



# ***The South African Financial Sector Charter***

# **\* The motivation for acting**

- ◆ 2002 we face the probability of mandatory quotas for economic empowerment of blacks (CRA-type legislation)**
- ◆ Enlightened self-interest – we had a non-sustainable socio-economic proposition unless social dysfunctionality was corrected**

**Note – this was not seen as a profitable opportunity**

# ★ **The parties**

- ◆ **Association of black securities and investment professionals – outstanding role as representatives of the various black constituencies**
- ◆ **The trade associations**
- ◆ **Government – as an observer only, recognising how important it was that this must be private sector initiated and negotiated, so that there would be positive energy to make it happen.**
- ◆ **Since the conclusion of the Charter, representatives of labour and community, and government as a participating member of the Charter Council.**

# **The nature of the Charter**

- ◆ **Initiated by the sector and negotiated with community representatives**
- ◆ **With the knowledge, but not the sanction of the Government**
- ◆ **Within the framework of Government legislation providing for black economic empowerment (Note that in the South Africa context “black” means “poor”)**



# What issues does it address?

1. **Employment equity at all levels of management, and black participation in the control of financial institutions**
2. **50% of all procurement from black-empowered businesses (Approximately \$700m annually)**
3. **Enterprise development support of small black businesses**
4. **25% black participation in the ownership of existing financial institutions (Approximately \$7 bn)**
5. **Access of the poor to all types of financial service**
6. **Financing of housing and infrastructure for the poor, and financing of SME's, small farmers, and ownership acquisition for blacks by all financial institutions (Approximately \$18 bn)**
7. **Note how comprehensive the program is. From what we know it is the most comprehensive of any such program anywhere in the world.**

# Why does it work?

- 1. If we do not make this work, we will have CRA type legislation**
- 2. If we don't comply, we will not qualify for any government tenders**
- 3. All other sectors (which are also negotiating charters) will measure us in tendering for their business on the basis of our charter score**
- 4. If we don't comply we will suffer serious reputational damage**
- 5. We will only derive the benefit of Government support (e.g. systemic risk insurance and rate hedging) which is now being negotiated with Government as part of the "deal" if we comply with the Charter.**

# What are the intended and actual consequences?

1. A radically different level of energy within all financial institutions (compared to what it would be if we had CRA-type legislation)
2. No “free-riding”
3. A “partnership” relationship with Government instead of an “adversarial” one. Government motivation is in the direction of “what can we do to assist the sector make this work?”
4. Instead of a “once-off” program (e.g. to deliver \$7 bn of housing finance) we have a fundamental change in the way that the market works



# Measurable consequences

**Rough estimates if it works the way intended**

- ◆ **Black representation at senior levels of management 30% and junior 65% by 2008**
- ◆ **1.5% of total payroll spent annually on training and development of blacks**
- ◆ **50% of all procurement from black empowered suppliers**
- ◆ **0.2% of total-post tax profits to be sent annually on consumer education**
- ◆ **\$15 bn of low income housing finance by 2014 (25% of total mortgage loans)**
- ◆ **\$2 bn of small business and small farmer lending by 2014**
- ◆ **\$7 bn of low income infrastructure by 2014**
- ◆ **4 million new low-income account holders**
- ◆ **25% black participation in ownership of existing financial institutions**

# What were the alternatives?

- 1. Government subsidises the end-beneficiary or the supplier – distortion in the market, and questionable how much gets to the intended beneficiary**
- 2. Government compels the private sector – negative energy of the private sector**
- 3. We look to the NGO sector – non-sustainable in the medium term, and in our case the sector is very weak**
- 4. We look to civil society – they do not have the resources, and at best can only be “participants”**
- 5. We rely on the philanthropic instincts of the private corporations – non-sustainable and results in “free-riding”**