighting for Polokwane is 24.69

Therefore:

$R3,000,000,000.00 \times 24.69\% = R740,700,000.00$ is the amount Bank Z may claim as infrastructure development for that project

Total deals financed by Bank Z during 2012 for transformational infrastructure, (weighted R740,700,000.00) plus Black SME Finance, Black Agriculture and Affordable Housing funding equals R2 billion [i.e. financing to Black SME's, Black Agriculture and Affordable Housing totalled R1,259,300,000.00].

Therefore:

$(\text{banked deals} + \text{new weighted deals}) / (\text{banked deals} + \text{share of FS Code target}) \times$
maximum points = total score for the year

$$\frac{\overbrace{\text{B}}{\text{C}}}{(\text{banked deals} + \text{new weighted deals}) / (\text{banked deals} + \text{share of FS Code target})}$$

$\times D$ (maximum points) = total score for the year = **A**

$(R2,500,000,000.00 + R2,000,000,000.00) / (R2,500,000,000.00 + R10,000,000,000.00) \times$
12 = 4.32 out of 12

ANNEXURE 2 (Example 2)

Insurer x's share of the industry targeted investments target is R5 billion.

Insurer X only had one transformational infrastructure asset as at the end of the measurement period, a correctional service facility in Polokwane. The stock measure method is used. The monthly balances are recorded over a 12 month period. An average monthly balance is calculated. For this example the average monthly balance is R3,000,000,000.00

The index weighting for Polokwane is 24.69

Therefore:

$R3,000,000,000.00 \times 24.69\% = R740,700,000.00$ is the amount insurer X may claim as infrastructure development for that project

Total stock of assets held by Insurer X as at the end of the measurement period for transformational infrastructure, (weighted R740,700,000.00) plus Black SME Finance, Black Agriculture and Affordable Housing funding equals R2 billion [i.e. stock of Black SME', Black Agriculture and Affordable Housing assets totalled R1,259,300,000.00].

Points are therefore calculated as follows:

$(\text{Total assets} / \text{total target}) * \text{Max points} = \text{Points claimable on Insurer X's scorecard}$

$$= 2\,000\,000\,000 / 5\,000\,000\,000 * 12 = \underline{\underline{4.8 \text{ points}}}$$

ANNEXURE 3

Municipal Index

Important Notes:

In the case where a development spans over several areas it will be counted as a 'National' development and a weighting of 25% will be given.

A	Municipal Code	2012 Weighting
Abaqulusi (KZN)	KZN263	43.45%
Aganang (Lm)	LIM352	33.75%
Albert Luthuli (Mp)	MP301	33.03%
Alfred Nzo District (EC)	DC44	54.42%
Amahlathi (EC)	EC124	39.10%
Amajuba District (KZN)	DC25	29.52%
Amathole District (EC)	DC12	38.07%
B		
Ba-Phalaborwa (Lm)	LIM334	20.59%
Baviaans (EC)	EC107	16.33%
Beaufort West (WC)	WC053	8.14%
Bela-Bela (Lm)	LIM366	20.55%
Bergrivier (WC)	WC013	7.60%
Bitou (WC) {Plett}	WC047	14.94%
Blouberg (Lm)	LIM351	36.39%
Blue Crane Route (EC)	EC102	21.89%
Bojanala District (NW)	DC37	23.32%
Breede Valley (WC)	WC025	10.55%
Buffalo City Metropolitan (EC)	EC125	23.02%
Bushbuckridge (Mp)	MP325	30.96%
C		
Cacadu District (EC)	DC10	16.85%
Camdeboo (EC)	EC101	7.83%
Cape Agulhas (WC)	WC033	8.33%
Cape Winelands District (WC)	DC2	25.68%
Capricorn District (Lm)	DC35	29.21%
Cederberg (WC)	WC012	11.82%
Central Karoo District (WC)	DC5	25.62%

C	Municipal Code	2012 Weighting
Chris Hani District (EC)	DC13	42.75%
City of Cape Town Metropolitan (WC)	CPT	8.88%
City of Johannesburg Metropolitan (Gt)	JHB	12.38%
City of Matlosana (NW) {Klerksdorp}	NW403	17.87%
City of Tshwane Metropolitan (Gt)	TSH	17.82%
D		
Dannhauser (KZN)	KZN254	34.55%
Dihlabeng (FS)	FS192	17.42%
Dikgatlong (NC)	NC092	25.44%
Dipaleseng (Mp)	MP306	24.01%
Ditsobotla (NW)	NW384	28.79%
Dr JS Moroka (Mp)	MP316	30.35%
Dr Kenneth Kaunda District (NW)	DC40	19.64%
Dr Ruth SegomotsiMompoti District (NW)	DC39	28.49%
Drakenstein (WC)	WC023	12.67%
E		
Eden District (WC)	DC4	12.09%
eDumbe (KZN)	KZN261	43.86%
Ehlanzeni District (Mp)	DC32	27.17%
Ekurhuleni Metropolitan (Gt)	EKU	16.10%
Elias Motsoaledi (Lm)	LIM472	39.14%
Elundini (EC)	EC141	65.94%
Emadlangeni (KZN)	KZN253	50.06%
Emakhazeni (Mp) {Highlands}	MP314	16.62%
Emalahleni (EC)	EC136	33.68%
Emalahleni (Mp)	MP312	27.58%
Emfuleni (Gt)	GT421	13.21%
Emnambithi/Ladysmith (KZN)	KZN232	30.53%
Emthanjeni (NC)	NC073	12.74%
Endumeni (KZN)	KZN241	18.84%
Engcobo (EC)	EC137	65.18%
Ephraim Mogale (Lm)	LIM471	28.08%
Ethekwini Metropolitan (KZN)	ETH	14.35%
Ezingoleni (KZN)	KZN215	38.45%

F	Municipal Code	2012 Weighting
Fetakgomo (Lm)	LIM474	39.42%
FezileDabi District (FS)	DC20	14.38%
Frances Baard District (NC)	DC9	16.48%
G		
Gamagara (NC)	NC453	10.61%
Gariep (EC)	EC144	16.06%
Ga-Segonyana (NC)	NC452	23.38%
George (WC)	WC044	13.32%
GertSibande District (Mp)	DC30	28.52%
Govan Mbeki (Mp)	MP307	14.91%
Great Kei (EC)	EC123	34.01%
Greater Giyani (Lm)	LIM331	36.30%
Greater Kokstad (KZN)	KZN433	27.30%
Greater Letaba (Lm)	LIM332	31.95%
Greater Sekhukhune District (Lm)	DC47	37.45%
Greater Taung (NW)	NW394	30.12%
Greater Tubatse (Lm)	LIM475	39.28%
Greater Tzaneen (Lm)	LIM333	31.18%
H		
Hantam (NC)	NC065	12.77%
Hessequa (WC) {Langeberg}	WC042	8.38%
Hibiscus Coast (KZN)	KZN216	23.80%
Hlabisa (KZN)	KZN274	56.34%
I		
Ikwezi (EC)	EC103	21.24%
iLembe District (KZN)	DC29	40.30%
Imbabazane (KZN)	KZN236	53.07%
Impendle (KZN)	KZN224	43.17%
Indaka (KZN)	KZN233	44.77%
Ingwe (KZN)	KZN431	62.96%
Inkwanca (EC)	EC133	16.68%
IntsikaYethu (EC)	EC135	63.29%
InxubaYethemba (EC)	EC131	12.42%

J	Municipal Code	2012 Weighting
Joe Gqabi District (EC)	DC14	46.85%
Joe Morolong (NC)	NC451	35.83%
John TaoloGaetsewe District (NC)	DC45	25.23%
Jozini (KZN)	KZN272	55.87%
K		
Kagisano/Molopo (NW)	NW391	30.30%
Kai !Garib (NC)	NC082	26.48%
Kamiesberg (NC)	NC064	15.20%
Kannaland (WC)	WC041	13.05%
Kareeberg (NC)	NC074	21.38%
Karoo Hoogland (NC)	NC066	20.12%
Kgatelopele (NC)	NC086	12.21%
Kgetlengrivier (NW)	NW374	30.09%
Khâi-Ma (NC)	NC067	13.33%
KharaHais (NC)	NC083	12.19%
Kheis (NC)	NC084	28.16%
King SabataDalindyebo (EC)	EC157	47.18%
Knysna (WC)	WC048	14.85%
Kopanong (FS)	FS162	15.77%
Kouga (EC)	EC108	13.47%
Kou-Kamma (EC)	EC109	22.43%
KwaSani (KZN)	KZN432	39.41%
KwaDukuza (KZN)	KZN292	22.04%
L		
Laingsburg (WC)	WC051	16.48%
Langeberg (WC)	WC026	10.13%
Lejweleputswa District (FS)	DC18	19.06%
Lekwa (Mp)	MP305	18.83%
Lekwa-Teemane (NW)	NW396	18.45%
Lepele-Nkumpi (Lm)	LIM355	30.52%
Lephalale (Lm)	LIM362	27.24%
Lesedi (Gt)	GT423	17.46%
Letsemeng (FS)	FS161	22.20%
Lukanji (EC)	EC134	19.98%

M	Municipal Code	2012 Weighting
Mafikeng (NW)	NW383	33.44%
Mafube (FS)	FS205	17.84%
Magareng (NC)	NC093	21.11%
Makana (EC)	EC104	14.42%
Makhado (Lm)	LIM344	28.47%
Makhuduthamaga (Lm)	LIM473	37.83%
Maletswai (EC)	EC143	22.63%
Maluti a Phofung (FS)	FS194	26.95%
Mamusa (NW)	NW393	23.02%
Mandeni (KZN)	KZN291	33.27%
Mangaung Metropolitan (FS)	FS172	16.10%
Mantsopa (FS)	FS173	20.51%
Maphumulo (KZN)	KZN294	64.92%
Maquassi Hills (NW)	NW404	30.23%
Maruleng (Lm)	LIM335	32.27%
Masilonyana (FS)	FS181	22.35%
Matatiele (EC)	EC441	51.84%
Matjhabeng (FS)	FS184	16.12%
Matzikama (WC)	WC011	10.85%
Mbhashe (EC)	EC121	72.52%
Mbizana (EC)	EC151	76.15%
Mbombela (Mp)	MP322	23.73%
Merafong City (Gt)	NW405	20.56%
Metsimaholo (FS)	FS204	12.74%
Mfolozi (KZN)	KZN281	43.86%
Mhlontlo (EC)	EC156	64.34%
Midvaal (Gt)	GT422	13.76%
Mier (NC)	NC081	23.63%
Mkhambathini (KZN)	KZN226	51.22%
Mkhondo (Mp)	MP303	33.57%
Mnquma (EC)	EC122	57.83%
Modimolle (Lm)	LIM365	22.45%
Mogalakwena (Lm)	LIM367	24.53%
Mogale City (Gt)	GT481	16.18%
Mohokare (FS)	FS163	27.52%

M	Municipal Code	2012 Weighting
Molemole (Lm)	LIM353	32.73%
Mooi Mpofana (KZN)	KZN223	29.12%
Mookgopong (Lm)	LIM364	26.08%
Mopani District (Lm)	DC33	31.23%
Moqhaka (FS)	FS201	13.41%
Moretele (NW)	NW371	17.16%
Moses Kotane (NW)	NW375	15.48%
Mossel Bay (WC)	WC043	9.84%
Msinga (KZN)	KZN244	77.17%
Msukaligwa (Mp)	MP302	22.31%
Mthonjaneni (KZN)	KZN285	53.06%
Mtubatuba (KZN)	KZN275	24.42%
Musina (Lm)	LIM341	23.69%
Mutale (Lm)	LIM342	41.47%
N		
Nala (FS)	FS185	27.10%
Naledi (FS)	FS171	19.23%
Naledi (NW)	NW392	28.76%
NamaKhoi (NC)	NC062	9.56%
Namakwa District (NC)	DC6	12.69%
Ndlambe (EC)	EC105	15.32%
Ndwedwe (KZN)	KZN293	61.30%
Nelson Mandela Bay Metropolitan (EC)	NMA	14.81%
Newcastle (KZN)	KZN252	18.69%
NgakaModiriMolema District (NW)	DC38	30.34%
Ngqushwa (EC)	EC126	30.68%
Ngquza Hill (EC)	EC153	64.19%
Ngwathe (FS)	FS203	16.77%
Nkandla (KZN)	KZN286	62.69%
Nkangala District (Mp)	DC31	23.81%
Nketoana (FS)	FS193	31.79%
Nkomazi (Mp)	MP324	29.70%
Nkonkobe (EC)	EC127	33.86%
Nongoma (KZN)	KZN265	68.91%
Nqutu (KZN)	KZN242	56.11%

N	Municipal Code	2012 Weighting
Ntabankulu (EC)	EC152	70.18%
Ntambanana (KZN)	KZN283	59.00%
Nxuba (EC)	EC128	24.11%
Nyandeni (EC)	EC155	60.59%
O		
O.R.Tambo District (EC)	DC15	61.68%
of Madibeng (NW)	NW372	26.22%
Okhahlamba (KZN)	KZN235	51.20%
Oudtshoorn (WC)	WC045	9.54%
Overberg District (WC)	DC3	9.62%
Overstrand (WC)	WC032	7.75%
P		
Phokwane (NC)	NC094	23.96%
Phumelela (FS)	FS195	25.83%
PixleyKaSeme (Mp)	MP304	23.59%
PixleykaSeme District (NC)	DC7	17.59%
Polokwane (Lm)	LIM354	24.69%
Port St Johns (EC)	EC154	68.90%
Prince Albert (WC)	WC052	11.78%
R		
RamotshereMoiloa (NW) {Zeerust}	NW385	27.16%
Randfontein (Gt)	GT482	21.04%
Ratlou (NW)	NW381	34.03%
Renosterberg (NC)	NC075	20.89%
Richmond (KZN)	KZN227	36.98%
Richtersveld (NC)	NC061	10.74%
Rustenburg (NW)	NW373	25.93%
S		
Sakhisizwe (EC)	EC138	40.41%
Saldanha Bay (WC)	WC014	5.69%
Sedibeng District (Gt)	DC42	13.65%
Senqu (EC)	EC142	42.42%
Setsoto (FS)	FS191	27.79%
Sisonke District (KZN)	DC43	31.40%
Siyancuma (NC)	NC078	18.52%

S	Municipal Code	2012 Weighting
Siyanda District (NC)	DC8	21.70%
Siyathemba (NC)	NC077	14.85%
Sol Plaatjie (NC)	NC091	11.07%
Stellenbosch (WC)	WC024	8.12%
Steve Tshwete (Mp) {Middleburg}	MP313	14.29%
Sundays River Valley (EC)	EC106	20.27%
Swartland (WC)	WC015	7.74%
Swellendam (WC)	WC034	8.54%
T		
ThabaChweu (Mp)	MP321	24.32%
Thabazimbi (Lm)	LIM361	25.37%
Thabo Mofutsanyane District (FS)	DC19	30.16%
The Big Five False Bay (KZN)	KZN273	58.48%
The Msunduzi (KZN)	KZN225	15.51%
Theewaterskloof (WC)	WC031	13.25%
Thembelihle (NC)	NC076	16.80%
Thembisile (Mp)	MP315	22.77%
Thulamela (Lm)	LIM343	31.23%
Tlokwe City Council (NW) {Potch}	NW402	14.65%
Tokologo (FS)	FS182	29.00%
Tsantsabane (NC)	NC085	21.88%
Tsolwana (EC)	EC132	30.61%
Tswaing (NW)	NW382	26.18%
Tswelopele (FS)	FS183	21.97%
U		
Ubuhlebezwe (KZN)	KZN434	58.29%
Ubuntu (NC)	NC071	16.32%
Ugu District (KZN)	DC21	40.06%
Ulundi (KZN)	KZN266	43.73%
Umdoni (KZN)	KZN212	27.81%
UMgungundlovu District (KZN)	DC22	23.38%
Umhlabuyalingana (KZN)	KZN271	65.37%
uMhlathuze (KZN)	KZN282	18.05%
Umjindi (Mp)	MP323	20.23%
Umkhanyakude District (KZN)	DC27	56.01%

U	Municipal Code	2012 Weighting
uMlalazi (KZN)	KZN284	54.99%
uMngeni (KZN)	KZN222	22.59%
uMshwathi (KZN)	KZN221	40.18%
Umsobomvu (NC)	NC072	18.09%
Umtshezi (KZN)	KZN234	33.94%
UMuziwabantu (KZN)	KZN214	43.53%
Umvoti (KZN)	KZN245	48.55%
Umzimkhulu (KZN)	KZN435	58.23%
Umzimvubu (EC)	EC442	57.31%
Umzinyathi District (KZN)	DC24	55.94%
Umzumbe (KZN)	KZN213	57.71%
UPhongolo (KZN)	KZN262	44.33%
Uthukela District (KZN)	DC23	41.19%
Uthungulu District (KZN)	DC28	38.60%
V		
Ventersdorp (NW)	NW401	27.60%
Vhembe District (Lm)	DC34	30.52%
Victor Khanye (Mp)	MP311	21.04%
Vulamehlo (KZN)	KZN211	59.74%
W		
Waterberg District (Lm)	DC36	24.58%
West Coast District (WC)	DC1	8.31%
West Rand District (Gt)	DC48	19.52%
Westonaria (Gt)	GT483	23.59%
Witzenberg (WC)	WC022	18.71%
X		
Xhariep District (FS)	DC16	21.02%
Z		
Zululand District (KZN)	DC26	49.44%