THE BANKING ASSOCIATION SOUTH AFRICA

TRANSFORMATION REPORT 2022

About this report

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Intellidex was commissioned by the Banking Association South Africa (BASA) to produce this report from data supplied from member banks.

The report reflects transformation in the banking industry and its progress towards achieving the targets set out in the Financial Sector Code.

The publication serves as a report to society on the contribution of the banking industry to the development of the country, and as a platform for thought leadership on transformation.

It aims to serve as an authoritative annual reference book of data on banks and empowerment, complemented with a narrative that analyses and explains trends in the statistics.

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South Africa is banking on economic empowerment

By Bongiwe Kunene, Managing Director, BASA

Access to financial services helps drive development

Without commercially sustainable banks, broad-based black economic empowerment (B-BBEE) and inclusive economic growth would be much slower in South Africa. To pretend otherwise is reckless rhetoric that puts at risk not only the financial and social stability of the country, but also the savings and investments of South Africans.

The stakes are high. South African banks hold R4.9 trillion in deposits from the public. Of total bank assets, two-thirds are loans to individuals and businesses – big and small – to expand, grow the economy and create jobs. In 2021, for example, banks lent R1.7 trillion in mortgages that were used to buy homes and R1.4 trillion in loans and advances to companies, among others, for them to expand and create jobs.

Banks are the single largest source of financing for small and medium enterprises (SMEs), with R34.5 billion in different kinds of finance extended to black SMEs in 2020. SMEs have long been identified as the best way to grow the economy in an inclusive manner, address concentration, create jobs and reduce poverty and inequality.

Banks also routinely invest in commercially sustainable economic and social development infrastructure, directly and indirectly, by buying government and state-owned enterprise bonds, or extending them loans. Government uses these loans to build social and economic infrastructure and to service its operating costs such as civil servant salaries and social security grants. At end-2021, banks held R678 billion of government debt, according to Reserve Bank statistics.

It is the business of banks to extend credit and earn a reasonable rate of return for their depositors. But credit is not extended without careful consideration of any risks to depositors' funds. Banks have a fiduciary responsibility to protect their depositors funds and to ensure loans are extended only when there is a reasonable expectation that they can be repaid. And loans must be repaid to ensure that depositors can get their money back on demand and that banks are able to extend new loans to other customers.

In pursuing commercially sustainable business, banks contribute to the achievement of social and economic development goals in South Africa. This was highlighted by President Cyril Ramaphosa in his 2022 State of the Nation Address when he remarked that "government doesn't create jobs, businesses create jobs". Banks provide funding and other support to businesses which help them to grow and create jobs. However, banks are not able to extend credit if there are not enough commercially sustainable investment opportunities. Although some of the recent economic reforms are cause for optimism, far more urgent restructuring needs to be undertaken for South Africa to significantly increase its rate of investment.

BASA has long called for government to improve the ease of doing business and reduce red tape as this is the fastest, most efficient way to assist small businesses and does not require additional funding.

Besides financing economic activity and job creation, banks are major contributors to South Africa's economy in their own right.

- The six largest banks employ more than 154,000 people.
- The financial services industry pays 30% of all corporate tax (R63 billion in 2021) despite making up only 23% of GDP.
- In 2021 banks made a profit of R95 billion after they recovered from the economic impact of the Covid-19 pandemic. While R69 billion was preserved as capital to protect their business and depositors, R21 billion was paid to shareholders, including pension funds, foreign investors and empowerment schemes. The retirement and investment funds that provide pensions for government and private sector employees – like the Government Employees Pension Fund – are major shareholders of banks. They fund their pension payouts, in part, from bank profits.

The World Bank has pointed out that financial services can help drive development. "They help people escape poverty by facilitating investments in their health, education and businesses."

Banks are committed to inclusive economic growth, empowerment and transformation of the economy. They have long acknowledged that the present patterns of unemployment, poverty and inequality threaten the social and political stability on which South Africa depends. The Report of the Expert Panel into the July 2021 unrest pointed out that the instigators of the violence were able to take advantage of service delivery failures and existing social tensions to advance their destructive agenda.

South African banks are fully committed to achieving the transformation targets set out for them in the Financial Sector Code (FSC). This is best illustrated by the fact that they often go beyond the targets set for them, particularly in equity ownership, procurement and financial inclusion. In procurement for example, banks sourced 82% from BEE-compliant suppliers in 2020 against an industry target of 80% despite the lockdown restrictions on business activities.

Many bank investments in commercial enterprises are in line with the Principles for Responsible Banking 2022. These investments support the UN Sustainable Development Goals, the Paris Climate Agreement and relevant regional and local frameworks, such as the African Union Agenda 2063 and the FSC, which drives broad-based black economic empowerment.

However, the difficult economic and business conditions of the past few years have made it more challenging to accelerate the achievement of the FSC targets which depend on growth in targeted lending and employment opportunities, among others.

Banks are not insensitive to the fact that South Africans, who face daily financial hardships, are growing impatient with calls for responsible, sustainable reforms that seem to do little to improve their lives. The Transformation in Banking Report is an effort to measure the progress banks have made to achieving the targets set out in the FSC and to reflect, beyond that, what their contribution is to the sustainable social and economic development of South Africa. It is only on the basis of facts that practical and sustainable transformation and empowerment policies – that serve the interests of the majority of South Africans – can be developed and implemented. ■

As was seen during the Covid-19 pandemic and the July 2021 unrest, banks routinely assist their customers who are in financial distress due to unforeseen circumstances.

The total value of Covid-19 corporate and retail, including SME, loan restructuring granted by banks totalled R327 billion at the end of April 2020 – with the first lockdown having started on 27 March. This represented 6.4% of total corporate and retail credit exposures. The amount peaked at R617 billion in July 2020 before subsiding to R118 billion in March 2021.

In the wake of the July 2021 social unrest in KwaZulu-Natal and Gauteng, which damaged banks and other businesses and economic infrastructure, banks granted financial relief worth R246.7 million on more than 15,000 credit agreements.

The infrastructural damage and financial losses suffered by banks during the unrest were severe with 1,813 ATMs and 285 branches vandalised or destroyed. Physical cash stolen from ATMs and bank branches amounted to nearly R120 million. ■

Highlights: 2020

7 banks have more than **50% black board members** & 9 have more than **25% black women**

The number of black managers increased across all management levels

top senior grew **23%**

8% senior

4% middle

0.6% junior

12.7%

increase in African senior managers brings the total number to **1 853** *forming a sizeable pipeline of black managers with the potential to move into top senior level*

Empowerment financing rebounded by **28.2%** *to* **R270 bn**

Supplier development spending climbed **9%** to **R1.21 bn**

Spending on skills development continued its strong year-on-year growth **14%** *to* **R4.74 bn**

Executive summary

Banks continued to meet some of the empowerment and transformation targets set in the Financial Sector Charter (FSC) despite the severe economic contraction of -6,4% experienced in 2020.

This report covers 2017-2020, a period marked by weak economic growth and job creation, caused by a lack of urgently needed economic reforms and the Covid-19 pandemic and national lockdowns that followed, among other reasons. Despite this, banks exceeded some of the key transformation and empowerment targets. Where they fell short, this was often because of a weak business environment, which reduced opportunities for investment and job creation by the banking industry. Until the South African economy recovers from the effects of years of state capture, maladministration, political uncertainty and a lack of urgent economic reforms, inclusive, sustainable Black Economic Empowerment in South Africa will continue to fall short of many of its goals.

- Black ownership of banks was slightly above target in 2020. In the year, black people held 28.4% of voting rights in banks, against a target of 25%;
- Black management control of banks fell short of their targets at all levels. Eighty-seven percent of junior bank managers were black, against a target of 88%; 41% of bank directors were black, against a target of 50%; and 45% of senior managers were black, against a target of 60%, among other categories. However, the percentage of black managers and directors in banks increased every year for the past three years and this is expected to continue because of the strong pipeline of black managers at all levels;
- Banks procured 82% of their goods and services - worth R136 billion - from Black Economic Empowerment (BEE) compliant businesses, against a target of 80%;
- Banks provided R270 billion in empowerment financing for black business deals in 2020;
- Banks provided access to transaction points to 88% of South Africans in low-income households (LSM 1-5) within a 10km radius, against a target of 85%; and provided 20 million products that contribute to financial inclusion, against a target of 15 million.

The findings of the Transformation in Banking 2022 Report show in hard numbers that the narrative that banks are falling far short of their FSC targets is based on - at best - an incorrect interpretation of the numbers as guided by the FSC; which distorts facts and discredits the contribution of banks to the transformation of the financial services sector and economic empowerment in South Africa.

This report also demonstrates how banks and other financial institutions have been central to transformation in the energy sector by financing the Renewable Energy Independent Power Producers Programme. With the right conditions in place and an enabling regulatory framework, banks are capable of playing a similarly transformative role in other sectors of the economy as well. ■

Methodology

- Data supplied by the banks for 2020 were based on the Financial Sector Code scorecard methodology.
- Ownership data were weighted by banks' total assets to determine industry aggregates.
- We report on four years of data for each indicator: 2017-2020. Year-ends are December for all banks except for Capitec, African Bank and Investec which are February or March, while Firstrand's is June.

Restatements of prior year data

Data from previous years were restated in instances where banks gave clear reasons. When changes were submitted with no reason, adjustments were not instituted.

Changes:

- African Bank's total assets for the covered period were restated. It had previously submitted the value of operations instead of the total assets' values.
- TymeBank's total assets for 2019 were restated because of the "reduced shareholding from African Rainbow Capital Financial Services Holdings. Ownership is in line with the ownership used for the 2020 audit."
- Previously black SME financing was split into two segments and reported as Black SME financing/Black Business Growth Funding (remains fungible) and Black SME Financing (non-fungible).
- Data on Tymebank and Sasfin's full workforce is outstanding.
- Ubank restated its 2018 data as its B-BBEE (now under curatorship) status had not been verified at the time.
- Bank of Taiwan (branch) provided data for the first time.
- Investec and its asset management business demerged in March 2020.

Power shift: How South Africa's financial sector super-charged renewable energy

By Christine Juta, Power Futures Lab, UCT.

South Africa has emerged as a leader in renewable energy private power investment in sub-Saharan Africa. The rapid growth of the renewable energy sector is an example of how in pursuing commercially sustainable businesses, banks contribute to the achievement of social and economic development in the country.

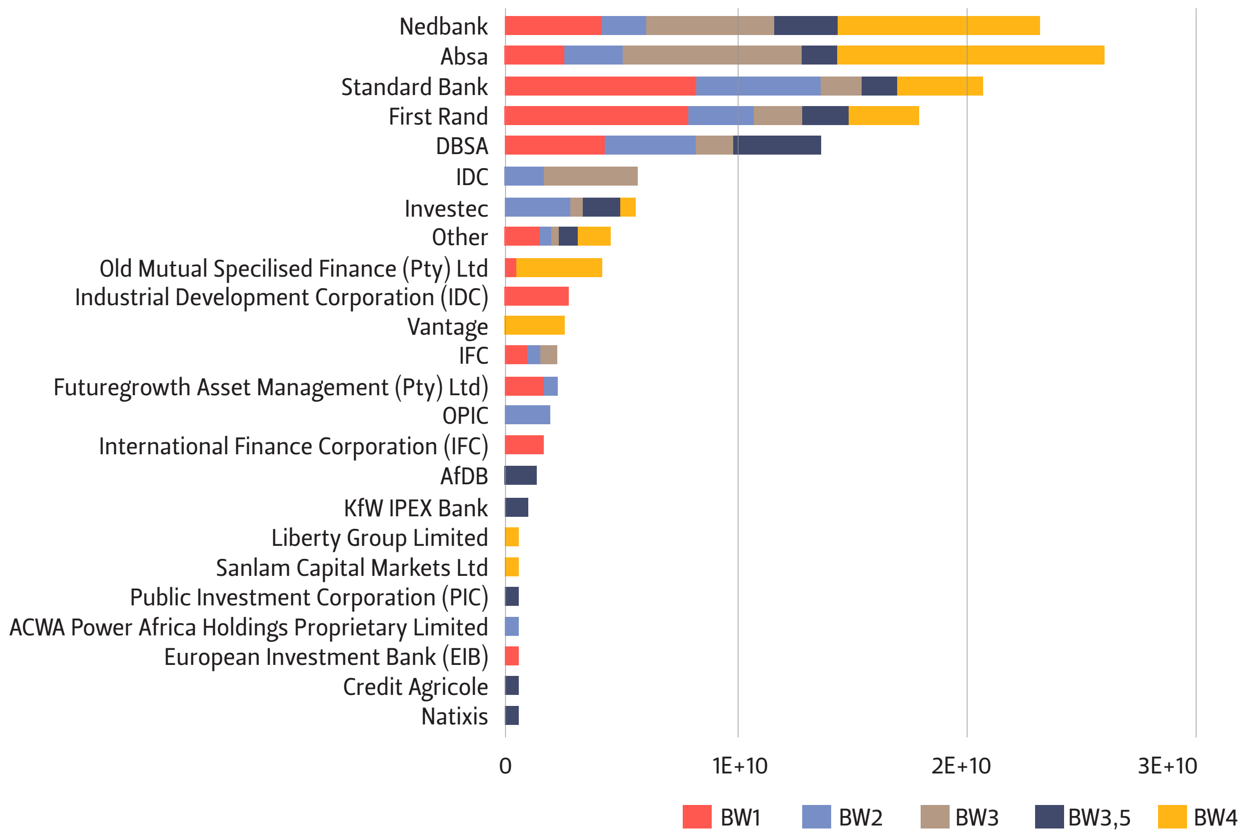
From zero before 2011, South Africa has procured 112 renewable energy independent power projects, with a total installed capacity of more than 6,300MW by 2015.

Key to the success of the Renewable Energy Independent Power Producer Procurement Programme (REIPPP) has been the deep involvement of South Africa's financial sector. South African commercial banks, development finance institutions, institutional investors and private equity firms have provided the majority of capital for these projects and have worked closely with government and the private sector to ensure the continued sustainability of the renewable energy sector.

Independent power projects (IPPs) are primarily project-financed, requiring the establishment of special purpose vehicles (SPV) that are mainly funded by equity and debt. Most of the projects' debt was provided by South African commercial banks.

Local development finance institutions, the Industrial Development Corporation and the Development Bank of Southern Africa, financed most of the black economic empowerment and a significant part of the community shareholding. A small portion of debt was also provided by foreign development finance institutions. In total, South African financial entities provided 91.7% of the total project debt.

Total debt provided, by source and bidding window



(Source: Eberhard & Naude, 2016; IPP Office)

> Key to the success of the REIPPP has been the deep involvement of South Africa's financial sector

South African entities own, on average, the majority (52%) of equity in the projects.

REIPPPP is also known, globally, for the relatively fast pace of project execution and the high realisation rate. Projects from bid windows one to three took on average 38.6 months to reach commercial operation, from the date that bidders were announced.

REIPPPP furthermore featured an exceptionally high realisation rate, with only a single 16,5MW biomass plant failing to reach financial close. This is significantly higher than the completion rate for auctioned projects in countries such as Brazil, Italy, France and the UK (Bayer et al, 2018).

Despite the delays in signing the bid window four (BW4) power purchase agreements from 2015 to 2018, all reached financial close in 2019 and three started commercial operation by Q1 2020. The remarkable level of project realisation success can be largely attributed to the prominent role played by funders – in particular lenders – in working with government to ensure the continued bankability of the programme; guaranteeing project quality through thorough due diligence; and supporting developers during the critical construction period.

Economic development outcomes

A defining feature of SA's REIPPPP is its incorporation of socioeconomic and economic development (SED) outcomes. Projects were bid and assessed based on 70% for price and 30% for a basket of SED indicators.

Projects have mostly committed to doing more than what was expected of them and based on official reporting, from the Independent Power Producers Office (IPPO), they have outperformed even those commitments on key metrics. More than R18.8 billion has for example been committed to communities surrounding the projects and at least 65,000 job years have already been provided (IPPO, 2021). On average, 34% of REIPPPP projects that have reached financial close are owned by black South Africans. Black community ownership exceeded the 5% target, accounting for 9% of projects that have reached financial close. IPPs under construction have furthermore committed to a local content spend of 45% of total project value.

Unlike the previous rounds, there was no local content target for BW5 while the minimum threshold remained unchanged. The value of local content spend in BW5 was 44% and shareholding by black South Africans was 34.7%. BW5 also saw the introduction of designated local content, which ensures that bidders procure certain components locally, according to the South African Wind Energy Association.

There has however also been wide acknowledgement that this is one of the areas of REIPPPP where much more can and should be done to improve performance.

Enterprise development spend is calculated as a percentage of project revenue and accounts for 5% of the economic development score. This is aimed at attracting funding for exempt microenterprises (EMEs), qualifying small enterprises (QSEs), black women-owned businesses and black-owned businesses. The target for enterprise development spend is 0.6% of revenue over the 20-year project life (IPPO, 2021). Awarded projects from bid window one to four have committed more than R7.2 billion to enterprise development in South Africa. Of this total commitment, R5.6 billion is going to local communities in which IPPs operate.

> On average, 34% of REIPPPP projects that have reached financial close are owned by black South Africans

REIPPPP: AVERAGE SOCIOECONOMIC AND ECONOMIC DEVELOPMENT PERFORMANCE				
ELEMENT (WEIGHTING)	DESCRIPTION	THRESHOLD	TARGET	ACHIEVED (AVERAGE)
JOB CREATION (25%)	RSA-based employees who are citizens	50%	80%	90% (construction) 96% (operations)
	RSA-based employees who are black people	30%	50%	80% (construction) 84% (operations)
	Skilled employees who are black people	18%	30%	69% (construction) 80% (operations)
	RSA-based employees who are citizens and from local communities	12%	20%	49% (construction) 68% (operations)
LOCAL CONTENT (25%)	Value of local content spending	40% – 45%	65%	50%
OWNERSHIP (15%)	Shareholding by black people in the seller	12%	30%	33%
	Shareholding by local communities in the seller	2.5%	5%	9%
	Shareholding by black people in the construction contractor	8%	20%	21%
	Shareholding by black people in the operations contractor	8%	20%	22%
MANAGEMENT CONTROL (5%)	Black people in top management	-	40%	66%
PREFERENTIAL PROCUREMENT (10%)	BBBEE procurement	-	60%	80%
	QSE & SME procurement	-	10%	36%
	Women-owned vendor procurement	-	5%	5%
ENTERPRISE DEVELOPMENT (5%)	Enterprise development contributions	-	0.6%	0.63%
SOCIO ECONOMIC DEVELOPMENT (15%)	Socioeconomic development contributions	1%	1.5%	2.2%

(Source: Department of Energy, 2019)

Socioeconomic development funding accounts for 15% of the economic development assessment, with the objective of ensuring that IPP projects have a positive socioeconomic impact. This includes funding improvements in healthcare, education and infrastructure. In evaluating this criterion, special emphasis is placed on "recognition for localness". Calculated as a percentage of project revenue, each project's socioeconomic development contributions have a minimum threshold of 1% and a target of 1.5%. These have remained unchanged from bid windows one to four In BW4, a total of R9.3 billion was pledged by bidders over the project life. This is a significant increase from the R2.3 billion secured in BW1. For BW 5, R2.53 billion was pledged in socioeconomic, enterprise and skills development commitments.

Conclusion

It is difficult to overemphasise the impact of the REIPPPP in changing South Africa's energy landscape. South Africa's energy market has been transformed form a highly monopolistic one where all generation assets (>90% coal) were owned and operated by the state-owned, vertically integrated utility, Eskom. The market has opened up more to private sector generation with the licence threshold being lifted from 1MW to 100MW for embedded generation project and it is moving to a more open, competitive scenario where private sector power generators will be able to sell energy directly to consumers.

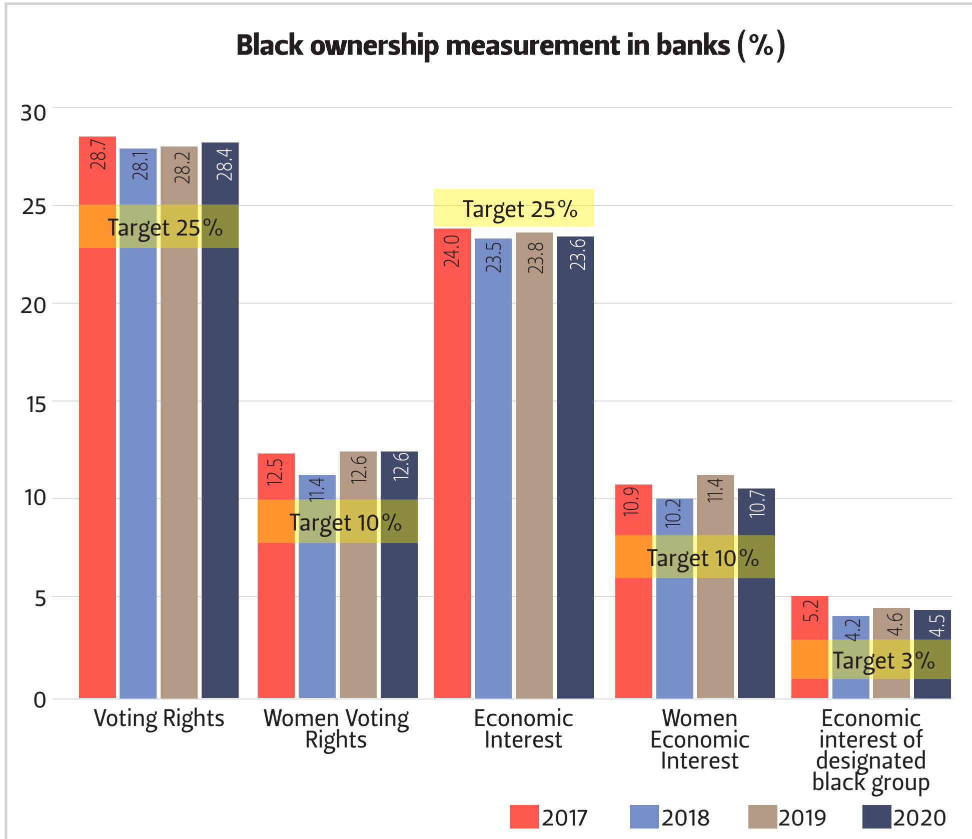
The private sector, enabled by significant funding from South African financial institutions, can restore South Africa's energy security and enable the transformation, and indeed democratisation, of power generation in the country. This has already started, with investments by commercial and industrial consumers of renewable energy now representing significant new installed capacity.

This is only the beginning. In time, the momentum created by these processes will enable the fundamental transformation of South Africa's entire energy system. The financial sector will remain a key partner and enabler of this transformation. ■

Data and Analysis

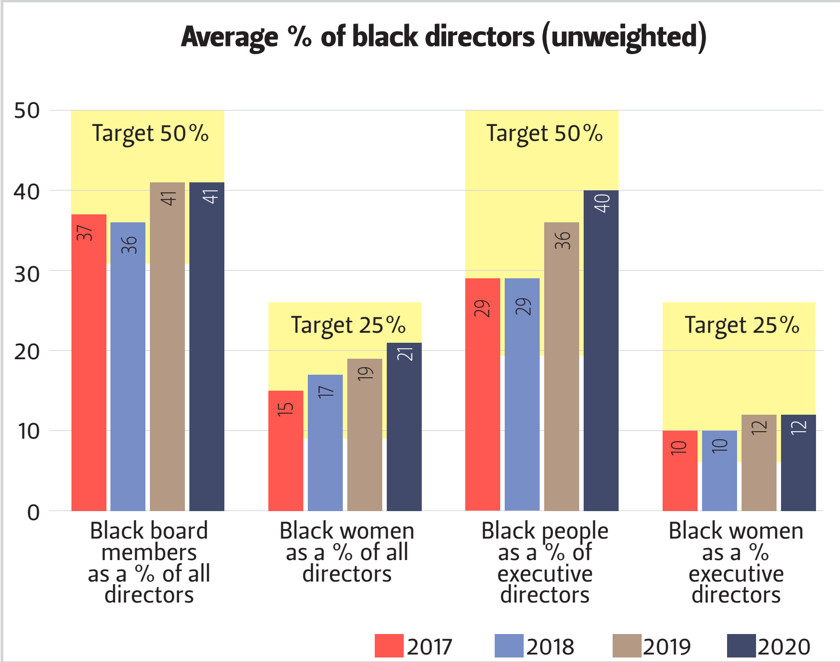
Ownership

- Ownership levels remained largely flat over 2020.
- Except for economic interest, they are slightly above target.

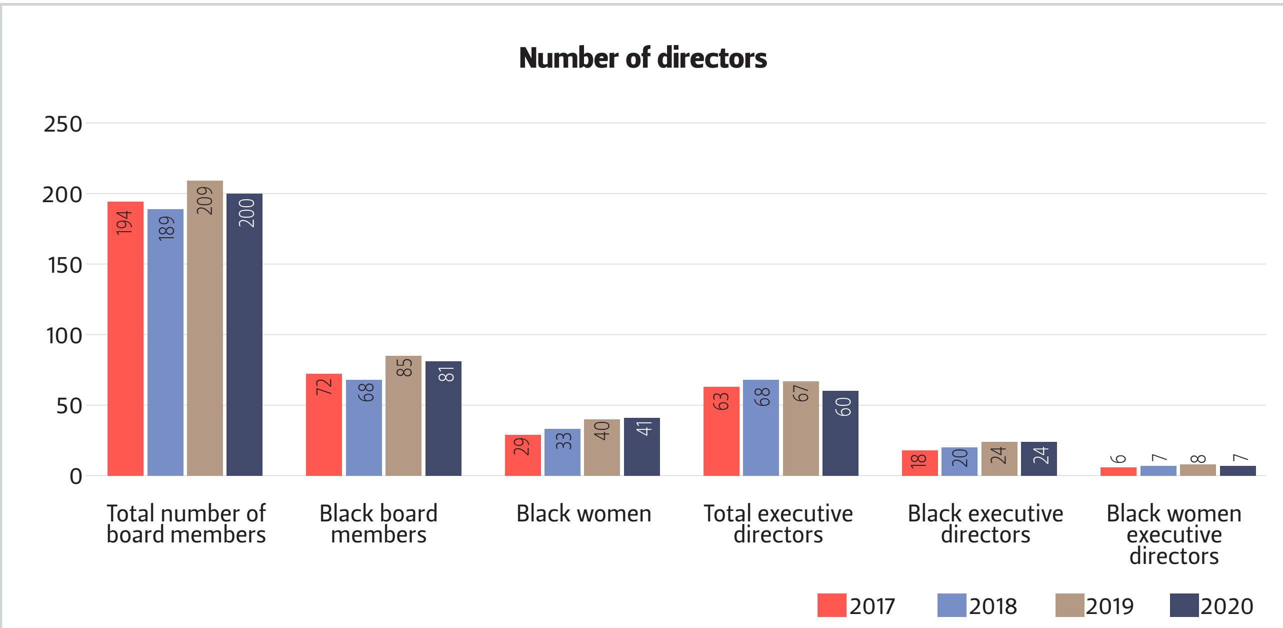


Management control: Directors

- All categories of management control remain behind targets.
- There was growth in black people as a percentage of executive directors, from 36% to 40%, while black women as a percentage of all directors climbed from 19% to 21%.
- For black women executive directors, only 16% of banks exceeded the 25% target.
- A total of 19 banks responded.

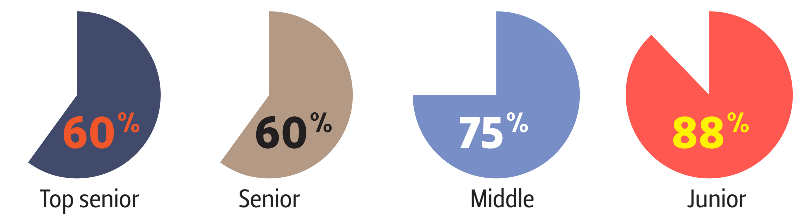


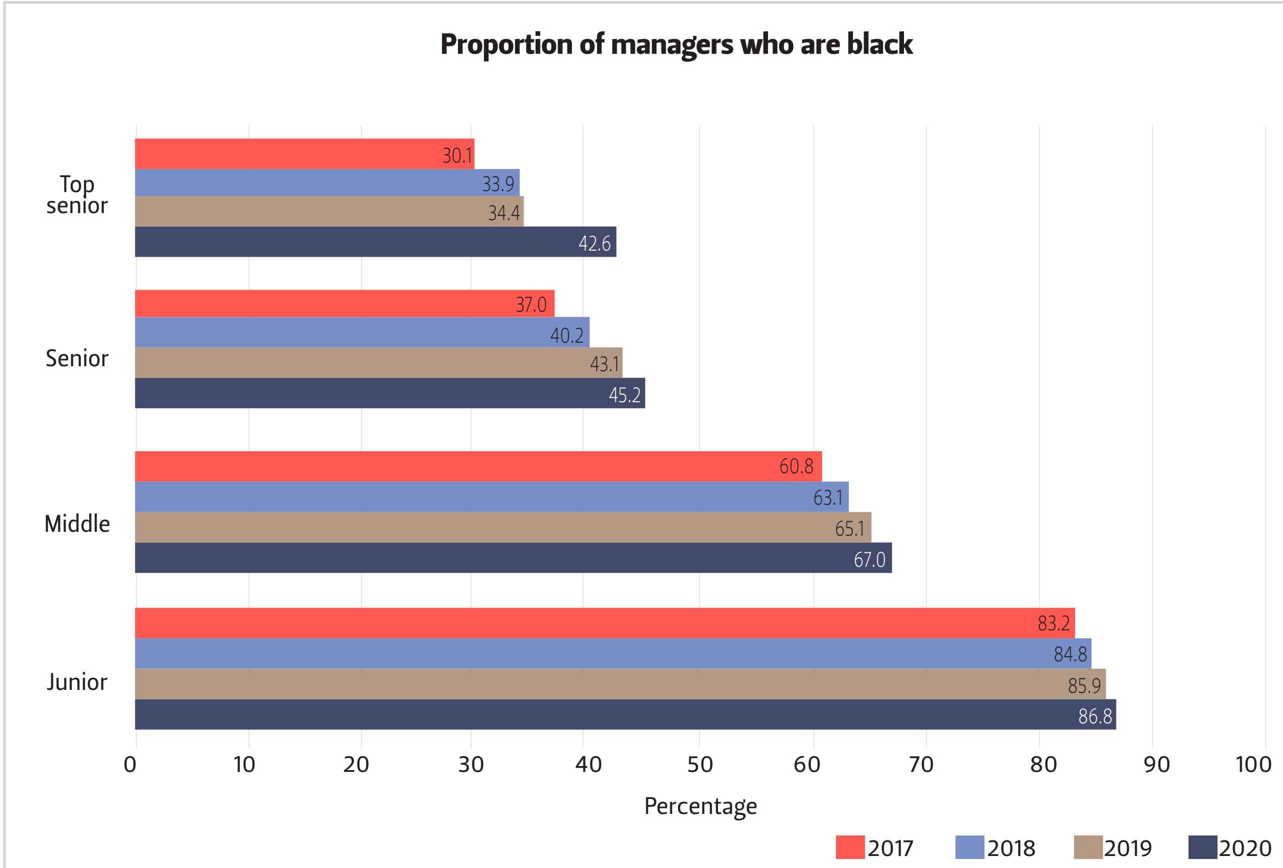
	2017	2018	2019	2020
Banks with more than 50% black board members as a percentage of all directors	6	4	6	7
Banks with more than 25% black women	4	7	8	9
Banks with more than 50% black executive directors	5	6	9	10
Banks with more than 25% black women executive directors	2	4	4	3

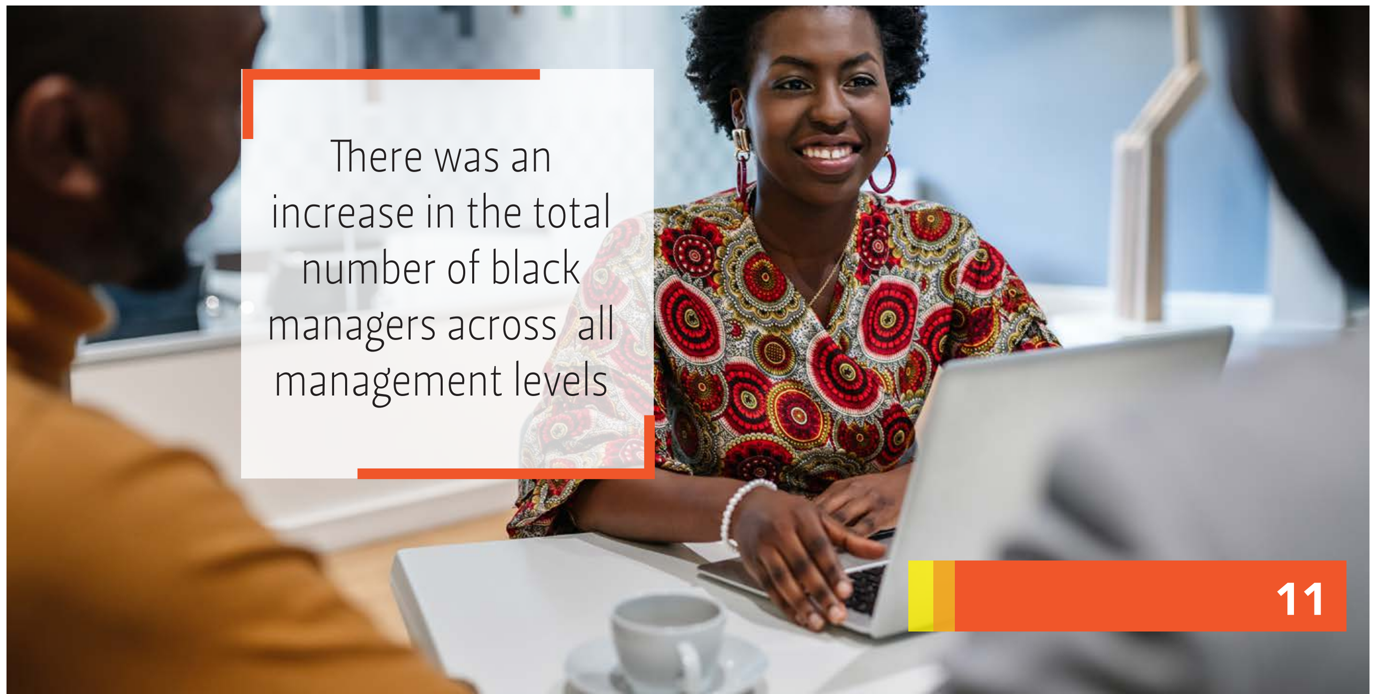


Management control: Levels

- There were improvements across all management levels, with growth of 8.2 percentage points at top senior level.
- However, banks remain behind targets on all levels.



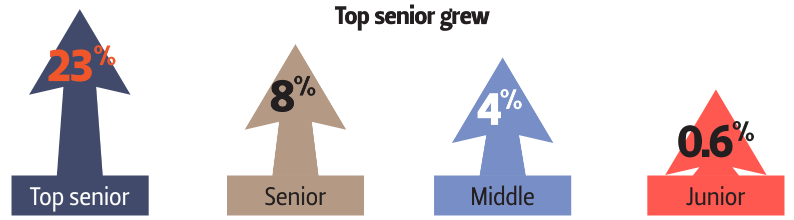




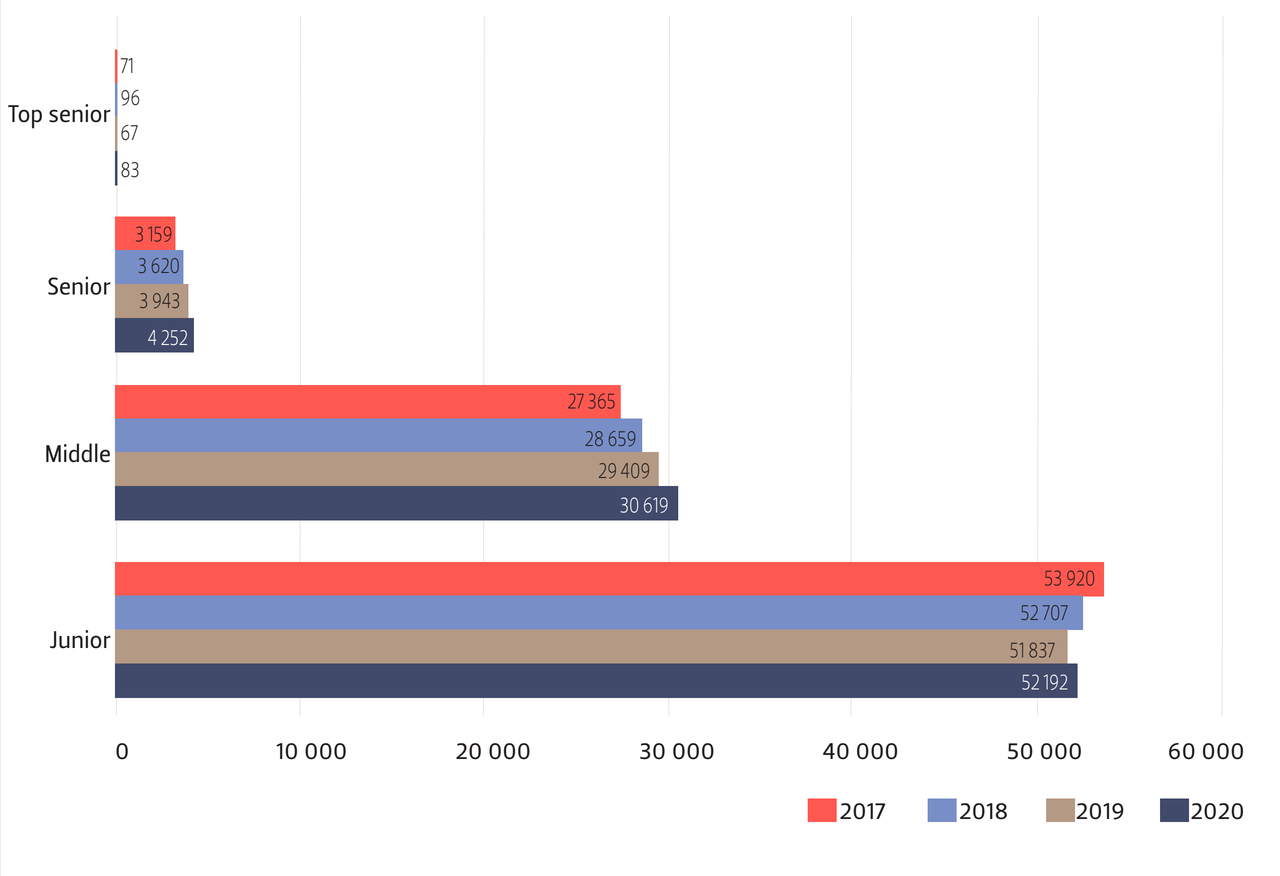
Management control: levels

There was an increase in the total number of black managers across all management levels.

Top senior grew



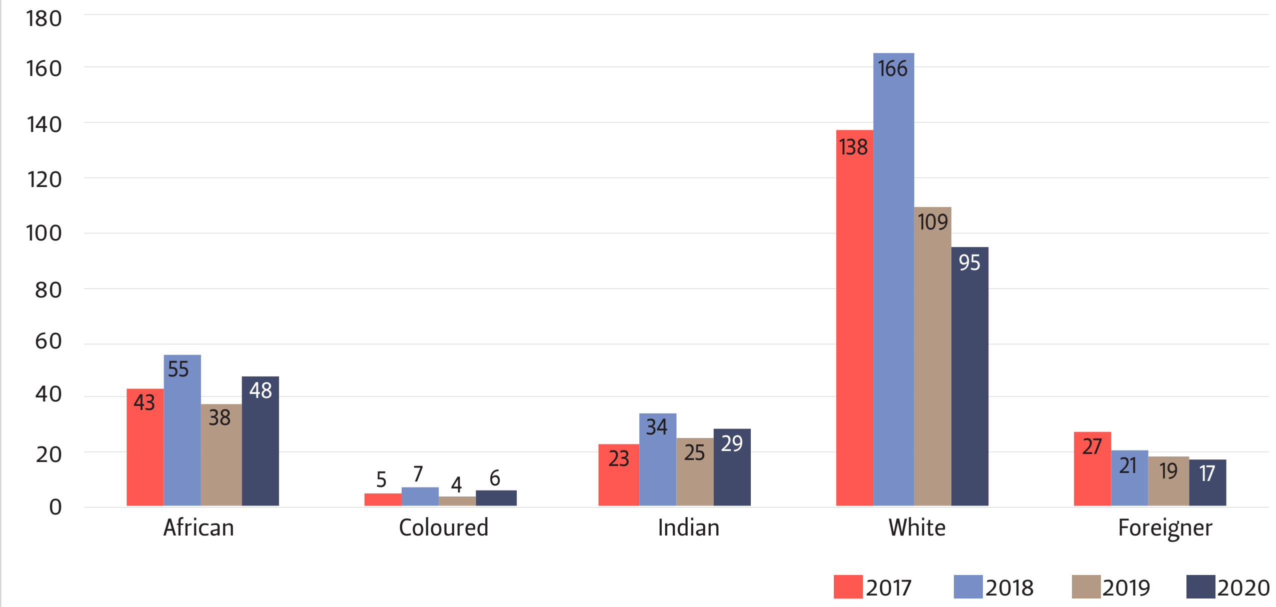
Black representation in management (total number)



Detailed breakdown of management

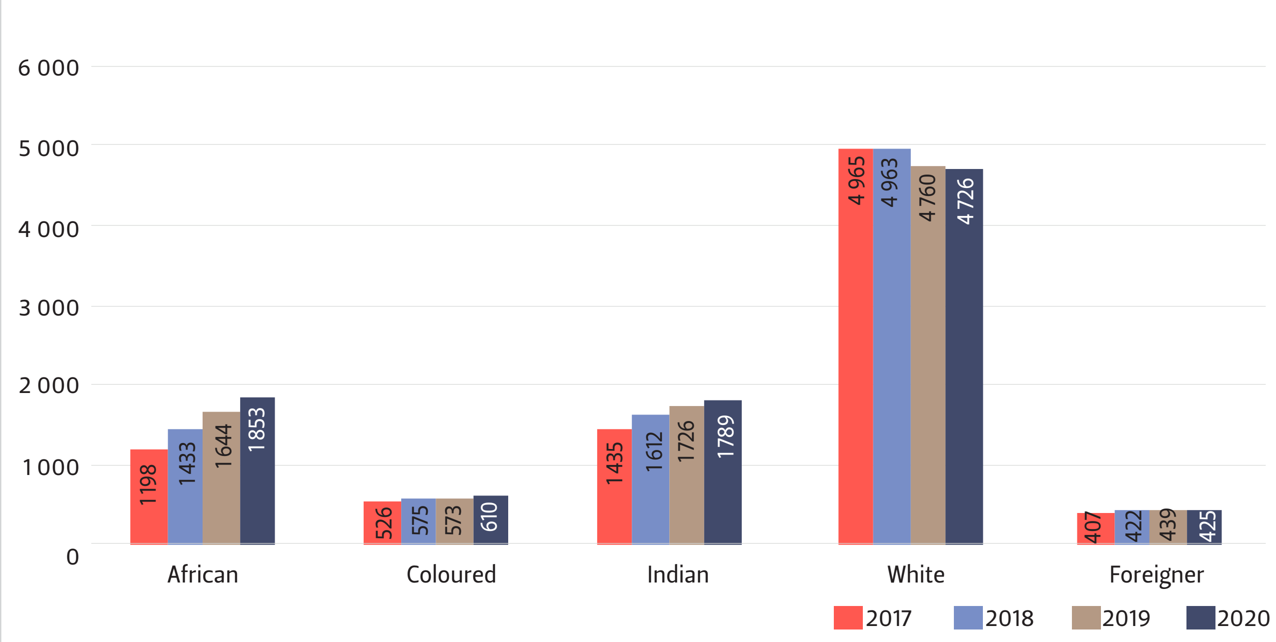
- **Top senior:** The number of white managers has fallen in the past two years. Black African managers increased from 38 in 2019 to 48 in 2020 but are still below 2018's 55. Indian and Coloured top senior managers also increased over the past year.

Top senior management



- **Senior:** The 12.7% increase in African senior managers brings the total number to 1,853, forming a sizeable pipeline of black managers with the potential to move into top senior level.

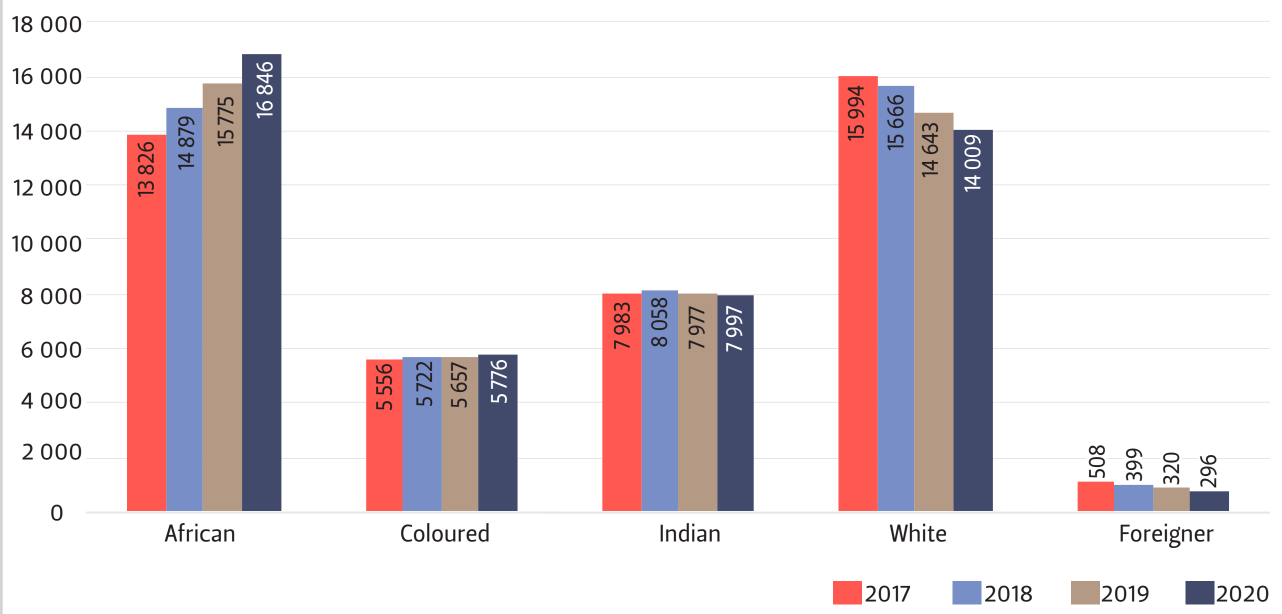
Senior management



Detailed breakdown of management

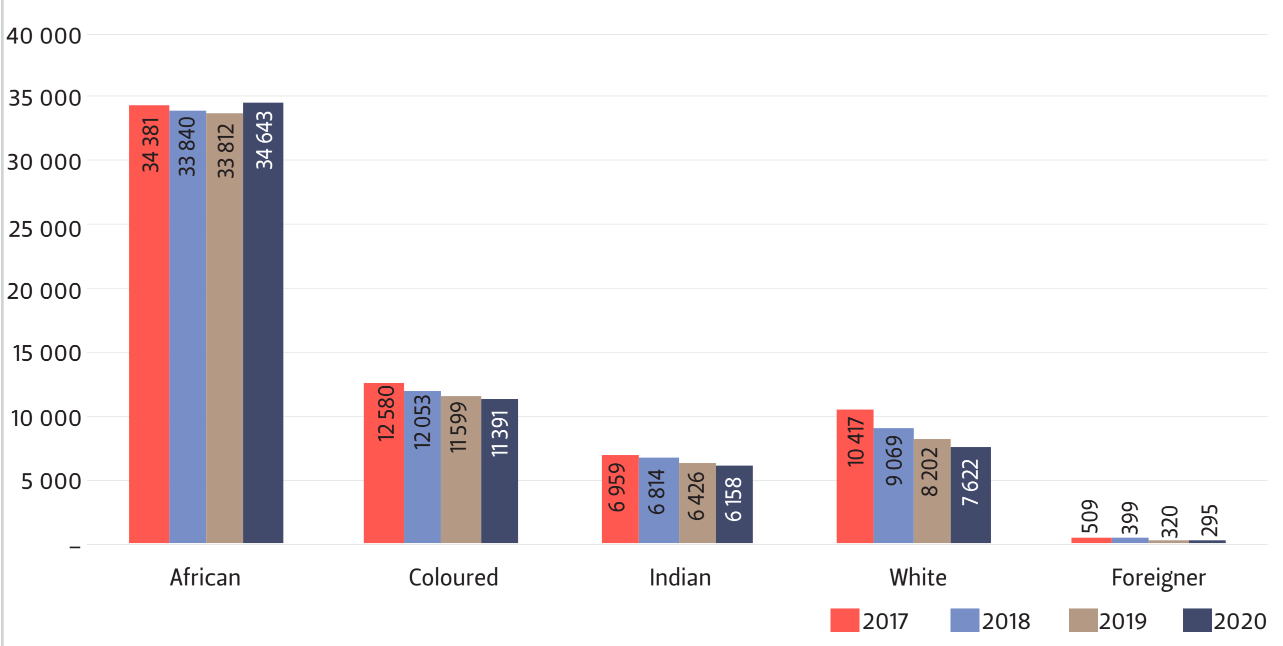
- **Middle management:** In 2019, the number of African middle managers overtook white middle managers for the first time. This trend continues in 2020 with the gap increasing to about 17% from 7%.

Middle management



- **Junior management:** While there was a 2.5% increase in the number of African managers, all other groups declined.

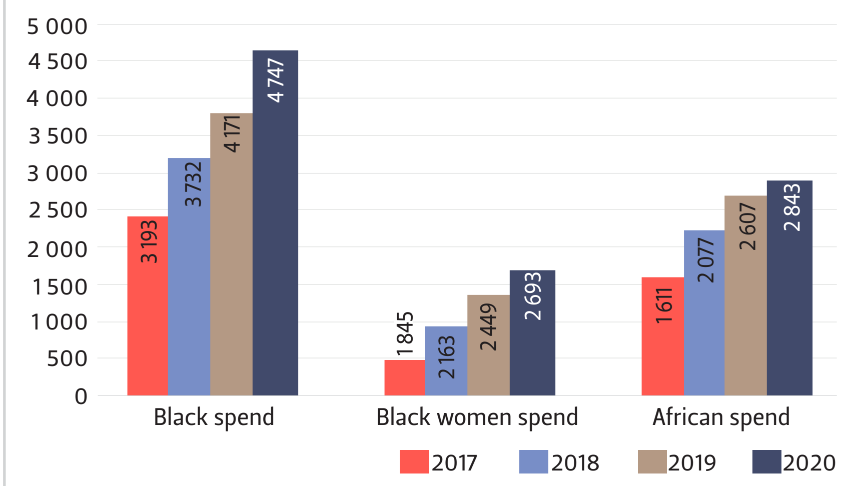
Junior management



Skills development

- Banks have increased spending on skills development across all categories for four consecutive years.
- Increases from 2019 to 2020:
  - Black spend 14%
  - Black women spend 10%
  - African spend 9%

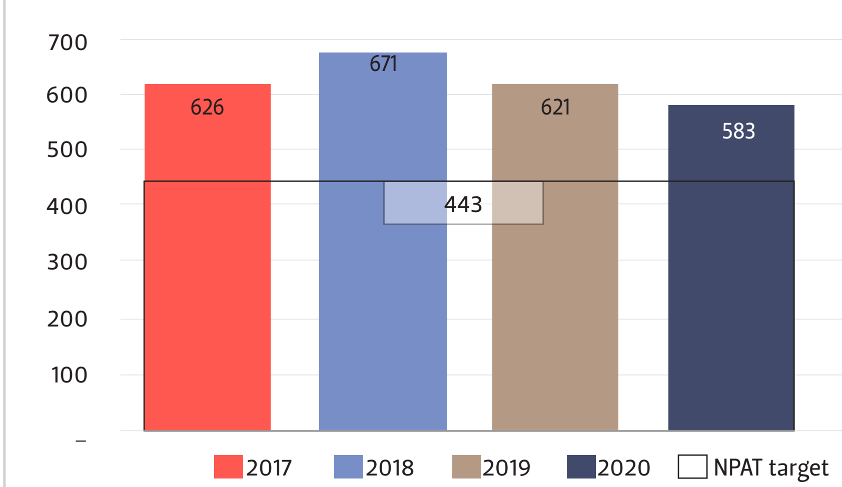
Skills development (Rm)



Socioeconomic development

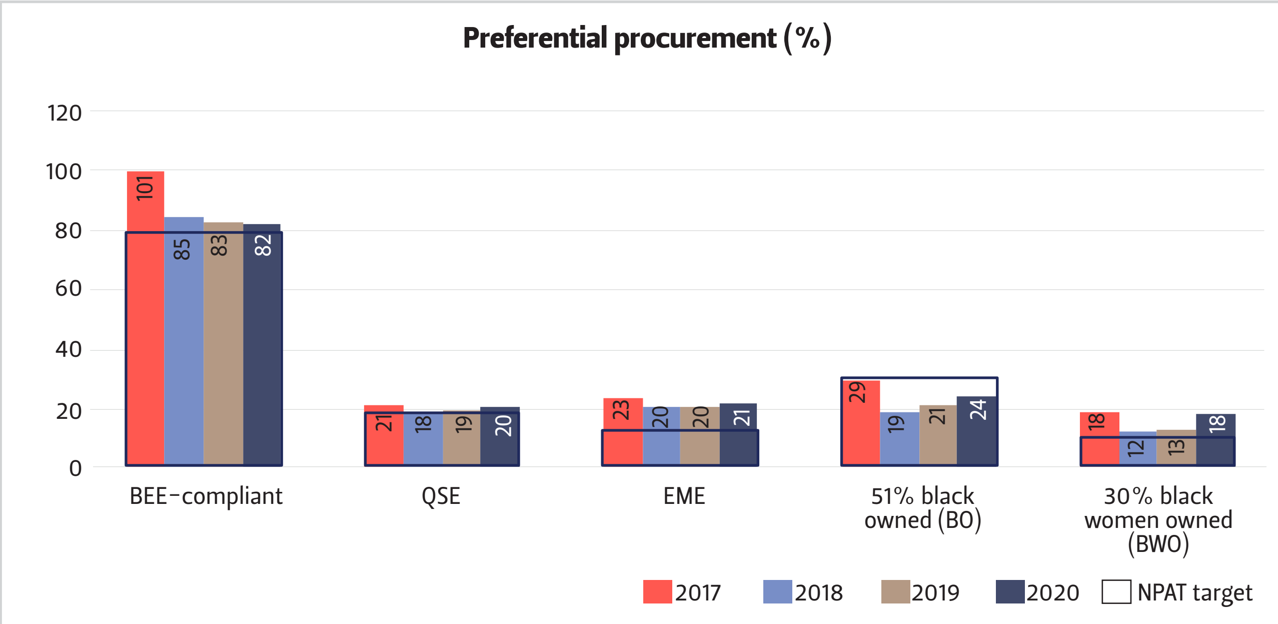
- Socioeconomic spending fell a further 6% in 2020. Many socioeconomic projects had to be put on hold in 2020 because of the Covid lockdowns which constrained spending.

Socioeconomic development spend (Rm)



Preferential procurement

- The Covid lockdowns which suspended or restricted many business activities significantly reduced procurement activity.
- However, spending in the other targeted segments increased, except for BEE compliant spending.
- Businesses owned by black women realised the biggest growth of 33%.
- Targets:
  - BEE-compliant suppliers 80%
  - Qualifying small enterprises 18%
  - Exempted micro enterprises 12 %
  - Black owned 30%, 51%
  - Black women owned 10%, 30%
- Procurement spending in all segments is ahead of targets, apart from 51% black-owned.

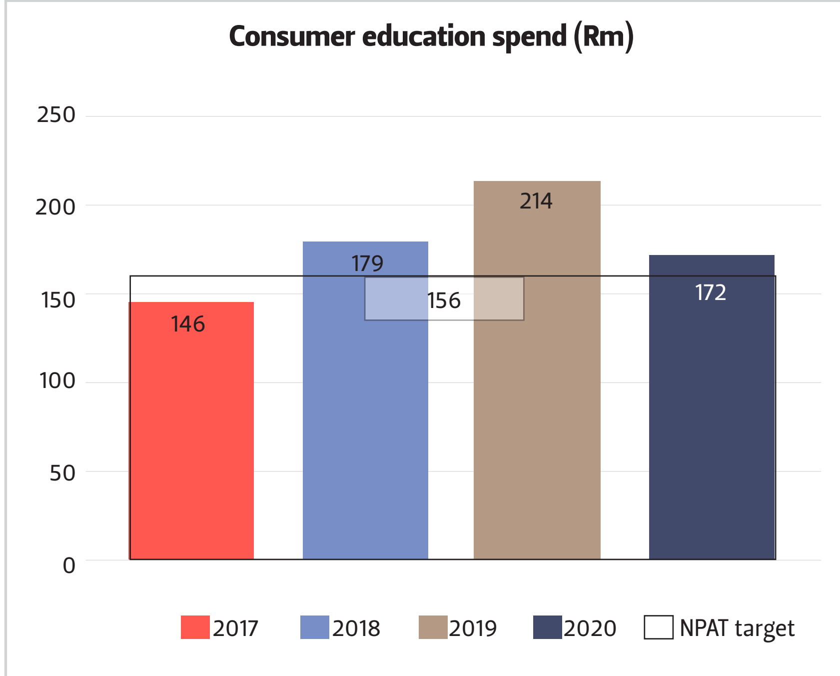


- Banks' total measured procurement spend dropped by R6 billion from 2019 to R136.8 billion.
- The procurement targets are set every three years as a percentage of total spend.

	2017	2018	2019	2020	Target
Total Measured Procurement Spend (TMPS)	R71	R140	R143	R137	
BEE-compliant	R72	R119	R119	R113	**R109**
QSE	R15	R26	R27	R28	**R25**
EME	R17	R28	R29	R29	**R16**
51% black owned (BO)	R21	R26	R30	R33	**R41**
30% black women owned (BWO)	R13	R17	R18	R24	**R14**

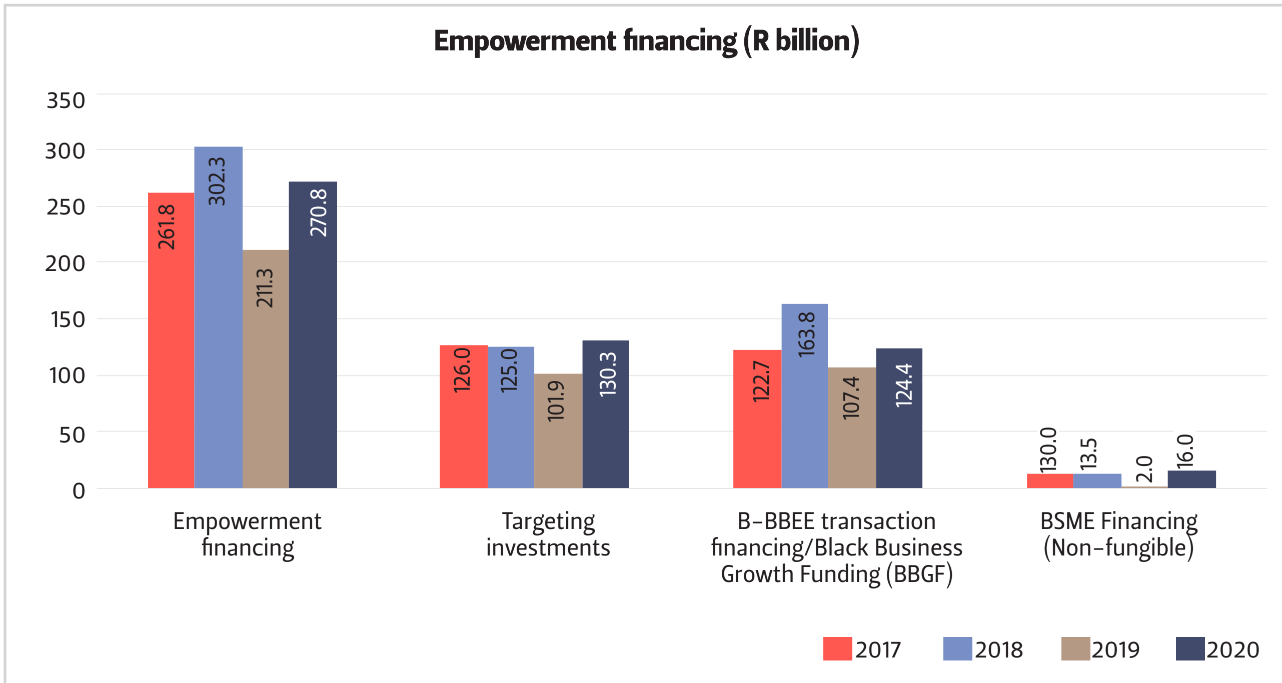
Consumer education

- Spending on consumer education dropped sharply after three consecutive years of steady growth.
- This performance is in line with expectations given that banks had to move from face-to-face to digital interactions while movement was limited due to lockdown restrictions.



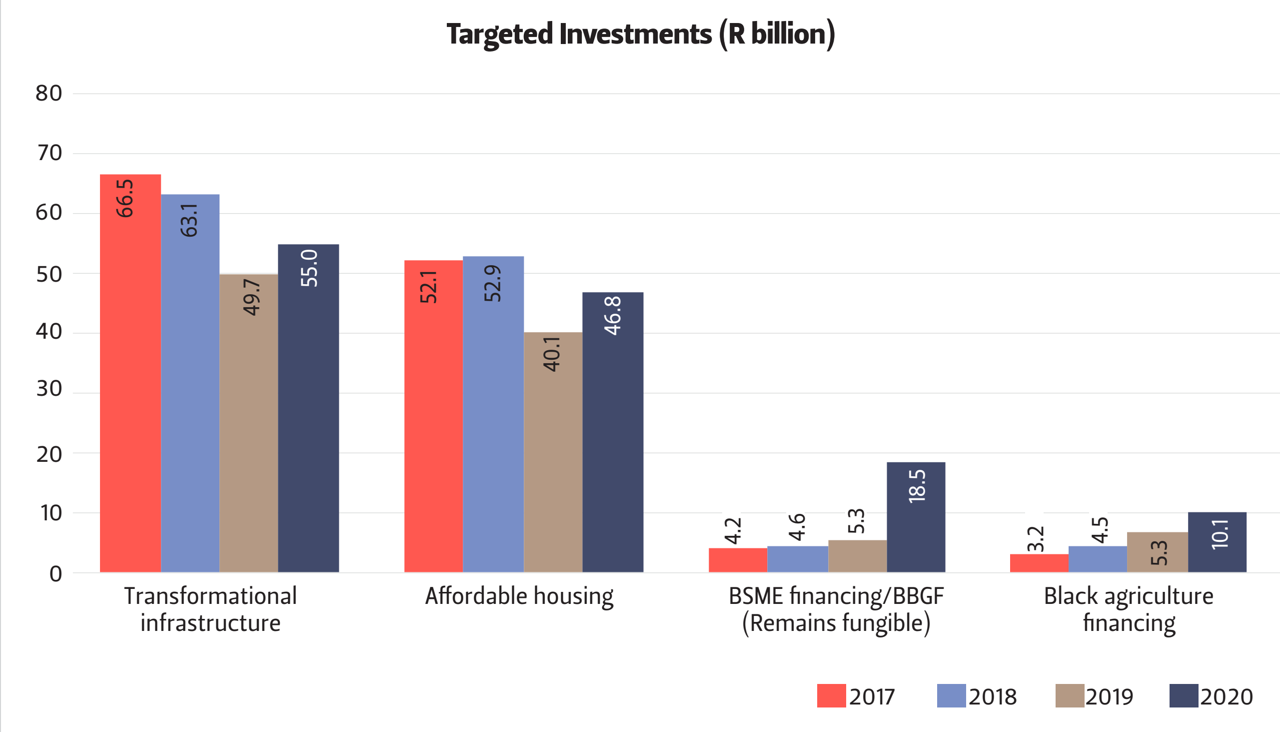
Empowerment financing

- Despite Covid lockdowns, each category of empowerment financing rebounded after a steep drop in 2019.
- The rebound was in line with the wider economic recovery.



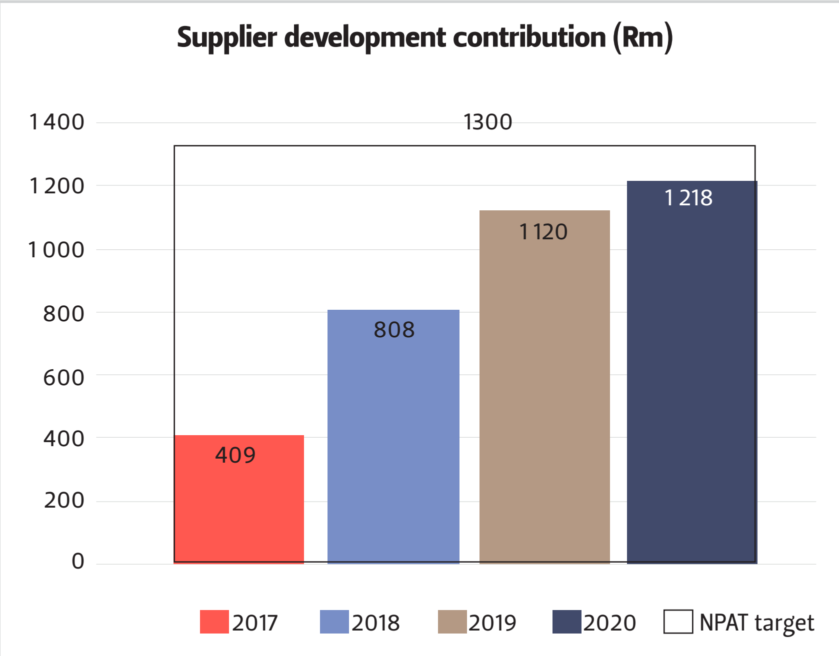
Targeted investments: components

- Spending on transformational infrastructure rebounded sharply in Covid-hit 2020.
- The empowerment financing value is divided between BEE transactions and targeted investments on a 4:6 ratio, spread over a five-year period.



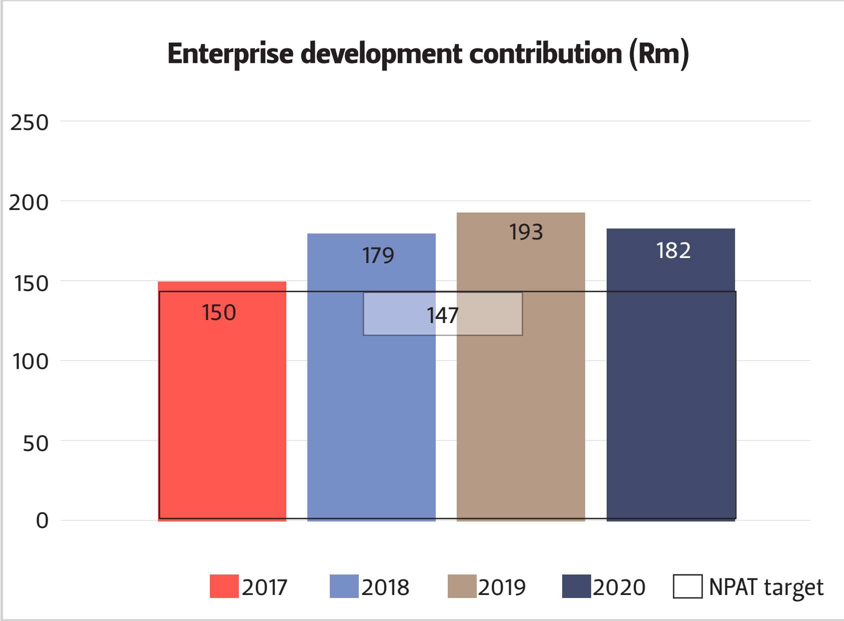
Supplier development contributions

- Despite the Covid restrictions on business activities, supplier development spending climbed 9% in 2020, driven by demand from the big commercial banks.
- Banks provided substantial support to suppliers to get them "Covid ready" and to deal with consequences of the lockdowns.
- 2020 target: 1.8% of 2019 NPAT.



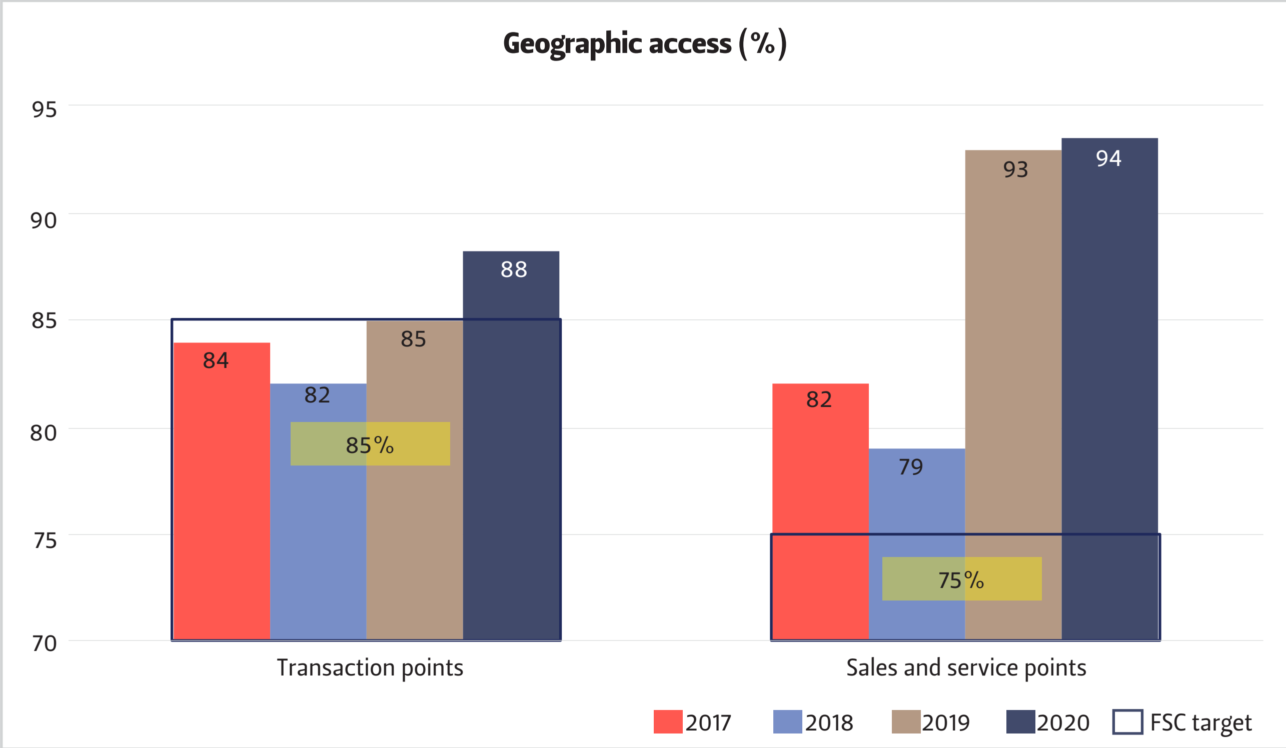
Enterprise development contributions

- Spending on enterprise development dropped 5.5% in 2020 after three years of increases.
- 2020 target: 0.2% of NPAT.



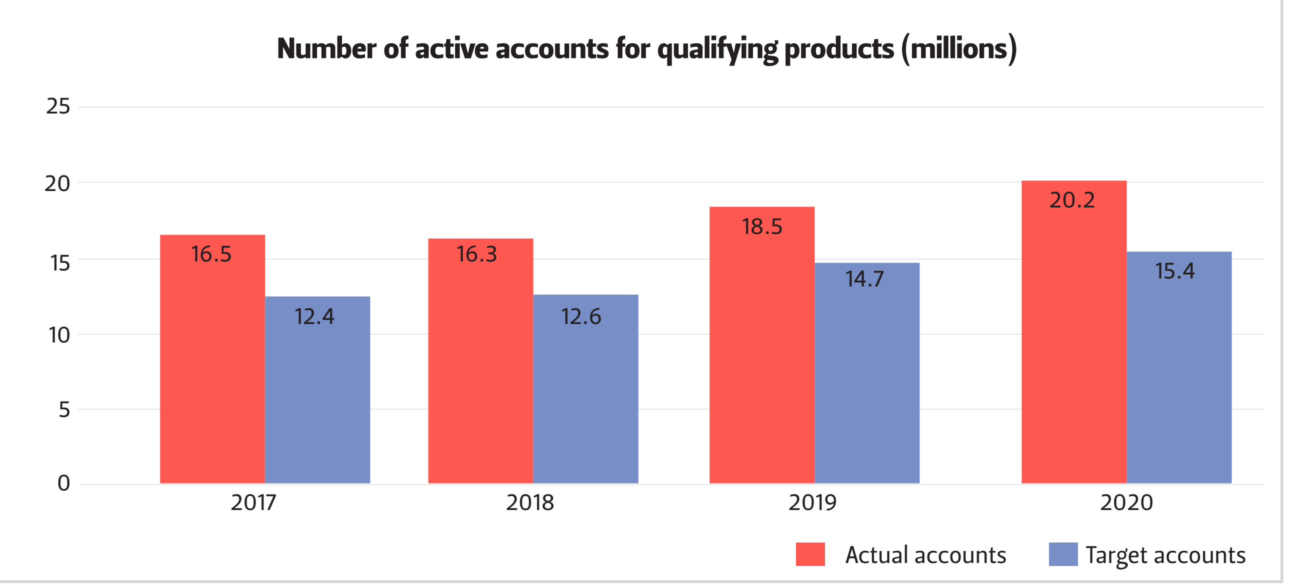
Financial inclusion – geographic access

- Banks continued to increase access to services in remote areas in 2020 and are ahead of targets in both categories.



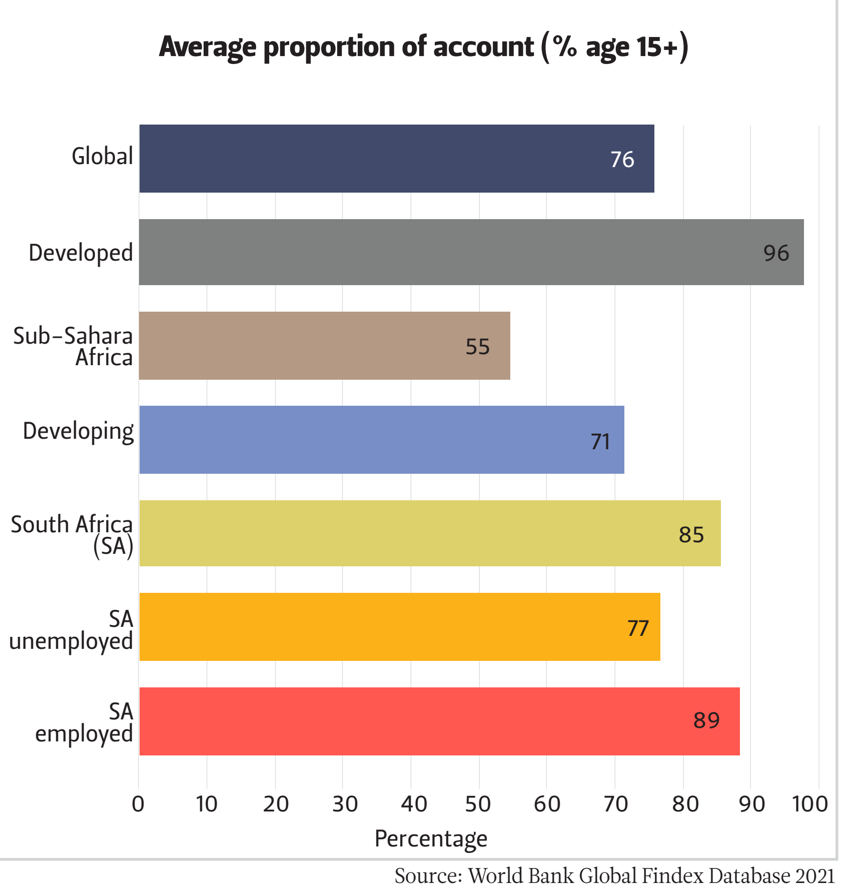
Financial inclusion – product access

- The 9% growth in accounts is notable.
- Product access remains well ahead of target.



Product access: global comparisons

- South Africa compares well globally with 85% of the adult population having had a bank account in 2021, according to World Bank data, compared with 76% globally.
- For comparison 96% of people in developed economies had an account against 71% of adults in developing economies.
- The report shows that South Africa has no significant gender gap while globally 78% of men have bank accounts vs 74% of women.



Source: World Bank Global Findex Database 2021

B-BBEE levels	
Absa	2,00
African Bank	4,00
AlBaraka	8,00
Bank of Taiwan South Africa	NA
Bidvest Bank	4,00
Capitec	4,00
China CBC JHB	NA
Citi	3,00
Finbond	5,00
FirstRand	1,00
Grindrod	3,00
HBZ	NA
HSBC	2,00
Investec	1,00
Nedbank	1,00
Sasfin	4,00
Standard Bank	1,00
TymeBank	8,00
uBank	8.00

*Discovery Limited, the holding company under which Discovery Bank is wholly owned, achieved a BEE Level 1 as at 30 June 2021. Discovery Bank is listed on the Annexure of the Discovery Limited BEE certificate. Discovery Bank is currently undergoing its own BEE verification as at 30 June 2022.

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