Financial Sector Charter Council

Annual Review
The Financial Sector Charter
2006

Report on the Transformation of the Financial Sector in South Africa

The 2006 Annual Review is the second transformation report setting out the financial sector's progress in meeting the commitments of the Financial Sector Charter. It catalogues the sector's progress relative to its starting point in 2005, and its state of transformation at the end of 2006.

Successes, challenges and gaps are identified, in addition to recommendations for sector and participants' future submissions and subsequent reviews.

Prepared by the Financial Sector Charter Council

3 October 2007

Annual Review
The Financial Sector Charter
2006

Report on the Transformation of the Financial Sector in South Africa

The Financial Sector Charter is intended to achieve transformation in the Financial Sector in an orderly and concerted fashion. The first two years of measuring progress should be seen as critical building blocks to achieving its strategic objective, namely, to have a fully transformed sector by 2014. It is envisaged that in subsequent measurement periods the precision, intensity and veracity of institutional reporting will improve and overall progress will accelerate.

Enoch Godongwana: Principal Officer

Table of Contents

1. Glossary 7

2. Foreword 9

3. Introduction and Executive Summary 11

3.1 Introduction 11

3.2 Executive Summary 12

4. The Context of the 2006 Review 16

4.1 The Financial Sector Charter 16

4.2 The Financial Sector Charter Council 16

4.3 Looking Ahead: The 2007 Review 18

5. Review and Assessment of the Transformation of the Sector During 2006 19

5.1 Human Resources 19

5.1.1 Charter Council Recommendations - 2005 19

5.1.2 Employment Equity 20

5.1.2.1 Charter Provisions 20

5.1.2.2 Performance Review: 2006 20

5.1.2.2.1 Senior Management 20

5.1.2.2.2 Middle Management 22

5.1.2.2.3 Junior Management 24

5.1.3 Skills Development 27

5.1.3.1 Charter Provisions 27

5.1.3.2 Performance Review: 2006 27

5.1.3.2.1 Training of Black Staff 27

5.1.3.2.2 Performance on Learnerships 29

5.2 Procurement and Enterprise Development 30

5.2.1 Charter Council Recommendations - 2005 30

5.2.2 Charter Provisions: Procurement 30

5.2.2.1 Performance Review: Procurement - 2006 31

5.2.3 Enterprise Development 33

5.2.3.1 Charter Provisions: Enterprise Development 33

5.2.3.2 Performance Review: Enterprise Development - 2006 34

5.3 Access to Financial Services 37

5.3.1 Charter Council Recommendations - 2005 38

5.3.1.1 First Order Financial Services 38

5.3.1.2 Origination 38

5.3.1.3 Consumer Education 39

5.3.2 Access to First-order Retail Services 39

5.3.2.1 Banking 39

5.3.2.1.1 Product Roll-out 39

5.3.2.1.2 Coverage: Physical Access 45

5.3.2.2 Collective Investment Schemes 46

5.3.2.2.1 Product Roll-out 46

5.3.2.2.2 Coverage: Physical Access 46

5.3.2.3 Long-term Insurance 46

5.3.2.3.1 Product Roll-out 46

5.3.2.3.2 Coverage: Physical Access 46

5.3.2.4 Short-term Insurance 47

5.3.2.4.1 Product Roll-out 47

5.3.2.4.2 Coverage: Physical Access 47

5.3.3 Origination 47

5.3.3.1 Low-income Housing 47

5.3.3.2 Agricultural Development 47

5.3.3.3 Black SMEs 47

5.3.3.4 Consumer Education 47

5.4 Empowerment Financing 48

5.4.1 Charter Council Recommendations – 2005 48

5.4.1.1 Targeted investments 48

5.4.1.2 Transaction financing 48

5.4.2 Charter Provisions 49

5.4.3 Performance Review - Empowerment Financing: 2005 49

5.4.4 Performance Review - Targeted Investments: 2006 50

5.4.4.1 Transformational Infrastructure 52

5.4.4.2 Low-income Housing 53

5.4.4.3 Agricultural Development 55

5.4.4.4 Black SMEs 56

5.4.5 Performance Review - Transaction Financing: 2006 57

5.5 Ownership 57

5.5.1 Charter Council Recommendations - 2005 57

5.5.2 Charter Provisions 58

5.5.3 Performance Review: 2006 58

5.6 Control 58

5.6.1 Charter Council Recommendations - 2005 58

5.6.2 Charter Provisions 59

5.6.3 Performance Review: 2006 *59*

5.6.3.1 Black Directors and Black Women Directors 59

5.6.3.2 Black and Black Women Executives 61

5.7 Corporate Social Investment **63**

5.7.1 Charter Council Recommendations - 2005 *63*

5.7.2 Charter Provisions *63*

5.7.3 Performance Review: 2006 *63*

5.8 Unquantified Commitments **65**

5.8.1 Charter Provisions *65*

5.8.2 Recommendations - 2005 *66*

5.8.3 Performance Review: 2006 *66*

6. General Conclusions and Recommendations: 2006 **67**

6.1 Participation and Reporting **67**

6.2 Human Resources Development **68**

6.3 Procurement **68**

6.4 Access to Financial Services **68**

6.5 Empowerment Financing **68**

6.6 Ownership **68**

6.7 Control **68**

6.8 Corporate Social Investment **69**

7. Appendices **70**

7.1 Reporting Entities **70**

7.2 Extracts from Guidance and Standards Notes **73**

7.2.1 Employment Equity & Skills Development *73*

7.2.2 Procurement *74*

7.2.3 Enterprise Development *74*

7.2.4 Access to First-order Products and Services: General *75*

7.2.5 Banking Savings Products and Services *75*

7.2.6 Life Assurance Products and Services *76*

7.2.7 Collective Investment Products and Services *76*

7.2.8 Short-term Insurance Products and Services *76*

7.2.9 Origination *76*

7.2.10 Consumer Education *78*

7.2.10.1 Implementation Guidelines for Consumer Education Standards 78

7.2.11 Empowerment Financing *81*

7.2.11.1 Targeted Investments 81

7.2.11.1.1 Transformational Infrastructure *81*

7.2.11.1.2 Low-income Housing, Agricultural Development and Black SMEs 82

7.2.12 BEE Transaction Financing 82

7.2.13 Ownership 82

7.2.14 Control 82

7.2.15 Corporate Social Investment 83

1. GLOSSARY

ACI	Association of Collective Investments, a trade association signatory to the Financial Sector Charter representing the collective investments industry
BASA	Banking Association of South Africa, a trade association signatory to the Financial Sector Charter representing the domestic banks
BBBEE Act (or the Act)	Broad-Based Black Economic Empowerment Act (Act 53 of 2003)
BBBEE	Means the economic empowerment of all black people including women, workers, youth, people with disabilities and people living in rural areas, through diverse but integrated socio-economic strategies, that include, but are not limited to: a) Increasing the number of black people who manage, own and control enterprises and productive assets, b) Facilitating ownership and management of enterprises and productive assets by communities, workers, co-operatives and other collective enterprises, c) Human resource and skills development d) Achieving equitable representation in all occupational categories and levels in the workforce, e) Preferential procurement, and f) Investment in enterprises that are owned or managed by black people.
BEE Advisory Council	The Council established under the BBBEE Act to: review progress in achieving black economic empowerment; advise on draft codes of good practice which the Minister intends publishing; advise on the development or amendment or replacement of BEE strategies; advise on draft transformation charters; and facilitate partnerships between organs of state and the private sector.
BESA	Bond Exchange of South Africa, a trade association signatory to the Financial Sector Charter
Charter Council	The Council established in terms of 15.1 of the Financial Sector Charter to oversee implementation of the Charter
Designated investments	Any statutory or voluntary deposit, saving, investment or risk insurance placed or made by the South African public, whether of a wholesale or retail nature, but not by one financial institution in another.
Financial institutions	Banks, long-term insurers, short-term insurers, re-insurers, managers of formal collective investment schemes in securities, investment managers and other entities that manage funds on

	behalf of the public, including retirement funds and members of any exchange licensed to trade equities or financial instruments in this country and entities listed as part of the financial index of a licensed exchange
FSC	Financial Sector Charter. The sectoral charter which is the negotiated outcome of a process whereby members of the financial sector, government, social partners and other stakeholders agreed to sector transformation through a formal course of action
IBA (SA)	International Bankers' Association of South Africa, a trade association signatory to the Financial Sector Charter representing the international banks
IMASA	Investment Managers' Association of South Africa, a trade association signatory to the Financial Sector Charter representing asset managers
IRF	Institute of Retirement Funds, a trade association signatory to the Financial Sector Charter
JSE	JSE Securities Exchange, a trade association signatory to the Financial Sector Charter
LOA	Life Offices' Association of South Africa, a trade association signatory to the Financial Sector Charter representing long-term insurers
LSM	Living Standard Measure, a 10-tier category system of demographic segmentation. It is primarily used in this review to identify people in LSM 1-5. Unless the context indicates otherwise, it means people in households with a combined income of R2 500 a month or below.
Nedlac	National Economic Development and Labour Council
Principal Officer	The official appointed by the Board of the Financial Sector Charter Council in terms of Section 11 of the Constitution of the Charter Council to head the executive of the Charter Council
SAARF®	The South African Advertising Research Foundation
SAIA	South African Insurance Association, a trade association signatory to the Financial Sector Charter
SAROA/SAREA	South African Reinsurance Association, a trade association signatory to the Financial Sector Charter, re-insurers now belong to short-term insurers and long-term insurers
SETA	Sector education and training authority
The Charter	The Financial Sector Charter, effective from 1 January 2004 to 31 December 2014
The Scorecard	The Sector scoring framework as set out in the Charter

2. Foreword

The Charter has been a feature of the South African Financial Sector environment for quite some time already. While we are only in the second year of formally reviewing progress, the Charter has been part of our lexicon since 2002; five years is certainly a good while.

As time passes, we tend to forget the genesis and objectives of programmes we embark on, initially, with great fervour. It is understandable that commercial entities, especially large ones, which are fighting ever-increasing market battles with one another as well as new competitors, give their attention to business dynamics as and when they occur. Also their strategic direction evolves with changing market opportunities and conditions. However, I suggest that we are at a juncture where we need to take stock of the Charter's origins and re-focus on our objectives.

If the 2002 Nedlac Financial Sector Summit was the formal fountainhead of the Charter, I paraphrase a comment made by Derek Cooper, then Chairman of Standard Bank, at the Summit: The financial sector is a significant ingredient to ensuring a sound economy. The sector has largely been guilty of doing "business as usual" over the past decade, thinking that it could do this even while the rest of society was transforming. This is not the case. It needed to change its paradigm and recognise that the old way of thinking and doing things is no longer possible and that the sector needed to transform itself fundamentally if it is to be meaningful in the evolving society in which it operates.

A reaffirmation...

The Financial Sector is like the oil in an engine. Without the oil the economic engine will function defectively, if at all. So all the parts of the engine are entitled to know whether the oil is going to play its role enthusiastically, or reluctantly. On this auspicious occasion, we the financial services sector, therefore commit ourselves to working in partnership with Government, labour and community to bring about those changes.

For us, this day is a very significant one that signals a new beginning. We would like to express our confidence in our social partners, and we commit ourselves to working in service of the broad interests of the economy of which we are merely a reflection. The time for excuses – political, practical or otherwise – has passed, and has been replaced by an urgent need for sound decisions and delivery in all sectors.

Derek Cooper, August 2002

The essence is that while progress has been made, as set out in this Report, there is still much to do and there are significant gaps to close. Also, we need to remind ourselves that while measurement is important as it keeps one on track and focussed, the objectives of the Charter go beyond measurement and individual score-cards. The temptation to "tick the box" and then move on is perhaps a feature of our lives, but the objective of transformation deserves more than this approach.

So, turning to the matter of this particular Review Report; how has the sector progressed in 2006? It has been a mixed bag in terms of success and progress. At the end of 2005 we thought that reporting processes and timing thereof would improve, but there have still been challenges here and we shall work towards further improvement in the 2007 round of reporting.

The credibility of submissions from reporting institutions has improved markedly and it is hoped that this trend will continue in subsequent reporting periods. This too will no doubt be refined as reporting institutions learn and gain mastery of what is required. Within the Charter Council there were also disappointments in process matters. The service provider tasked to manage information and data submissions lost the entirety of the data gathered from reporting entities. Institutions had to resubmit their data, which was done by early June, placing time pressure on the Charter Council and its staff to prepare the Annual Report.

Lastly, before we delve into the actual Review, let me indicate that there are areas of transformation that are pleasing, and compliments need to be given where due. Keeping in mind that some of the targets are by agreement not sufficiently demanding, the areas of control, both in terms of directorships and executive management have largely achieved the current transformation goals. In addition, corporate social investment targets have been exceeded. In the area of Human Resources some targets have been achieved, for example, the appointment black women as senior managers, while learnerships are well below the current transformation target.

There have been significant challenges in the area of ownership, mainly in ownership reporting. This will require attention in the new reporting phase. The transformation objectives and targets emphasised in this Review, need to be applied with due care that the financial sector maintains the integrity of its standards of service delivery. It is a matter of undertaking both transformation and achieving credible standards rather than seeing these objectives as mutually exclusive.

While it is acknowledged that 2006 is only the second year of formal sectoral transformation measurement, this should not be justification for lack of progress. To achieve the transformation of the financial sector to which we are all committed, we need to refocus on the strategic objective we have set ourselves, and drive towards the targets that will facilitate such transformation.

Thank you all for your support and encouragement as we pursue this matter of national importance with enhanced vitality.

Enoch Godongwana
Principal Officer

Financial Sector Charter Council
September 2007

3. Introduction and Executive Summary

3.1 Introduction

It is not easy to find a more suitable introduction than an extract from the Minister of Finance, Trevor Manuel's presentation to the Financial Sector Campaign Coalition conference in 2005.

> *The Financial Sector Charter will add a deep social dimension to the functioning of our financial system. It goes to the core of how the financial sector will address the urgent need to make business sense of a more sustainable, inclusive and equitable future.*
>
> *Truly sustainable transformation requires that empowerment be broad-based and multi-dimensional. On one level, this means that empowerment goes beyond the narrow definition of ownership deals, but embraces a broad spectrum of elements, including human resource and enterprise development, targeted investments and access to finance. While increasing the level of ownership of black people in corporate South Africa is absolutely important; building the economy, increasing production, creating jobs, developing young black managers and investing in social development are just as critical in shaping economic transformation.*
>
> *Similarly, competitive efficiency and broader development cannot be jeopardised by an empowerment process that favours the few. Our financial halls must never become exclusive retreats where financiers sip on fine wine and congratulate themselves on their latest get-rich-quick schemes. Black economic empowerment guidelines should facilitate the broadening of participation in the ownership and control of our economic assets. This requires us to put our collective heads together to carefully consider elements such as the mobilisation of worker's savings through retirement funds; the prevention of fronting through beneficiary funds; and the potential for exclusion of new or smaller black companies from the empowerment process due to a lack of upfront capital.*
>
> *At the same time, measures designed to achieve our empowerment and transformation goals must be implemented in such a way that they do not jeopardise ongoing financial stability.*
>
> *A volatile financial system – and by extension the macroeconomic turmoil this can cause – serves neither the aims of competitive efficiency, nor of empowerment. As such, transformation must continue unfolding within an environment where the integrity of our regulatory system remains paramount. We want to expand and open our halls of finance. But at the same time we want to ensure that the structures remain sound and continue to provide steadfast shelter.*
>
> *Effecting sustainable change in the orientation of the financial sector will demand thoroughness, diligence and a measure of patience. The room for change has been confirmed in the Financial Sector Charter, whose orientation presents a touchstone for other charters. Yet, we must recognise that the financial sector is unlikely to respond well to mere populism.*

The key points he made were relevant then and still are today. His assertion that the transformation of this sector requires thoroughness, diligence and patience is evidenced by the experience we have from the past two years. Keys to success, no doubt, include the above sentiments, but also, we need to keep the objectives that we all signed our energies to, clear in our minds.

3.2 Executive Summary

The salient points from the 2006 Report are set out below. For an overview of the Report, the Summary below should be read in conjunction with the **General Conclusions and Recommendations** in section 6 below.

1. The **2006 theme** is: to refocus on the strategic objective of our collective endeavours which is to effectively transform the financial sector. The lack of transformation that prevailed five years ago lead to a common commitment by role-players, stakeholders and interested parties to earnestly drive in a new direction.

2. It is acknowledged that the first two years have been a **formative period** for all participants, including members of the financial sector and the Charter Council.

3. The pace, intensity and accuracy of **transformation needs to be speeded up** in the remaining years.

4. **Process lessons learned** by the Financial Sector Charter Council and entities making submissions need to be implemented forthwith. These include: the finalisation of performance standards in various areas, ensuring a common understanding of what data and information should be submitted, as well as the rapid and effective processing of such data and information.

5. The 2006 Review is constructed within the context provided by sections 1.2 and 1.3 of the Charter, which captures the essence of our endeavours namely, *…a transformed, vibrant, and globally competitive financial sector that reflects the demographics of South Africa, and contributes to the establishment of an equitable society by effectively providing accessible financial services to black people, and by directing investment into targeted sectors of the economy.*

6. **Looking ahead** to the 2007 Review, there are **three areas that require attention**: Firstly, transformation areas which still reflect substantial gaps to target have ever-decreasing time to close such gaps. This challenge exists at sector, industries and institutional levels. Examples include skills development and learnerships. Secondly, the quality of submissions from reporting entities needs to improve both in terms of quantitative measures and unquantified commitments. Lastly, the Charter Council will be bolstering its internal processes and capacity both to assist reporting entities with their submissions and its own processing of submissions.

7. In the area of human resources (**employment equity**) there has been a mixed bag of disappointment and outstanding successes, but generally more of the latter:
    a. Black senior managers have not made the 2008 targets yet - 18.72% (25%). Neither has the category of black junior managers - 42.85% versus the required 50%.
    b. All other categories have exceeded targets: black women senior managers 5.17% (4%); black middle managers just exceeded the target, 30.12%; black women middle managers have exceeded the 10% target with 2.42 parentage points (12.42%); and black women junior managers did very well at 24.12% (15%).
    c. Overall, the black women managers' category fared best.

8. Human resources:
    a. **Skills development**: The sector collectively and in six of the seven industries underperformed against the target of spending 1.5% of total basic payroll on training for black staff. The sector decreased its skills development spend on black personnel from

2.90% in 2005 to 1.40% in 2006. Total payroll spend in the sector increased by 29.33%, while **spending on black staff training decreased by 37.44**%, i.e. R349 million less was spent on black staff training in 2006 than in 2005.

b. **Learnerships**: Reporting institutions have **underperformed significantly** against the learnership provisions of the Charter, employing 3,463 black matriculants, when the required number was 8,792. This has resulted in a ratio of 1.77% of staff as opposed to the required 4.5%. This is an increase from 2005's 1.49% but constitutes only 767 additional learners, whereas total employment grew by 14,373 (7.94%).

9. Procurement:
    a. In 2006 the financial sector spent just over R54 billion on procurement, **an increase of 40.72%** from the previous year (increase of R15.6 billion).
    b. By contrast, **BEE procurement spend for 2006 grew by only 21.64%**, at nearly half the growth rate of the sector.
    c. **Black SME** procurement showed the **greatest percentage growth - 141.36%**.
    d. The **greatest rand growth** of nearly R2 billion came from **black companies**, at the apparent expense of black influenced and black empowered companies.
    e. When looking at the BEE **procurement distribution**, black companies grew from 22% of BEE market to 29% in 2006, while the black empowered share decreased from 55% to 51% and black influenced share decreased from 20% to 16%.
    f. This is an encouraging move, as it appears that initiatives to transform established suppliers by encouraging black participation at ownership level may be contributing to the improved procurement score.

10. Enterprise development:
    a. **Black influenced enterprises received most support** from reporting financial institutions during 2006. The quantifiable enterprise development support provided to theses enterprises **increased ten-fold**. The support provided to **black women SME's experienced a marginal decline** over the same period. The total BEE Enterprise Development spend represents 3.09% of the total BEE Procurement spend.
    b. There was significant improvement in the aggregate spend on enterprise development, from about R324 million in 2005 to over R555 million in 2006.

11. Access to financial services: There is abundant **evidence that** identifies the importance of broad and deep general access to financial services, for both individuals and businesses. Ubiquitous **access has direct positive impact on economic efficiency and equity, economic growth, poverty alleviation and socio-political inclusion.**

12. Access to banking: Measuring whether the right product is being delivered at the right price, via accessible physical infrastructure and with client-sensitive business processes is **currently not possible**. This is due to two factors: inadequate measures in place to ascertain performance and poor submissions from the industry.

13. Access to collective investment schemes: There are no quantitative results to measure.

14. Access to long-term insurance: There are no quantitative results to measure

15. Access to short-term insurance: There are no quantitative results to measure

16. Consumer education: several of the industries met their consumer education requirement. Domestic banks lagged behind and did not meet the required 0.2% target with the banking sector only reaching its target through the contribution of the international banks.

17. Empowerment financing:
    a. For the 2006 reporting period the financial sector **reported R45.3 billion in targeted investments on its books**, **exceeding the industry target for the year**, bolstered in large part by the disproportionately high contribution of low-income housing financing by the domestic banking sector.
    b. The total targeted investment value comprised R9.1 billion towards transformational infrastructure (36.5% of 2008 target), R25.7 billion towards low-income housing (80.84% of 2008 target), R603 million to agricultural development (40.25% of 2008 target), R9.8 billion for black SMEs (196.8% of annual target), and an amount of R55 million unallocated to any of these categories.
    c. **Overall, the financial sector targeted investment financing for 2006 has achieved 71.6% of the 2008 target**.
    d. Investment tended to **cluster around** South Africa's main urban **metropolises,** Johannesburg, Cape Town and Durban, once again reinforcing asymmetrical geographic development dynamics.
    e. Of the total R25.7 billion in low-income housing financing, R13.7 billion (53.5%) was unallocated in terms of geographical distribution. For the remaining R12 billion (46.5%), the bulk of the financing was in Gauteng followed by Kwa-Zulu Natal and the Western Cape.
    f. For the 2006 reporting period **agricultural development was underfinanced** relative to the other targeted investments, with domestic banks claiming just over 98% of the total R603 million (target of R1.5 billion).
    g. The sector **significantly bettered the black SME targeted** investment requirement of R5 billion for 2008, achieving a level of R9.84 billion. Similar to the other empowerment financing areas, the three economically better off provinces acquired the bulk of the investment.
    h. BEE transaction financing **exceeded the 2008 target** of R50 billion by almost R5 billion in 2006.

18. Ownership: The average direct black ownership of reporting institutions **increased from 16% to 17.78%**. Two thirds of reporting institutions submitted returns on direct ownership. However, only 47% of institutions which submitted reports claim any black ownership at all.

19. Control.
    a. Black directors: The sector has **performed above the 2008 targets for black directors**, at 37% in 2006, and just **below the target for black women directors**, 9%. The increase between years for black directors was 42% and black women directors 32%. Thus, 38 of the 147 additional directors in the sector (as per submissions) were not designated as black (26.53%). The main beneficiaries of the 17% growth in directorships were black males, which took 58% of the aggregate growth. Black women acquired 16% of the growth, thus did not fare as well.
    b. Black executives: Black executives as a proportion of total executives were at 26% while black women executives were at 8%, **both categories surpassing their target level**. Black male executives **lost ground relative to their female counterparts**, where in 2005 the former comprised 75% of the black executive category, they are now down to 69% and women have increased from 25% to 31%.

20. Corporate social investment. The sector invested R592 million in Corporate Social Investment in 2006, an increase of R283 million compared to 2005. This is almost double (91.95%) the previous year's contribution, **both of which exceeded the target** of 0.5% of post tax profits.

21. Unquantified commitments. As was the case in the 2005 Review, **submissions were less than adequate in this area**. The questions were largely **answered in a mechanistic manner**, giving the impression that institutions were doing the minimum required to get Charter points, rather than performing to meet broader sectoral transformation objectives.

4. THE CONTEXT OF THE 2006 REVIEW

4.1 The Financial Sector Charter

Picking up on the theme presented by the Principal Officer in his foreword, the Financial Sector Charter Transformation objectives must be re-affirmed to ensure we stay true to our commitment. Let us reflect on what the Charter states in this regard. The essence of what the Charter represents and requires of its signatories and stakeholders is captured in sections 1.2 and 1.3 thereof.

§1.2: *We, the parties to this charter, therefore commit ourselves to actively promoting a transformed, vibrant, and globally competitive financial sector that reflects the demographics of South Africa, and contributes to the establishment of an equitable society by effectively providing accessible financial services to black people and by directing investment into targeted sectors of the economy.*

§1.3: *This financial sector charter was voluntarily developed by the sector; (and) is a Transformation Charter as contemplated in the Broad-Based BEE legislation (it);*

- *constitutes a framework and establishes the principles upon which BEE will be implemented in the financial sector;*
- *represents a partnership programme as outlined in Government's Strategy for Broad-Based BEE;*
- *provides the basis for the sector's engagement with other stakeholders including Government and labour;*
- *establishes targets and unquantified responsibilities in respect of each principle; and*
- *Outlines processes for implementing the charter and mechanisms to monitor and report on progress.*

4.2 The Financial Sector Charter Council

The Charter provides for the establishment of a Charter Council to oversee its implementation (§15). The Charter Council is made up of a board and an executive, headed by a Principal Officer.

The board of the Charter Council has 21 members from five constituencies, which are:

- Government: Four members from the Presidency, National Treasury (NT) and the Department of Trade and Industry (DTI),
- Business: Six members from financial sector trade associations,
- The Association of Black Securities and Investment Professionals: Three members of the Association of Black Securities and Investment Professionals (Absip) on behalf of the Black Business Council,
- Community: Four members from the NEDLAC Community constituency on behalf of Disabled People South Africa (DPSA); Financial Sector Campaign Coalition (FSCC); National Co-operatives' Association of SA (NCASA); SA National Civics' Organisation (SANCO); SA National Youth Council (SAYC); Women's National Coalition (WNC)
- Labour: Four members from the NEDLAC Labour constituency on behalf of the Congress of SA Trade Unions (Cosatu); National Council of Trade Unions (NACTU) and Federation of Trade Unions (FEDUSA).

Members of the Board as at 31 December 2006 were:

	Constituency	Member Role	Name
1	**Business:** Six members from the financial sector trade associations	Principal Members	Leon Campher (IMASA)
			Ronnie Napier (SAIA)
			Gloria Serobe (LOA)
			Sim Tshabalala (BASA)
			Di Turpin (ACI)
			Jon Zehner (IBA)
2	**Community:** Four members from the NEDLAC Community constituency on behalf of the:	Principal Members	Collette Caine; David Masondo; Phillip Dexter, Sizwe Shezi
	Disabled People South Africa (DPSA);		
	Financial Sector Campaign Coalition (FSCC);		
	National Co-operatives' Association of SA (NCASA);		
	SA National Civics' Organisation (SANCO);		
	SA National Youth Council (SAYC); &		
	Women's National Coalition (WNC)		
3	**Government:** Four members from the:	Principal Members	Vusi Gumede; Nkosana Mashiya; Ismail Momoniat, Polo Radebe
	Presidency;		
	National Treasury (NT); &		
	Department of Trade and Industry (DTI)		
4	**Labour:** Four members from the NEDLAC Labour constituency on behalf of the:	**Chairperson**	Jan Mahlangu
	Congress of SA Trade Unions (Cosatu);		
	National Council of Trade Unions (NACTU); &	Principal Members	Isaac Ramputa; George Strauss
	Federation of Trade Unions (FEDUSA)		
5	**The Association of Black Securities and Investment Professionals**: Three members of the Association of Black Securities and Investment Professionals (ABSIP) on behalf of the Black Business Council	Principal Members	Kennedy Bungane; Sello Moloko; Nomkhita Nqweni

The Board meets bi-monthly. Between meetings its activities are coordinated by a Coordinating Committee, chaired by the board chairperson and made up of five board members. During 2005 the board also had 12 technical committees on which all Charter constituencies were represented. These were not as active in 2006 as they were in 2005. These technical committees included ones dealing with: Access to financial services; Agriculture; BEE transactions; Black private equity funds; Human resources; Infrastructure; Low-income housing; Procurement; and Small and medium enterprises.

All powers of the Charter Council vest with the board, which may delegate some of its activities to committees of the board or to the executive. Decisions of the board are taken by consensus.

The Charter Council executive, headed by the Charter Council Principal Officer, is responsible for the financial sector's annual reporting process and for preparing the annual transformation review. The Charter requires the executive to 'receive, consider and approve' annual reports submitted by participating financial institutions and to confirm provisional scoring and institutions' ratings. The executive is also required to prepare annual reviews of progress in transforming the financial sector and identifying new areas of intervention by the Charter Council. The Charter's allocation to the Charter

Council executive of exclusive responsibility for coordinating the reporting process and for assessing and reviewing transformation in the sector and by individual institutions ensures the credibility, integrity and independence of the resulting review and report.

4.3 Looking Ahead: The 2007 Review

While it is important to improve processes and data integrity, it is vital that where transformation dynamics have not been adequate, especially where the 2008 targets look out of range, institutions and industries are encouraged to make good on the gaps. This is the strategic matter to consider for 2007 and 2008: how does the sector ensure that it meets its commitment to achieve given levels of transformation by 2008? If there is no recovery plan to manage closure of the significant gaps that exist, then insufficient time remains to do so in the next year (2008).

Although it is just a few months away from year-end and the commencement of data compilation by institutions for their 2007 submissions, it is not too late to improve processes and to ensure more effective interaction between them and the Charter Council.

With regard to process improvement, the Charter Council secretariat has suggested that the Council run a series of practical workshops with submitting institutions to improve their inputs and submissions. While the Guidance Notes have been useful, they are still open to varied interpretation and this results in inconsistent inputs across returns from different institutions. The time taken to re-package data and ensure its integrity and credibility will hopefully improve if there is greater common understanding across all reporting institutions.

The magnitude of the reporting inputs and processes, and the Charter Council's management of these inputs, information and data, may require a project management capability in the Charter Council. This would help to set and manage more concrete deadlines and the work of any services providers that assist in the receipt and processing of information and data.

Another process improvement suggestion is a *data verification process*. This can start from the date of the first submission – to ensure that the errors, some of which are mentioned above, are timeously detected and corrected.

5. Review and Assessment of the Transformation of the Sector During 2006[1]

Education is a human right with immense power to transform. On its foundation rest the cornerstones of freedom, democracy and sustainable human development.
Kofi Annan
Seventh Secretary-General of the United Nations

5.1 Human Resources

Although each of the Charter elements is intended to achieve transformation and each is important, together they form an integral whole. However, if one were given precedence it would be human resources transformation.

Institutions that reflect a more consistent character to the society in which they function, with all the requisite competencies, skills and sensitivities, will improve both the efficiency and equity of such institutions, the sector they make up and South Africa in general.

Progress in this area will influence the other transformational elements in direct and substantive ways. The strategic direction corporations take, and their operational plans to support such imperatives, will be more aligned with the commercial and social context that prevails if the people, who work in and manage such institutions, are a microcosm of their world. The status of transformation in this area is thus crucial to overall transformation. Included here would be other people oriented elements, such as control and ownership.

Transformation needs to be characterised by, amongst others, appropriate diversity and sufficient investment in human capital to ensure black people can effectively participate in meaningful roles, both technically and in terms of leadership.

5.1.1 Charter Council Recommendations - 2005

The human resources recommendations from the 2005 Review stated that:

- The review identified both widespread underperformance in black skills development and an apparent correlation between institutions' annual expenditure on black skills development and progress in achieving employment equity at the levels of senior, middle and junior management. To avoid the development of a situation in which existing skills are rotated, in a cycle of ever-increasing cost in which black skills remain a scarce commodity, it is recommended that the Charter Council consider an initiative to encourage and, possibly, incentivise greater expenditure on black skills development.
- It also identified both widespread underperformance on the employment of black matriculants in learnerships and misinterpretation over the Charter's requirement that institutions employ 4.5% of their staff as black matriculants in learnerships. The education programme referred to above can address this issue.

[1] NOTE: The information and data set out below are based on submissions received over the past two years. These have changed as submissions have been updated and data processed. As suggested in the introduction, 2005 and 2006 are in the realm of "base" setting and thus from 2007 all the data and information should be settled, and more accurate trends can then be inferred. This does not mean that the current data and information are not accurate in terms of indicative position/s.

- At the same time, it is clear from the 2005 review that the learnership provisions of the Charter are inappropriate for at least two of the industries in the sector. It is recommended that the Charter Council solicit proposals from these industries and consider alternative mechanisms, including the award of scholarships, to facilitate entry-level black participation in these industries.

5.1.2 Employment Equity

Disparities in the South African workplace resulting from past discriminatory practices and laws are not only unjust, but also have direct negative implications for economic efficiency, competitiveness and productivity. It is therefore in the country's long-term national interests that a broad-based and diverse pool of skills is developed for the sector to unleash the potential of all South Africans.
FSC, §5.1

5.1.2.1 Charter Provisions

The Employment Equity provisions of the Charter focus on transformation of human resources within the Sector at three levels: Senior Management, Middle Management and Junior Management. The objective is to increase effective participation in management echelons.

5.1.2.2 Performance Review: 2006

The results of the sector's transformation, based on the submissions received, are set out below. Analysis is conducted at both sector and industry levels. While there are 10 industries in the sector, due to data availability and materiality thereof, as well as delays in sector inclusion, seven industries are covered in the Review. (For the sake of completeness, and where appropriate, the other three industries may be included in data and tables. The industries formally excluded in the 2006 Review are BESA, IRF and SAROA.).

The total number of management staff in the categories defined in the Charter dropped by 8% between the years. The decrease came via middle and junior manager levels falling by almost 6,700.

Table 0: ***Summary of EE Transformation per Target Category – 2005 & 2006***

Sector	2005	2006	Growth %	Growth #
Senior managers	10,796	10,919	1.14%	123
Black senior managers	1,803	2,044	13.37%	241
Black women senior managers	452	564	24.78%	112
Middle managers	26,782	24,602	-8.14%	-2,180
Black middle managers	7,599	7,409	-2.50%	-190
Black women middle managers	2,852	3,055	7.12%	203
Junior managers	38,284	33,789	-11.74%	-4,495
Black junior managers	15,201	14,482	-4.73%	-719
Black women junior managers	8,294	8,181	-1.36%	-113

5.1.2.2.1 Senior Management

Senior Management is defined as all employees with a specified remuneration package (cost to company, excluding bonuses), of R520,816.00 or more *per annum*, excluding all employees within the definition of executive management.

- ***2008 Target***

The employment equity target for Senior Managers for blacks (both genders) is 25% and 4% for black women, as a ratio to total staff employed.[2]

- ***Performance***

For the measurement period, the sector employed a total of 10,919 senior managers (10,796 in 2005) with 2,044 (1,803) of them being black and 564 (452) being black women. Refer Table 0 above. One hundred and twenty three new senior managers were employed in 2006 relative to 2005, a 1.14% increase, 241 new black senior managers were employed and 112 black women senior managers. This implies a decrease in relative numbers of white senior managers.

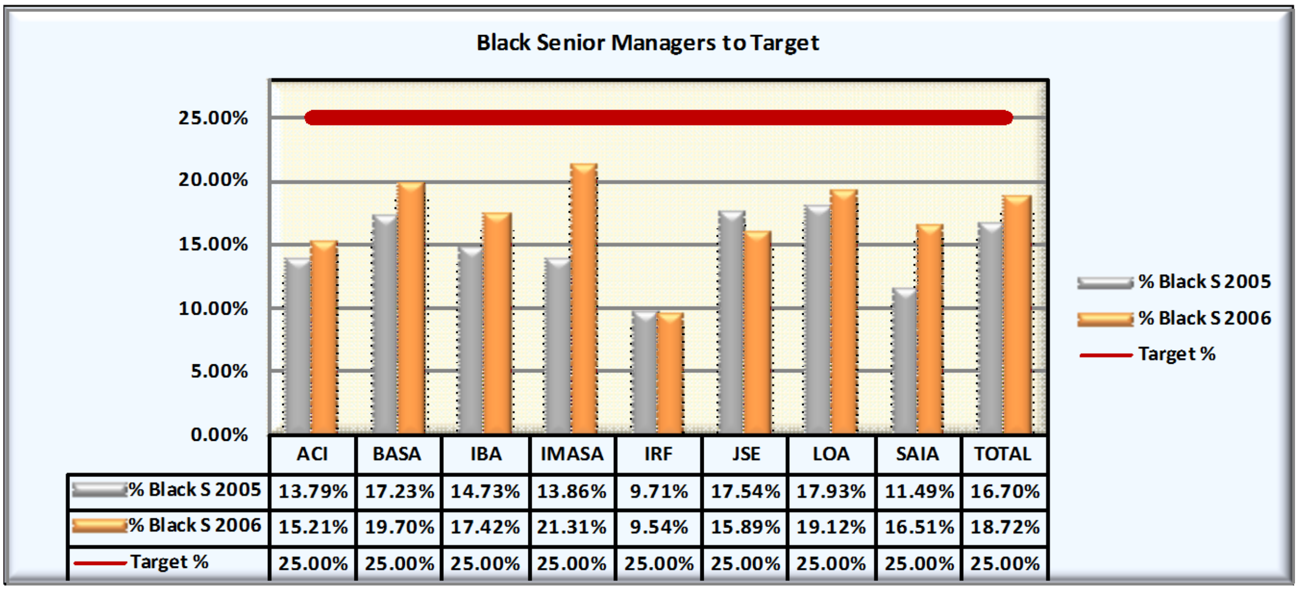
In percentage terms, 18.72% (16.7%) of all senior managers were black and 5.17% (4.19%) were black women; thus making target on the latter but not yet on the former.

There was a general improvement across all the industries, year-on-year, as reflected in the sector improvement. Refer Graph to 0-BSM. The JSE was the only industry that had retrogressed on Employment Equity Transformation since 2005. Asset managers made significant progress.

The growth rate of black senior employment far exceeds that of the industry (1.14% vs. 13.37%) but may not be sufficient to meet the target of 25% black senior managers by 2008.

At current performance, 18.72%, an increase from 2005's 16.70%, leaves a gap of over 6 percentage points (33.5%) to fill. If the target is to be met, assuming the aggregate number of managers remains constant, the number of black managers would need to be 2,730, an increase of 686. This would require acceleration in current transformation dynamics.

Graph 0-BSM: ***Black Senior Managers per Industry to Target – 2005 & 2006***



	ACI	BASA	IBA	IMASA	IRF	JSE	LOA	SAIA	TOTAL
% Black S 2005	13.79%	17.23%	14.73%	13.86%	9.71%	17.54%	17.93%	11.49%	16.70%
% Black S 2006	15.21%	19.70%	17.42%	21.31%	9.54%	15.89%	19.12%	16.51%	18.72%
Target %	25.00%	25.00%	25.00%	25.00%	25.00%	25.00%	25.00%	25.00%	25.00%

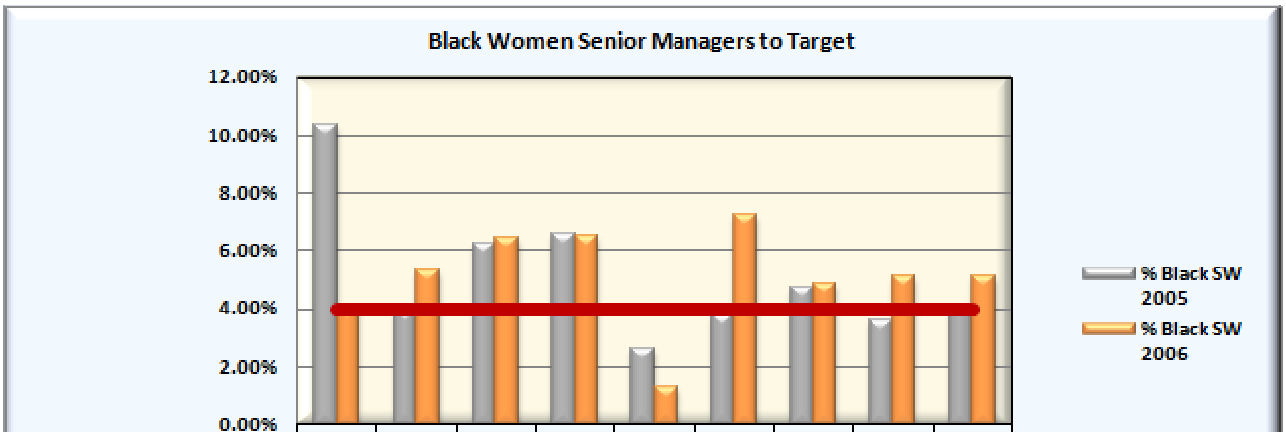
The asset managers were the best performing industry, lifting their black employment performance from 13.86% to 21.31%, by growing its black employment (283%) at nearly double the pace of total employment (149%). It should also be kept in mind that this industry had relatively small staff numbers and thus came off a low base, which may make it easier to achiever employment equity.

[2] NOTE: The 2006 Guidance Notes set out the definition of which staff to include/exclude from the calculation of total count.

By contrast, the JSE moved backwards in 2006. Only asset managers, domestic banks, long-term insurers and short-term insurers should reach the target given their current growth rates.

For illustrative purposes only: if the new target for senior black managers were set at 33.3%, then the target would be an additional 1,592 (total of 3,636) black managers (if the aggregate number were constant). This is an additional 78% relative to the current level (2,044).

Graph 0-BWSM: ***Black Women Senior Managers per Industry to Target – 2005 & 2006***



	ACI	BASA	IBA	IMASA	IRF	JSE	LOA	SAIA	TOTAL
% Black SW 2005	10.34%	3.95%	6.27%	6.63%	2.65%	3.80%	4.76%	3.62%	4.19%
% Black SW 2006	4.03%	5.37%	6.46%	6.54%	1.30%	7.28%	4.89%	5.12%	5.17%
Target %	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%

The performance in the category of women in senior management was above the 4% target (increased from 4.19% to 5.17% in 2006); although the Charter acknowledges that the target is very low and undertakes to increase it to 33.3% of all black employment by 2014. Refer to Graph 0-BWSM above.

For illustrative purposes only: if the new target for senior black women were set at 10% (7%), then the target would be an additional 528 (200) black women (if the aggregate number were constant). This is more than double (36% more than) the current level of 564.

5.1.2.2.2 Middle Management

Middle Management is defined as all employees with a specified remuneration package (cost to company, excluding bonuses), of between R289,343.00 and R520,816.00 *per annum*, excluding all employees within the definition of executive management.

➢ ***2008 target***

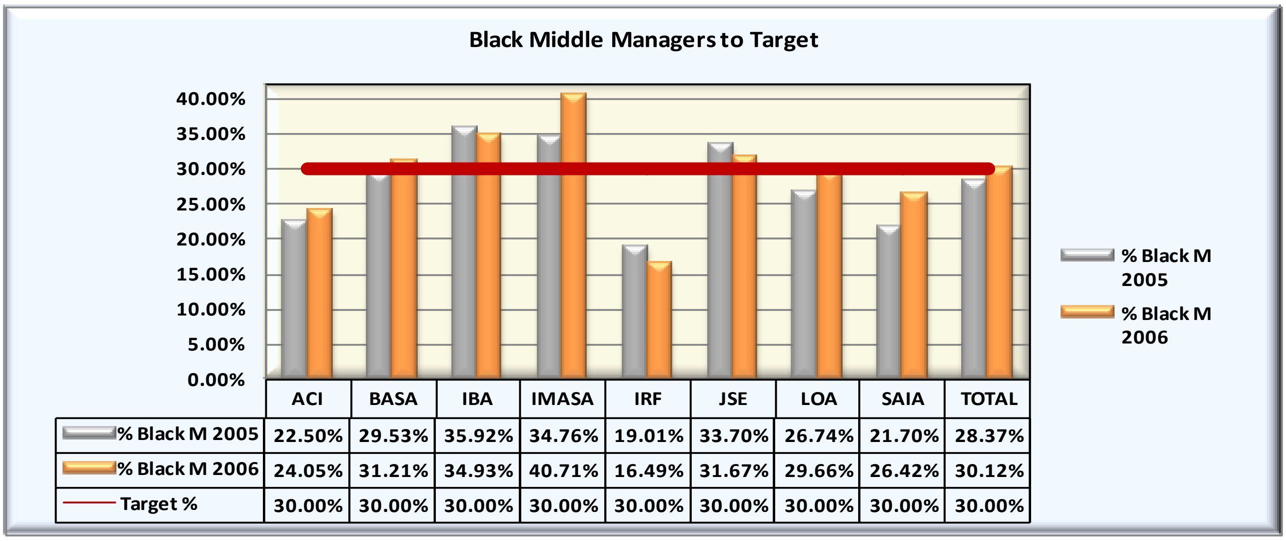
The employment equity target for middle managers for 2008 is 30% blacks and 10% black women against total middle managers employed by the sector.

➢ ***Performance***

The sector employed a total of 24,602 middle managers with 7,409 of them being black and 3,055 black women. Refer to Table 0 above. The growth rate of black middle employment was negative year-on-year, although less negative than the total industry growth rate (-2.50% vs. -8.14%). Black women middle management was the only class to show a positive employment growth rate of 7.12%. Thus, in relative terms, black middle managers benefited from transformation activities, while black women benefited in relative and absolute terms.

Current sector performance is at 30.12%, which is an increase from 2005's 28.37%; exceeding the target of 30%. The percentage increase from 2005, and crossing the target threshold, has largely been due to shrinkage in total middle manager employment levels. Performance at industry level indicates a positive move by most of the industries towards transformation in this category. Most industries are above 20% and well on their way towards the 30% 2008 target.

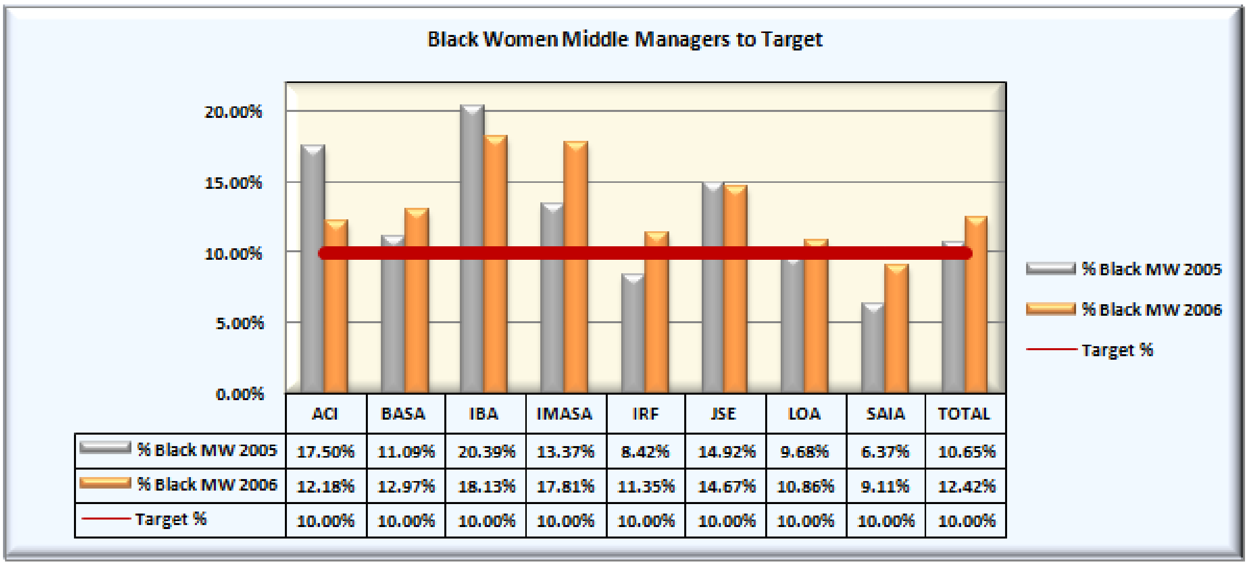
Graph 0-BMM: ***Black Middle Managers per Industry to Target – 2005 & 2006***



	ACI	BASA	IBA	IMASA	IRF	JSE	LOA	SAIA	TOTAL
% Black M 2005	22.50%	29.53%	35.92%	34.76%	19.01%	33.70%	26.74%	21.70%	28.37%
% Black M 2006	24.05%	31.21%	34.93%	40.71%	16.49%	31.67%	29.66%	26.42%	30.12%
Target %	30.00%	30.00%	30.00%	30.00%	30.00%	30.00%	30.00%	30.00%	30.00%

Refer to Graph 0-BMM above. Asset managers breached the 40% mark and are leading the pack with its employment transformation for black middle managers. Domestic banks (31.2%), international banks (34.93%) and the JSE (31.67%) also performed well.

Graph 0-BWMM: ***Black Women Middle Managers per Industry to Target – 2005 & 2006***



	ACI	BASA	IBA	IMASA	IRF	JSE	LOA	SAIA	TOTAL
% Black MW 2005	17.50%	11.09%	20.39%	13.37%	8.42%	14.92%	9.68%	6.37%	10.65%
% Black MW 2006	12.18%	12.97%	18.13%	17.81%	11.35%	14.67%	10.86%	9.11%	12.42%
Target %	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%

The performance in the category of women in middle management was above the 10% target. Refer to Graph 0-BWMM above This was an increase from 10.65% in 2005 to 12.42% in 2006, which was a 17% increase from the previous year.

Performance by the industries indicates a positive move towards transformation of black women in middle management. Only short-term insurers have not met their target, but are likely to do so by 2008. International banks and asset managers both did well in this class and are above 17%. If sector employment levels (in the middle management category) continue to decline as they have, then employment equity may be more challenging than if it had expanded.

5.1.2.2.3 Junior Management

Junior Management is defined as all employees with a remuneration package (excluding bonuses) of between R173,605.00 and R289,343.00 *per annum*, excluding all employees within the definition of executive management Where bonuses are more than 50% of the package, then 50% of the bonuses should be included in cost to company.

- ***2008 target***

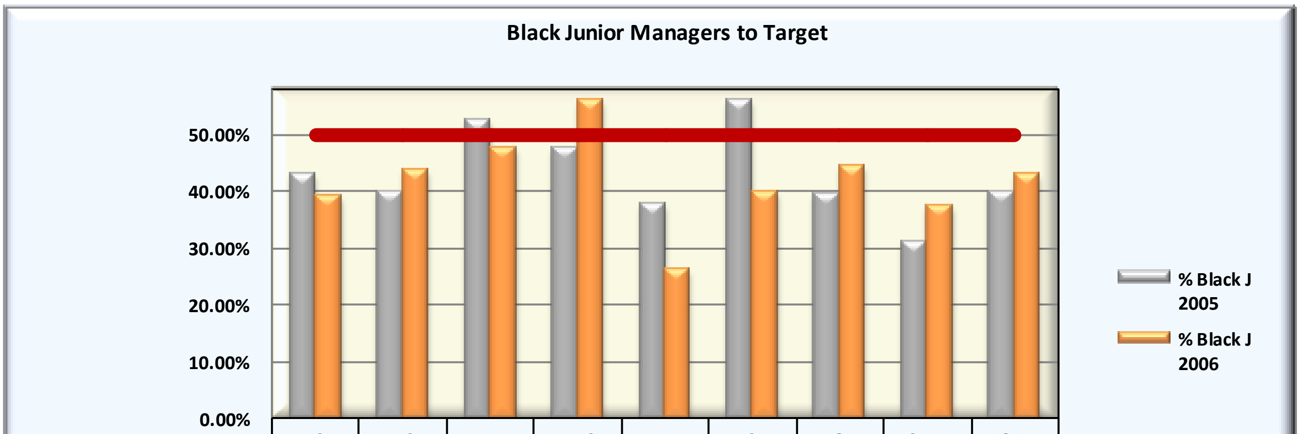
The employment equity target for junior managers for 2008 is 50% blacks and 15% black women of total junior managers employed.

- ***Performance***

The sector employed a total of 33,789 junior managers with 14,482 (43%) of them being black and 8,181 (24%) being black women. Refer to Table 0 above. There was significant shrinkage between the years, a 13% (almost 4,500) decrease. The growth rate of black junior employment was negative year-on-year, although less negative than the total industry growth rate (-4.73% vs. -11.74%). Black women junior management also had a decline of 1.36%. The significant aggregate shrinkage seems to have had an effect on transformation. As stated in the review of middle management dynamics, shrinkage in aggregate makes it more challenging for the sector to transform.

Three institutions had a major effect on the 2005/06 sector dynamics, namely the collective investments industry (+1,479), domestic banks (-3,935) and long-term insurers (-2,112). It is not clear whether some of these data are accurate as in the case of the collective investments industry there was a 4,083% change. Refer to Graphs 0-BJM and 0-BWJM below.

Graph 0-BJM: ***Black Junior Managers per Industry to Target – 2005 & 2006***



	ACI	BASA	IBA	IMASA	IRF	JSE	LOA	SAIA	TOTAL
% Black J 2005	42.86%	40.03%	52.35%	47.51%	37.90%	56.08%	39.60%	31.10%	39.71%
% Black J 2006	39.00%	43.61%	47.46%	56.15%	26.21%	39.73%	44.48%	37.54%	42.86%
Target %	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%

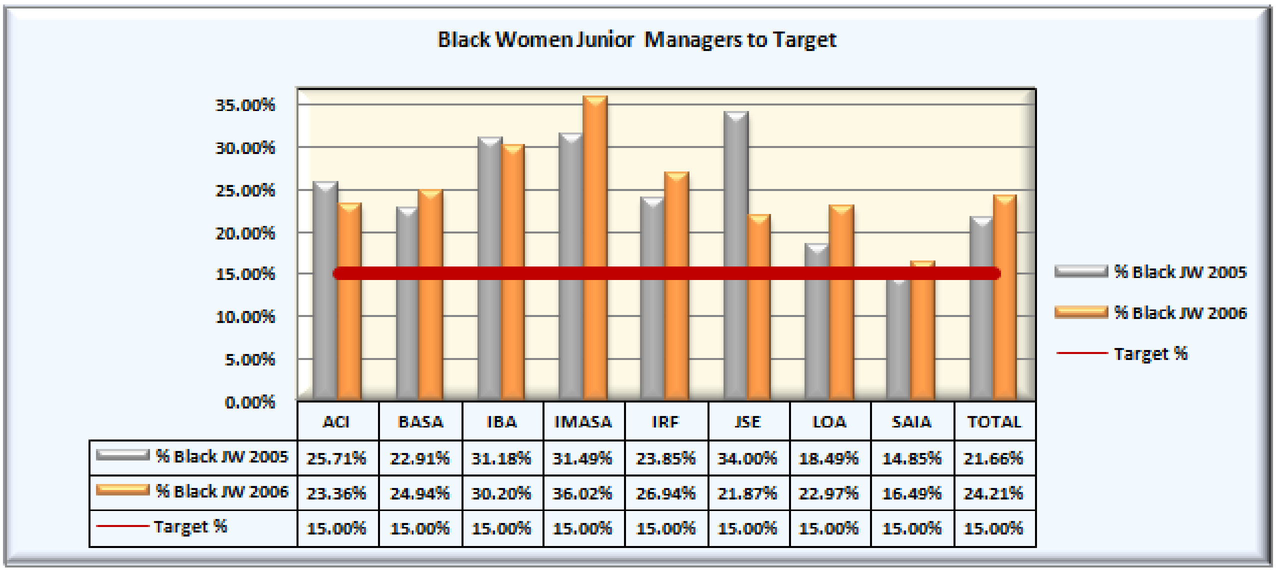
The growth rate in this class appears to be too slow to meet the 2008 target. Only asset managers have currently made the 50% target. The short-term insurers have a 12.46 percentage point gap to target.

While domestic banks have a 6.39 percentage point gap, this translates into a numbers increase of 1,330, which is a 15% increase on the current performance of 9,081.

The sector was performing well against the set 15% target of employment of black junior managers, increasing from 21.66% to 24.21%, but employing 113 fewer black women junior managers. Refer to Graph 0-BWJM below.

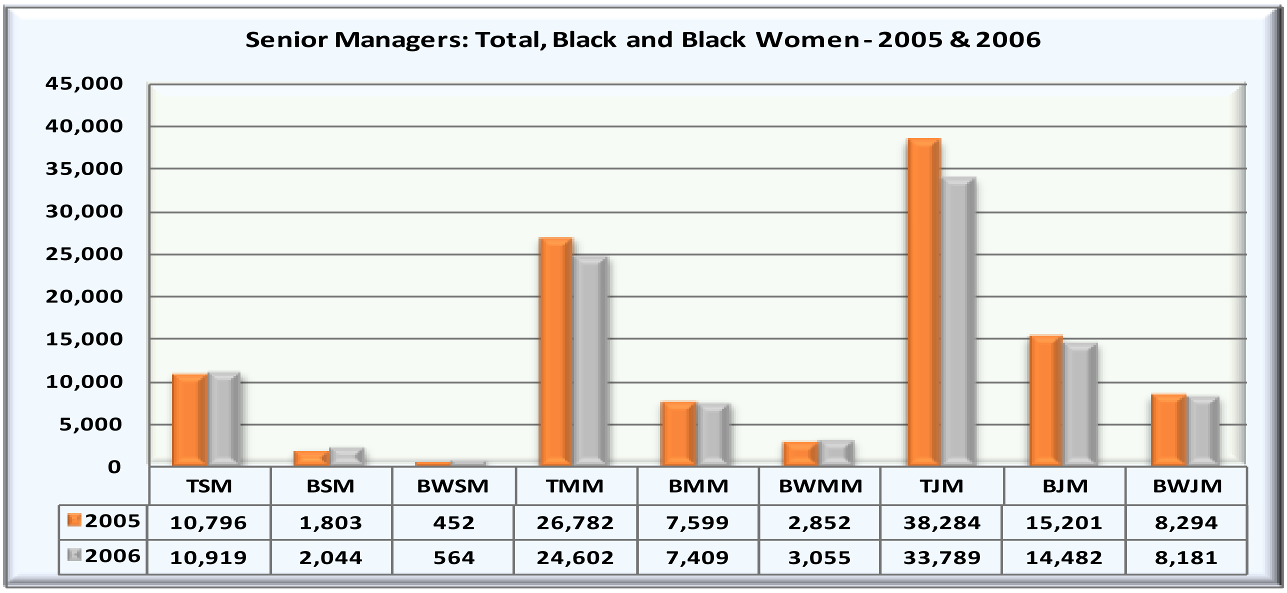
The domestic banks, which have the bulk of employees and is critical to reaching transformation goals made a good contribution here, at almost 25%. This made up 68% of all black women junior managers. The asset managers lead the pack at 36.02% black female junior managers.

Graph 0-BWJM: ***Black Women Junior Managers per Industry to Target – 2005 & 2006***



	ACI	BASA	IBA	IMASA	IRF	JSE	LOA	SAIA	TOTAL
% Black JW 2005	25.71%	22.91%	31.18%	31.49%	23.85%	34.00%	18.49%	14.85%	21.66%
% Black JW 2006	23.36%	24.94%	30.20%	36.02%	26.94%	21.87%	22.97%	16.49%	24.21%
Target %	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%

Graph 0-TG1: ***Changes in Management for Each Category – 2005 to 2006***

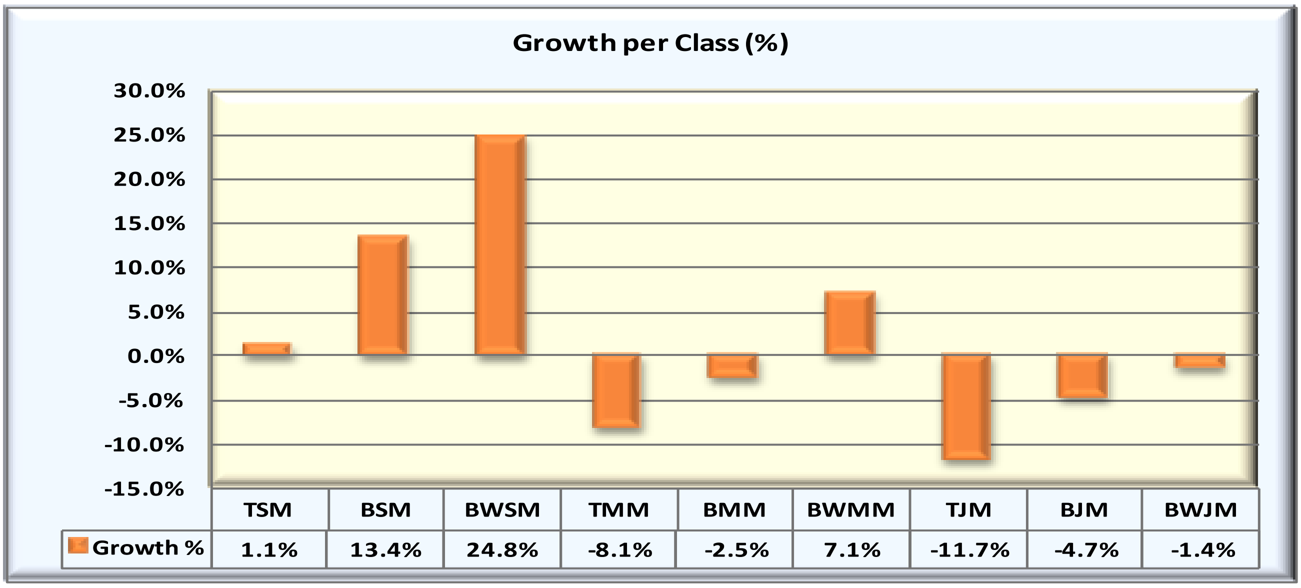


	TSM	BSM	BWSM	TMM	BMM	BWMM	TJM	BJM	BWJM
2005	10,796	1,803	452	26,782	7,599	2,852	38,284	15,201	8,294
2006	10,919	2,044	564	24,602	7,409	3,055	33,789	14,482	8,181

NOTE: TSM = Total Senior Managers; BSM = Black Senior Mangers, BWSM = Black Women Senior Managers, TMM = Total Middle Managers, BMM = Black Middle Managers, BWMM = Black Women Middle Managers, TJM = Total Junior Managers, BJM = Black Junior Managers, BWJM = Black Women Junior Managers

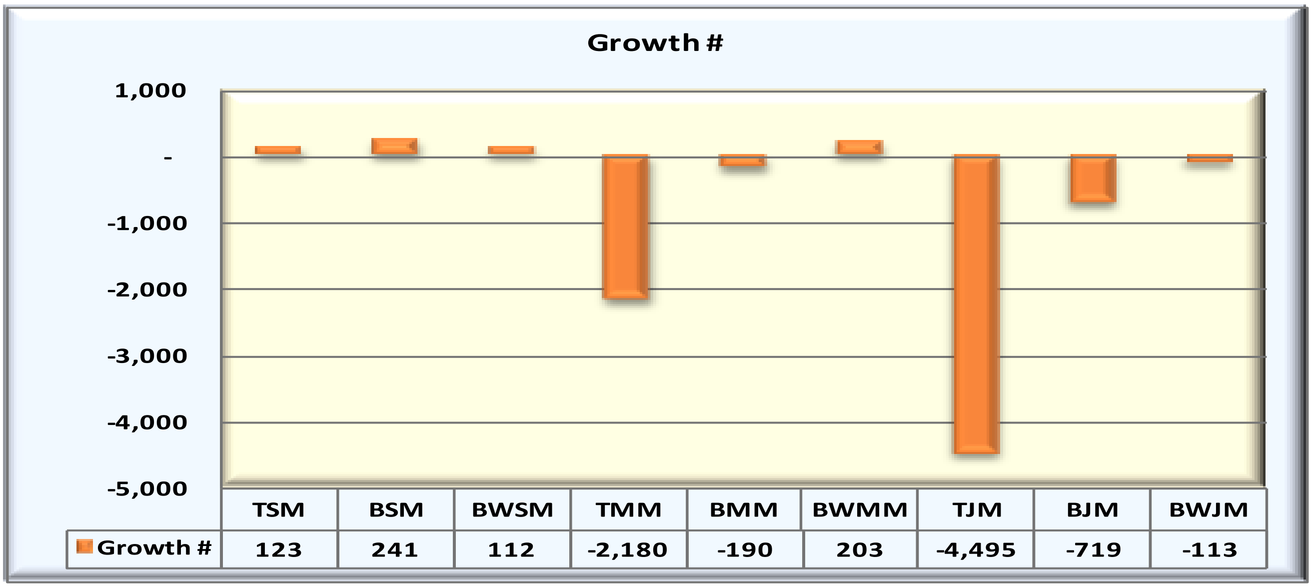
Refer to Graphs 0-TG1, -TD1 and -TD2. They reflect the relative changes in black and black women employment transformation across the two years and three categories of managers, for the sector. Black women were the overall "winners", in relative terms. In senior management the growth was almost 25%, middle management 7.1% and a decline of 1.4% in junior management ranks. Were targets to be raised in future, the employment dynamics would no doubt change across the categories too.

Graph 0-TD1: ***Transformation Change per Category – 2005 to 2006***



NOTE: TSM = Total Senior Managers; BSM = Black Senior Mangers, BWSM = Black Women Senior Managers, TMM = Total Middle Managers, BMM = Black Middle Managers, BWMM = Black Women Middle Managers, TJM = Total Junior Managers, BJM = Black Junior Managers, BWJM = Black Women Junior Managers

Graph 0-TD2: ***Transformation Change per Category – 2005 to 2006***



NOTE: TSM = Total Senior Managers; BSM = Black Senior Mangers, BWSM = Black Women Senior Managers, TMM = Total Middle Managers, BMM = Black Middle Managers, BWMM = Black Women Middle Managers, TJM = Total Junior Managers, BJM = Black Junior Managers, BWJM = Black Women Junior Managers

5.1.3 Skills Development

5.1.3.1 Charter Provisions

Financial institutions have undertaken to:

- Allocate 1.5% of their total basic payroll to the training of black personnel, and
- Employ 4.5% of their total staff in the form of black matriculants, or the NQF Level Four equivalent. This would be in the form of registered learnerships over one learning cycle of three intakes.

All that is valuable in human society depends upon the opportunity for development accorded the individual.
Albert Einstein

5.1.3.2 Performance Review: 2006

5.1.3.2.1 Training of Black Staff[3]

The sector collectively, and in six of the seven industries, underperformed against the target of spending 1.5% of total basic payroll on training of black staff, with the sector decreasing its skills development spend on black personnel from 2.90% in 2005 to 1.40% in 2006.

It is disconcerting to note that half of the industries under evaluation actually reported a downward trend. Total payroll spend in the sector increased by 29.33%, while spending on black staff training decreased by 37.44%, i.e. - R349 million less was spent on black staff training in 2006 than in 2005. Refer to Table 5.1.3a below.

In contrast to the increased rate of payroll spending (29.33%), the aggregate increase in number of staff employed was 7.94%. The numbers suggest that payroll costs increased at a rate of almost four times the rate of increase of staff count. This implies that on a *per capita* basis, staff had a 20% increase in their costs / remuneration.

As mentioned in the footnote below, there appears to be no direct correlation between spending on Employment Equity and Skills Development. The sector performed at 1.40% for 2006, below the 1.5% 2008 target. The 2006 performance was less than half what it had been in 2005 (2.9%).

Table 5.1.3a: ***Spending on Black Staff – 2005 & 2006***

Sector	2005	2006	Growth %	Growth R
Total Payroll R'm	R 32,144	R 41,573	29.33%	R 9,429
Spending on Black Staff Training	R 931	R 583	-37.44%	-R 349
Performance to Target	2.90%	1.40%		

Table 5.1.3b shows that training for black staff decreased. Two industries, namely, the collective investments industry and short-term insurers, contributed to the aggregate decline. It is possible that their reduction in spending came as a result of specific training programmes that ended in the previous year.

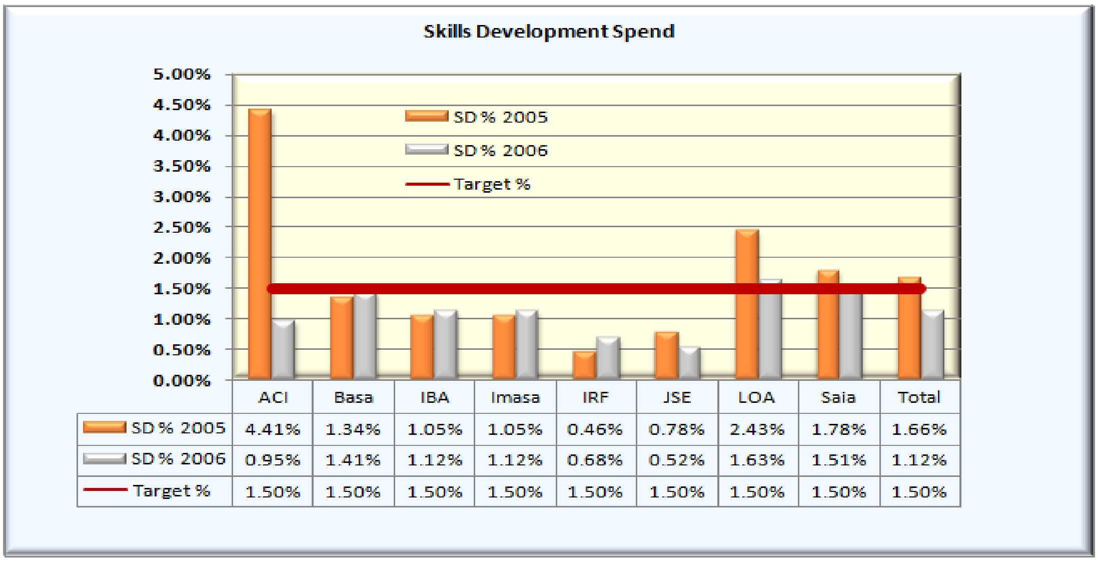
[3] NOTE: In the 2005 Report the comment was made that there appeared to be a positive correlation between Skills Development and Employment Equity Junior targets being met. Refer to Graph 5.1.3C below. It appears that this may not be the case.

Table 5.1.3b: ***Change in Training Spend for Black Staff per Industry***

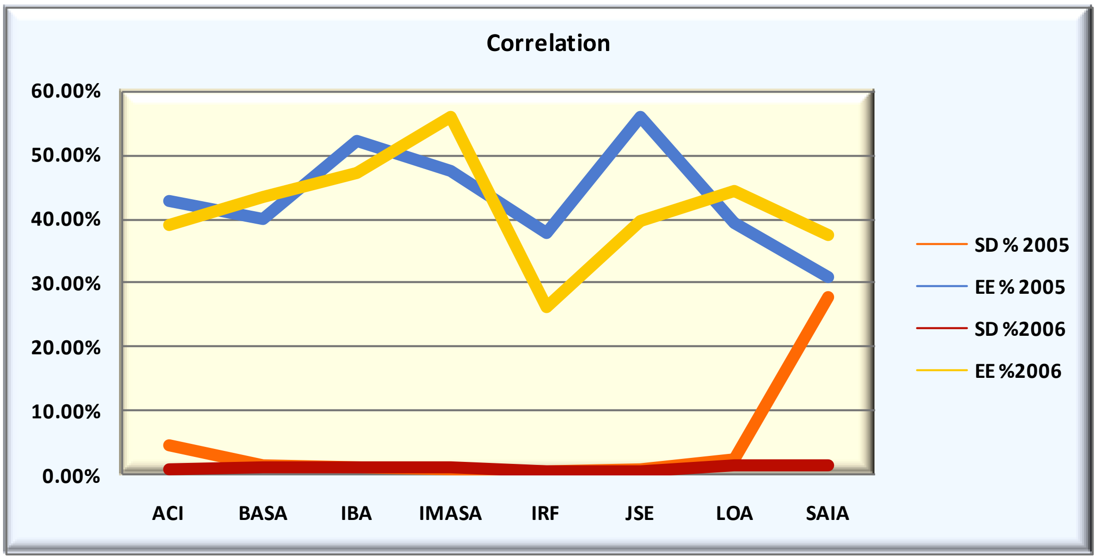
Industry	2006		Growth /(-Decline)
	Total Payroll	Spend: Train Black Staff	Spend: Train Black Staff
ACI	R 1,390,613,860	R 13,277,530	R -21,281,986
BASA	R 26,178,022,290	R 369,586,679	R 73,448,599
IBA	R 755,495,207	R 8,467,742	R 1,823,242
IMASA	R 654,136,053	R 8,237,691	R 6,500,575
IRF	R 1,593,330,467	R 10,829,654	R 3,595,482
JSE	R 376,138,951	R 1,961,716	R 74,323
LOA	R 8,537,101,579	R 138,748,283	R 18,910,371
SAIA	R 2,088,419,785	R 31,489,414	R -431,802,754
Sector	R 41,573,258,192	R 582,598,709	R -348,732,148

Graph 5.1.3-SD illustrates the percentage changes in training spending on black staff between 2005 and 2006. For most industries there is not a significant gap between the target and 2006 spending.

Graph 5.1.3-SD: ***Changes in Spending on Skills Development per Industry to Target***



Graph 5.1.3-C: ***Correlation – Employment Equity & Skills Development***



5.1.3.2.2 Performance on Learnerships

Reporting institutions underperformed significantly against the learnership provisions of the Charter, employing 3,463 black matriculants, when the required number was 8,792. This resulted in a ratio of 1.77% of staff as opposed to the required 4.5%. This was an increase 1.49% from 2005's level, which constituted only 767 additional learners. Total employment grew by 14,373 (7.94%). Refer to Table 5.1.3c below.

Table 5.1.3c: ***Changes in Learnership Ratios for the Sector***

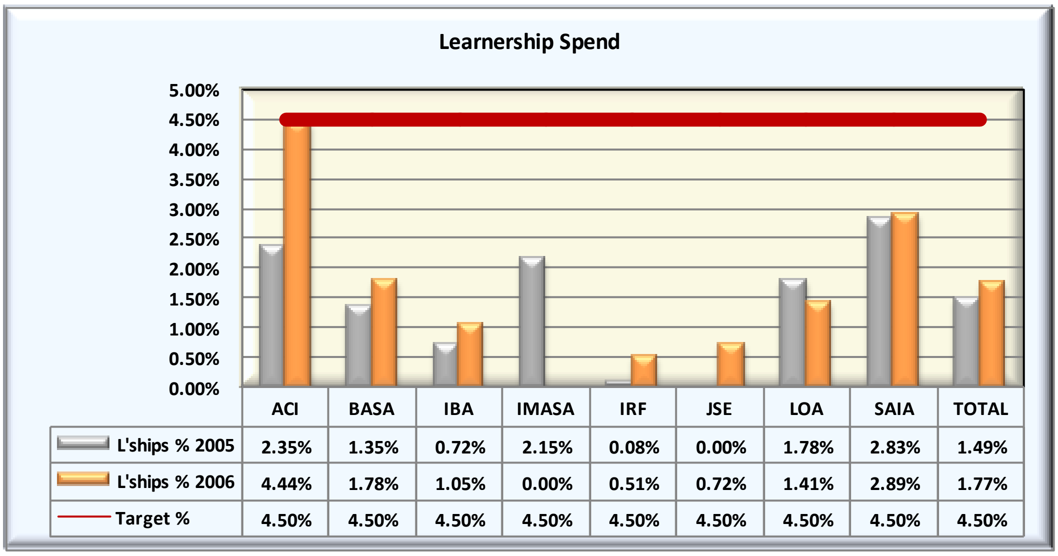
Sector	2005	2006	Growth %	Growth R
Total Staff Employed	181,004	195,377	7.94%	14,373
Black Matriculants Employed	2,696	3,463	28.45%	767
Performance to Target	1.49%	1.77%		

However, when evaluating the growth rates (28.45% in black matriculants vs. 7.94% in employment), a commitment to growth is clear, but the pace at this stage appears too slow to meet the 2008 target. To meet the 2008 targets, more than 250% improvement is required.

The 2005 report states that there is a conflict between the skills requirements in several industries and the Charter's learnership provisions, primarily because their entry-level posts require tertiary qualifications. However, these industries also performed poorly in employing black graduates.

The industries' learnership levels in Graph 5.1.3-LL indicate that only the collective investments industry was close to meeting the target. Some industries were well below 1% which indicates very poor performance, and six of the eight industries included here are below 2%.

Graph 5.1.3-LL: ***Learnership Levels per Industry to Target – 2005 & 2006***



It is not clear how many of the learners who completed their learnership programme were subsequently employed by and remained within the employ of the institution concerned, which is a requirement of the Charter.

General Comment: The Sector Codes are currently under development and will resolve some of the discrepancies that currently exist. The intentions of the Charter and Codes are congruent and thus it is just a matter of alignment.

5.2 Procurement and Enterprise Development

The indirect empowerment component enables and encourages an enterprise to facilitate broad-based BEE in entities and within the communities with which it interacts. The elements of preferential procurement, enterprise development and other residuals are recognised and measured. Preferential procurement promotes broad-based BEE by allocating preference to enterprises with higher broad-based BEE contributions. This is also an effective way of creating market access for black entrepreneurs. Entrepreneurs are further supported through enterprise development which assists with the creation and enhancement of the entrepreneur's operational and financial capacity. Black communities also gain from broad-based BEE through social development, which focuses on education, health and other relevant social development areas.

Section 4.4. *BBBEE Framework*. Department of Trade & Industry, draft for comment, 2004

Procurement and Enterprise Development are mutually reinforcing and are thus dealt with together. While the objective of the former is to ensure that black businesses which could supply goods and services to the sector are given fair opportunity to do so, the situation exists that black businesses are historically underdeveloped and may not be in a position to take up procurement opportunities. By promoting Enterprise Development, a virtuous loop is closed, whereby new businesses can be cultivated and existing ones developed.

5.2.1 Charter Council Recommendations - 2005

The 2005 Review identified three aspects of the sector's procurement practices that required some form of amendment by the Charter Council:

- That there were generally low levels of enterprise development, which were attributed to the Charter provision that links Procurement scoring with that of Enterprise Development. It was suggested that the Charter Council needs urgently to finalise its plans to separate the points allocation of enterprise development from BEE procurement.
- Potential complications may arise as the generic Codes of Good Practice are not yet promulgated and thus not operational. Also, certain other sector charters have not yet been established in several primary supply sectors to the financial sector, which then requires financial institutions to rely on suppliers' and vendors' self-assessment of their BEE credentials.
- A large proportion of current BEE spend with sector suppliers and vendors are with BEE accredited entities, but the majority are white-owned. Nearly a quarter of enterprise development funds go to suppliers and vendors of this nature.

It was recommended that the Charter Council address these issues as soon as possible.

5.2.2 Charter Provisions: Procurement

Procurement designed to enhance BEE is recognised as all expenditure incurred to acquire goods and/or services, including capital expenditure and the value passed or committed to a third party for goods and services procured from black suppliers. This includes reciprocal agreements, expenses and liabilities, regardless of how these are recovered or treated from an accounting perspective, which includes transfer pricing. The 2006 Guidance Notes set out the lists of specific inclusions and exclusions.

The Charter scorecard commits to a target of 50%, by 2008, of the value of all procurement from BEE suppliers, minus specific exclusions.

The procurement and enterprise development elements of the Charter seek to facilitate and improve the introduction and continued participation of black businesses to the mainstream economy by setting specific targets for preferential procurement from BEE suppliers. It further seeks to provide incentives to financial institutions to award business to black-owned companies, black SMEs and black women-owned enterprises.

The points scoring structure is designed to promote procurement, primarily from black-owned businesses, as the highest order. Included here are enterprises that are black women-empowered and black-SME's. This is given effect by assigning a 125% weighting to primary beneficiaries. At the next order, black empowered business is recognised at 100%, and at the third level black influenced businesses are given a 50% weighting.

For the 2006 reporting period, as was the case in 2005, procurement and enterprise development were scored as a single element carrying a maximum score of 15. Refer to Annexure 7.2 Extracts from Guidance and Standards Notes for details on inclusions and exclusions.

During the 2006 reporting period no national certification mechanism existed to accredit verification agencies to rate suppliers on behalf of institutions, creating inconvenience for institutions attempting to accurately quantify their BEE procurement and enterprise development performance. However, the Charter Council required all information submitted by financial institutions to be reviewed by external auditors and/or by verification agencies. This assisted the Charter Council in confirming the accuracy of the information submitted as the financial institution would have compiled its submission with input from an independent party. For purposes of reporting performance for 2006, institutions reported and were assessed on the basis of the original Charter requirements (termed narrow-based), and/or on the basis of broad-based criteria, as envisaged in the Codes. Institutions were able to choose their reporting framework.

5.2.2.1 Performance Review: Procurement – 2006

Some observations of the procurement spend are highlighted in the review below. Refer to Table 5.2.2–P and Graph 5.2.2 below:

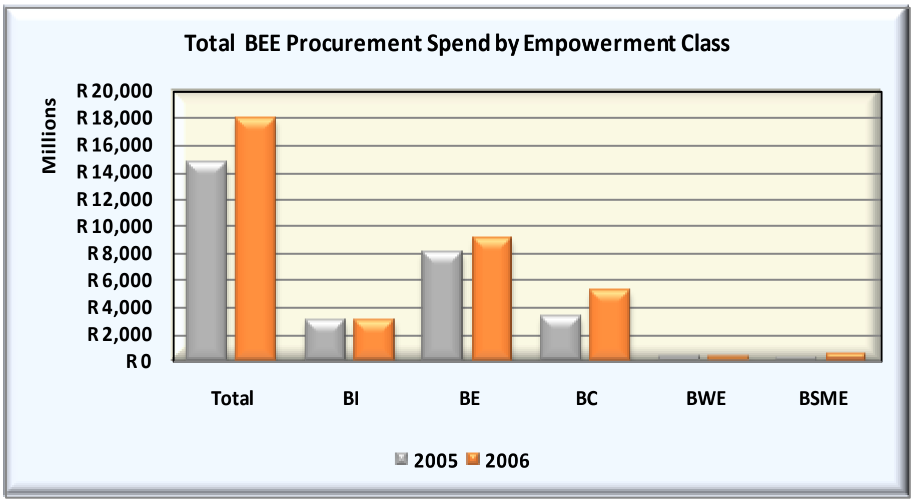
Table 5.2.2-P: *Procurement Spend – 2005 & 2006*

Sector Spend (Million)	2005	2006	Gowth %	Growth
Total Procurement Spend	R 38,425	R 54,071	40.72%	R 15,646
Total BEE Enterprise Development (ED) Spend	R 14,764	R 17,958	21.64%	R 3,194
% BEE procurement Spend	38.42%	33.21%	-13.56%	
Black Influenced (BI)	R 2,990	R 2,914	-2.54%	-R 76
Black Empowered (BE)	R 8,053	R 9,115	13.19%	R 1,062
Black Company (BC)	R 3,222	R 5,180	60.77%	R 1,958
Black Women-Empowered (BE)	R 288	R 242	-16.19%	-R 47
Black SME's (BSME)	R 210	R 507	141.36%	R 297

- In 2006 the financial sector spent just over R54 billion on procurement, an increase of 40.72% from the previous year (increase of R15.6 billion).
- In contrast, BEE procurement spend for 2006 grew by only 21.64%, at nearly half the growth rate of the sector.

- The highest growth of 141.36% in BEE procurement spend for the sector was procurement from black SMEs. This is a direct result of financial institutions' focus on assisting black SME suppliers with financing and capacity challenges in order to empower and develop them enough to be able to be awarded sustainable business by financial institutions.
- The greatest rand growth of nearly R2 billion came from black companies, at the apparent expense of black influenced and black empowered companies.
- When looking at the BEE procurement distribution, black companies grew from 22% of BEE market to 29% in 2006, while the black empowered share decreased from 55% to 51% and black the influenced share decreased from 20% to 16%.
- This is an encouraging move as it appears that initiatives to transform established suppliers by encouraging black participation at ownership level may be contributing to the improved procurement score.

Graph 5.2.2: ***Total BEE Procurement Spend per Empowerment Class***



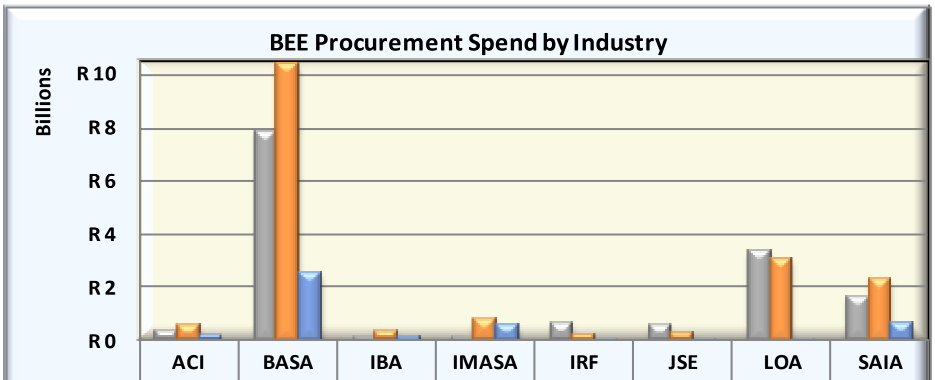
Rand Changes

- When evaluating actual rand spend, domestic banks increased spend on BEE by over R2.5 billion, the biggest increase in the sector. BEE spend for 2006 as a percentage of total procurement spend did, however, decrease from 39.56% in 2005 to 34.32% in 2006.
- The JSE and long-term insurers were the only industries not to show a positive rand for rand increase from 2005 to 2006.
- Refer to Graph 5.2.2-A below.

Performance to Target

- Only three industries improved their performance to target on procurement from 2005, namely international banks, asset managers and short-term insurers.
- The volatility of procurement in the sector is cause for concern. The collective investments industry, for example, declined on target (BEE procurement over total procurement) from 67.64% to 20.09%. On the other hand, in the volatility range, international banks increased their performance to target from 25.44% to 62.84% (a 37.4 percentage point increase), which raises the question of sustainability of contracts.
- This volatility makes it difficult to formulate accurate predictions on performance to target in 2007. Asset management was the only industry to show a steady growth from 46.51% to 47.83%. This industry will in all likelihood achieve the target of 50% BEE procurement in 2007.

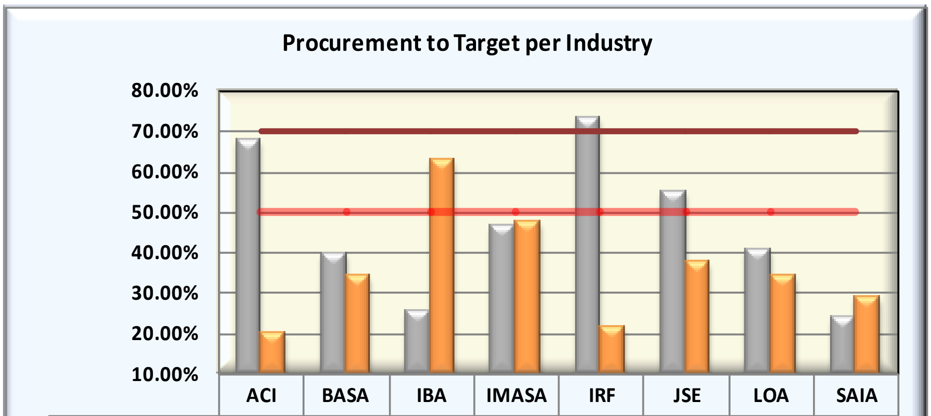
Graph 5.2.2–A: ***BEE Procurement Spend per Industry***



	ACI	BASA	IBA	IMASA	IRF	JSE	LOA	SAIA
2005	R 373,8	R 7,864	R 166,1	R 153,2	R 637,2	R 584,6	R 3,371	R 1,613
2006	R 564,6	R 10,37	R 338,3	R 782,5	R 237,1	R 295,7	R 3,092	R 2,274
Growth	R 190,8	R 2,507	R 172,2	R 629,2	R -400,	R -288,	R -278,	R 661,4

➢ Refer to Graph 5.2.2–B below.

Graph 5.2.2-B: ***Procurement to Target per Industry***



	ACI	BASA	IBA	IMASA	IRF	JSE	LOA	SAIA
Actual 2005	67.64%	39.56%	25.44%	46.51%	73.21%	54.89%	40.64%	23.80%
Actual 2006	20.09%	34.32%	62.84%	47.83%	21.47%	37.60%	34.05%	28.83%
Target 2008	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%
Target 2014	70.00%	70.00%	70.00%	70.00%	70.00%	70.00%	70.00%	70.00%

Note: Data may differ from that used in the 2005 Report.

The industry with the highest increase in procurement spend is the Banking Association.

5.2.3 Enterprise Development

5.2.3.1 Charter Provisions: Enterprise Development

As defined above, Enterprise Development is the commitment the financial sector makes to black economic empowerment, through ***nurturing new businesses and advancing existing ones***. Refer the objectives from the Sector Charter in paragraph 7.2.3 below.

For the purposes of measuring institutions' BEE contribution, Enterprise Development means those initiatives undertaken in respect of:

- improving the levels of assistance provided to BEE accredited suppliers to the financial sector and others, through measures such as: skills transfer, secondment of staff, infrastructure support and the giving of technical assistance and administrative support; and
- Supporting the establishment and growth of BEE accredited suppliers as broking agencies and/or enterprises in the financial sector through which the sector sells its products and services.

Enterprise Development is made up of measurable activities that demonstrably fall within the above definition. They must be both quantifiable and auditable to comply.

Examples of practical enterprise development initiatives could include a financial sector institution making available access to superfluous office space that a BEE company/entrepreneur could use free of charge, or discounted for a meaningful period of time, or allowing the BEE entrepreneur to make use of computer equipment outside of a normal commercial arrangement. Another practical example is becoming a formal mentor in order to transfer skills to black mentees. BEE enterprises can also be supported by paying their invoices within, say 10 days, instead of "normal" 30, 60 or 90 days, to alleviate possible cash flow difficulties, which is one of the prime causes of new business and small business failure.

5.2.3.2 Performance Review: Enterprise Development - 2006

Black influenced enterprises received most support from reporting financial institutions during 2006. The quantifiable enterprise development support provided to these enterprises increased ten-fold. The support provided to black women SMEs experienced a marginal decline over the same period. The total BEE Enterprise Development spend represents 3.09% of the total BEE Procurement spend which indicates that there may potentially still be a lot of misunderstanding of Enterprise Development. This is probably due to institutions being unsure what to measure and how to measure it. Another factor that may contribute to the avoidance of implementing Enterprise Development could be that institutions are confusing it with Preferential Procurement.

It is important for financial institutions to create linkages between Procurement and Enterprise Development. The enterprises that the institution procures from could be the perfect candidates for enterprise development relationships and initiatives. Institutions are encouraged to make work of establishing these linkages and relations to ensure significant progress is made in this area for 2007 onwards.

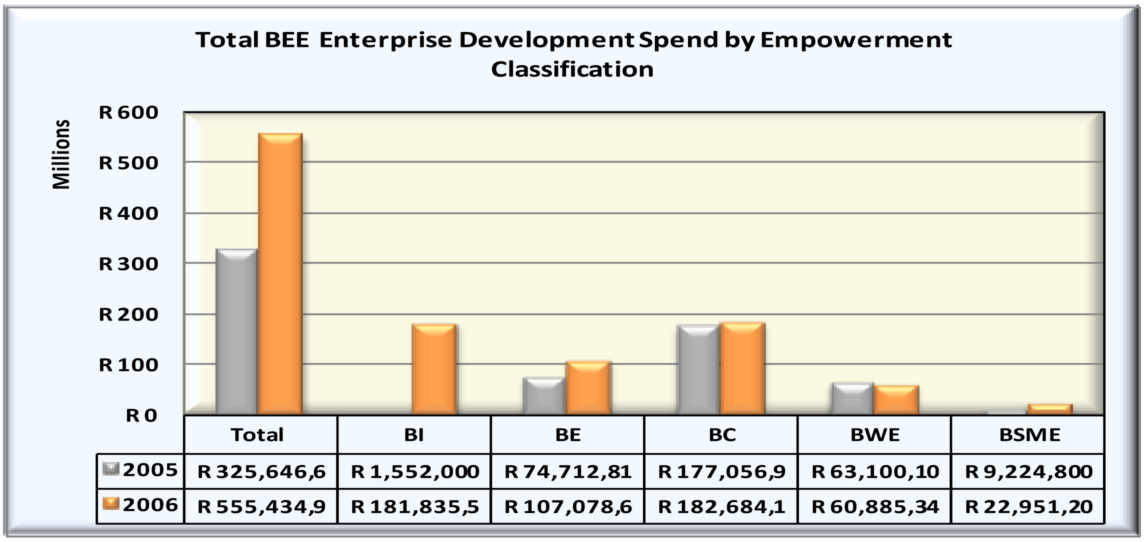
Table 5.2.3–ED: ***Summary Enterprise Development Spend – 2005 & 2006***

Sector Spend	2005	2006	Growth (%)	Growth (R)
Total BEE Enterprise Development (ED) Spend	R 325,646,656	R 555,434,924	70.56%	R 229,788,268
Black Influenced (BI)	R 1,552,000	R 181,835,577	11616.21%	R 180,283,577
Black Empowered (BE)	R 74,712,819	R 107,078,642	43.32%	R 32,365,823
Black Company (BC)	R 177,056,937	R 182,684,152	3.18%	R 5,627,215
Black Women-Empowered (BE)	R 63,100,100	R 60,885,344	-3.51%	-R 2,214,756
Black SME's (BSME)	R 9,224,800	R 22,951,209	148.80%	R 13,726,409

Rand Changes

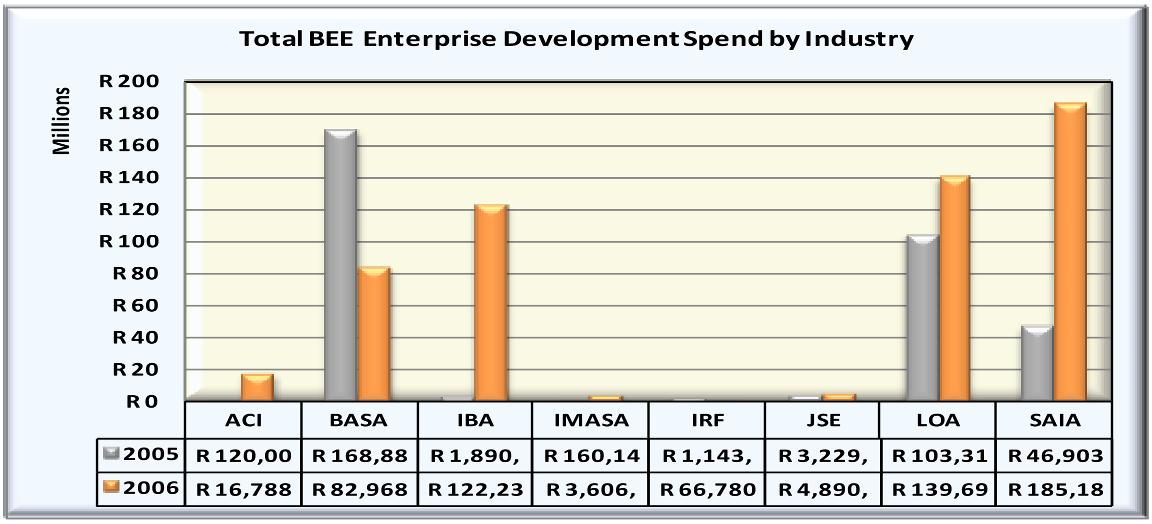
There was significant improvement in the aggregate spend on enterprise development, from about R324 million in 2005 to over R555 million in 2006. Refer to Table 5.2.3–ED above and Graph 5.2.3-TB below. The ED spending per equity classification is set out in Graph 5.2.3–TB.

Graph 5.2.3–TB: ***Total BEE Enterprise Development Spend per Classification***



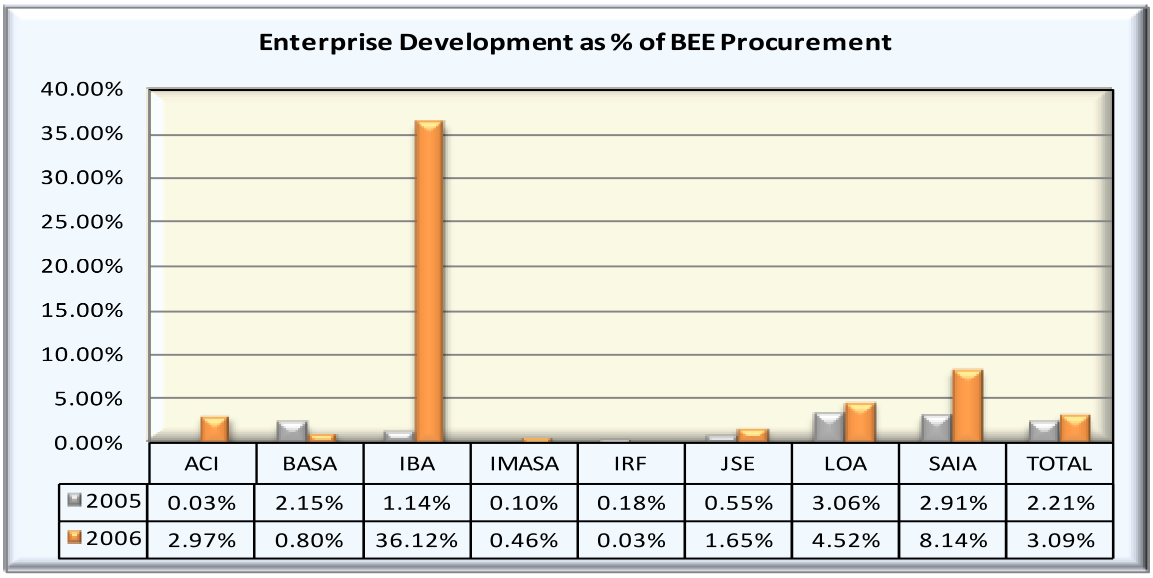
	Total	BI	BE	BC	BWE	BSME
2005	R 325,646,6	R 1,552,000	R 74,712,81	R 177,056,9	R 63,100,10	R 9,224,800
2006	R 555,434,9	R 181,835,5	R 107,078,6	R 182,684,1	R 60,885,34	R 22,951,20

Graph 5.2.3–TBI: ***BEE Spend per Industry***



	ACI	BASA	IBA	IMASA	IRF	JSE	LOA	SAIA
2005	R 120,00	R 168,88	R 1,890,	R 160,14	R 1,143,	R 3,229,	R 103,31	R 46,903
2006	R 16,788	R 82,968	R 122,23	R 3,606,	R 66,780	R 4,890,	R 139,69	R 185,18

Graph 5.2.3-EP: ***Enterprise Development as % BEE Procurement***



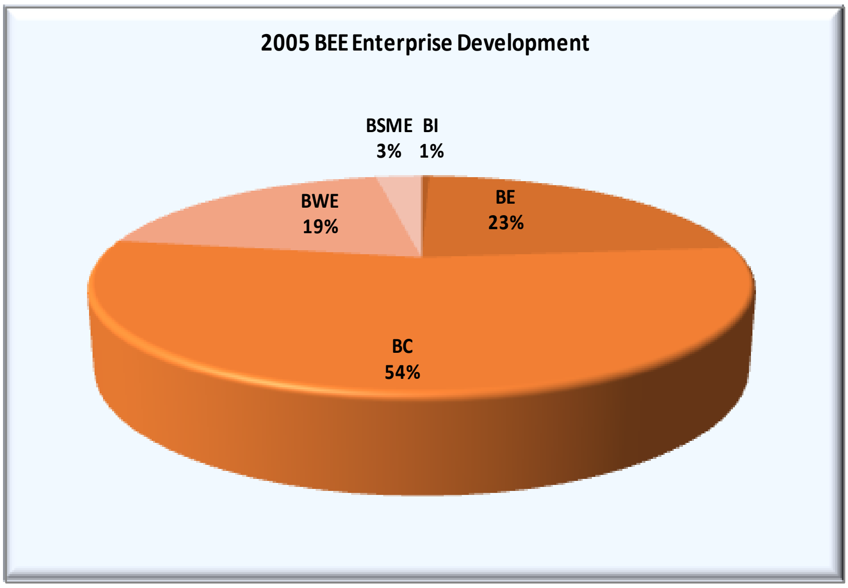
	ACI	BASA	IBA	IMASA	IRF	JSE	LOA	SAIA	TOTAL
2005	0.03%	2.15%	1.14%	0.10%	0.18%	0.55%	3.06%	2.91%	2.21%
2006	2.97%	0.80%	36.12%	0.46%	0.03%	1.65%	4.52%	8.14%	3.09%

Spending in black controlled entities was highest, with black influenced a close second in 2006. With regard to industry spend, short-term insurers made the highest spend in 2006 at over R185 million, up from R47 million in 2005. Refer to Graph 5.2.3–TBI above.

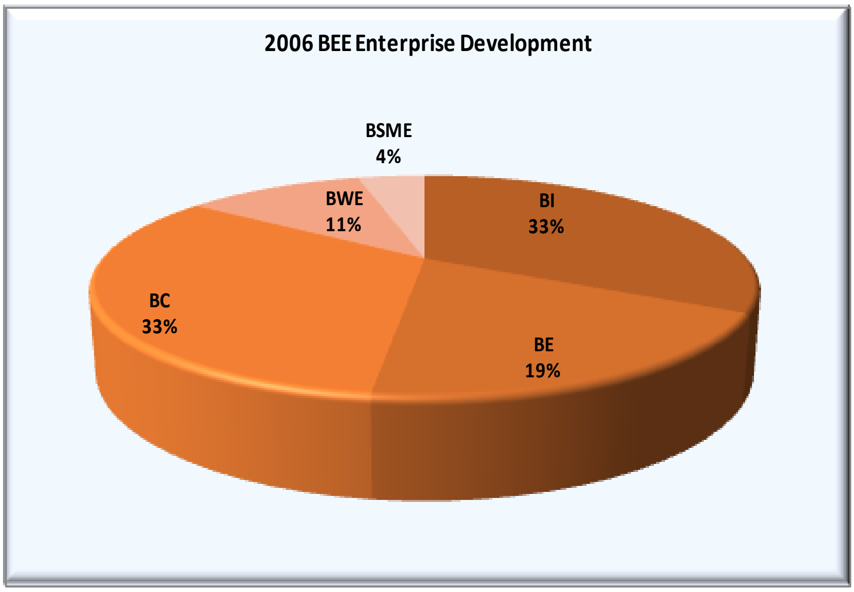
Graph 5.2.3–EP above sets out the industry level spending for ED as a proportion of BEE Procurement. The average for the industry is just over 3%, with a range of 0.8% for domestic banks to 36.12% for international banks.

Graphs 5.2.3-ED1 and -ED2 compare the distribution of spending across categories for 2005 and 2006.

Graph 5.2.3–ED1: ***BEE Enterprise Development - 2005***



Graph 5.2.3–ED2: ***BEE Enterprise Development - 2006***



5.3 Access to Financial Services

*... **the importance of broad financial services outreach** can be justified in several ways. The first argument builds on ... empirical finance and growth literature... and the importance of a well-developed financial system for economic development and poverty alleviation. Financial market imperfections such as informational asymmetries, transactions costs and contract enforcement costs are particularly binding on poor or small entrepreneurs who lack collateral, credit histories, and connections. Without broad access, such credit constraints make it difficult for poor households or small entrepreneurs to finance high return investment projects, reducing the efficiency of resource allocation and having adverse implications for growth and poverty alleviation. Second, one of the channels through which financial development fosters economic growth is through the entry of new (people and) firms and the Schumpeterian process of "creative destruction." This implies that talented newcomers have access to the necessary financial services, including external finance. Access to finance for large parts of the population is thus seen as important to expand opportunities beyond the rich and connected and also as crucial for a thriving democracy and market economy. The third argument is a socio-political one and sees access to financial services on a similar level as access to basic needs such as safe water, health services, and education.*

Thorsten Beck, Asli Demirguc-Kunt and Maria Soledad Martinez Peria, *Reaching out: Access to and use of Banking Services Across Countries*, World Bank, 2005.

There is an abundance of evidence that identifies the importance of broad and deep general access to financial services for both individuals and businesses. Ubiquitous access has direct positive impact on economic efficiency and equity, economic growth, poverty alleviation and socio-political inclusion.

Effective Access to financial services has many dimensions, which include the following categories:

- A target market/s identified
- Appropriate product/s with congruent product-performance functions, that include suitable pricing (affordability)
- Suitable distribution channels that provide effective coverage and service depth to the designated market/s
- Clear and understandable client-focussed communications dealing with products, sales and service rules; and
- Empowering customer education to ensure informed decision-making by potential consumers

As is the case with any performance requirement, the above dimensions must have explicit measurement criteria. The Charter includes broad measures dealing with the Access dimensions. It largely covers three areas:

- The target market - (LSM 1-5)
- Coverage of the target market by physical distribution infrastructure – 80% coverage of target market within 15km and 10km of branch and other service points; and
- Consumer education spend – 0.2% of net profit after tax (NPAT)

Other dimensions have no express measurement criteria at present and still need to be developed by the Charter Council in consultation with the Sector. These include critical elements such as price or affordability, product feature-function appropriateness and infrastructure density. There are also measures which are purely qualitative, such as whether "only a South African bar-coded ID book is required to open an account". The answer is simply a yes or no.

The absence of explicit measurement criteria undermine the speed and accuracy with which transformation can happen. This is a matter that requires urgent attention by the sector, before the end of the 2007 measurement period, if the gap is to be closed soon.

The access dimension largely affects four industries within the Sector, namely (i) Collective investments, (ii) Banking, (iii) Long-term insurance, and (iv) Short-term insurance. The Access element that affects all industries is the education of consumers, unless formally exempt.

The Financial Sector Charter defines the "unbanked" represented through the LSM groups 1 to 5. A dearth of other, perhaps more relevant and specific data at the time lead to the use of Living Standards Measure by the drafters of the FSC, rather than any sense that this segmentation is accurately representative of the unbanked.

*The LSM segmentation index is a reflection of **wealth** (standard of living) rather than income. The SAARF makes the point that adding income, education and occupation variables were tested and found to add nothing to the strength of the existing measure.*

A profile of these segments is essentially a measure of a person's access – or not - (via a household), to 29 living standard variables that could be grouped into the following five categories:

- *Public goods: such as water, flush toilet and electricity;*
- *Geography: Urban or rural living;*
- *Durable goods: such as fridge, freezer, landline telephone and DVD player;*
- *Type of housing; and*
- *Household services: security and use of a domestic worker.*

The LSM data is not helpful for identifying actual numbers of un/der-banked individuals; it merely sets out the demographic profile of those who enjoy lower levels of access to certain domestic durable goods and public services, and thus likely to be un/der-banked.

InsightWorx, 2007

5.3.1 Charter Council Recommendations - 2005

The 2005 Report describes the Charter Council's recommendations as follows:

5.3.1.1 First Order Financial Services

It was recommended that the Charter Council:

- Facilitate rapid resolution of unresolved issues concerning standards and criteria on the appropriateness and affordability of first-order products and services must be concluded as soon as possible.
- Engage the banking industry to ensure that future reporting includes the explicit tracking of target market penetration (LSM 1-5).
- Facilitates access to the banking industry's physical access (coverage) mapping initiative of the target market (LSM 1-5), which is essential to conclude the 2005 baseline study and to assess progress in 2006.

5.3.1.2 Origination

- It was recommended that the Charter Council engages with the banking industry to ensure that it records low-income housing loans by household income and that, in doing so, it takes account of the differing minimum household incomes applicable to originated and targeted investment low-income housing funding.

- Similarly, it was recommended that the Charter Council secures a commitment from the banking industry that in future reporting it takes account of the differing minimum turnover requirement of black SMEs applicable to originated and targeted investments.
- It was recommended that the Charter Council "consider" the trend, in all three originated loan categories, where clustering occurs in the three major urban areas, rather than being spread evenly or clustered in areas of highest need (e.g. poor provinces and rural areas).
- It was recommended that the Charter Council address the sector's comparative underperformance in the allocation of loans and funding to resource-poor farmers.

Additional recommendations affecting these categories were included under the heading "targeted investments".

5.3.1.3 Consumer Education

- It was recommended that the Charter Council facilitate the establishment of standards and criteria for qualifying consumer education expenditure. A set of Implementation Guidelines for Consumer Education Standards was developed - refer paragraph 7.2.10.1 below.

> *Finance matters for the well being of people beyond overall economic growth: Finance can help individuals smooth their income, insure against risks, and broaden investment opportunities …it can be particularly important for the poor …recent evidence has shown that a more developed (formal) finance system can help reduce poverty and income inequality.*
>
> Claessens, S., *Access to Financial Services: A Review of the Issues and Public Policy Objectives,* 2005

5.3.2 Access to First-order Retail Services

5.3.2.1 Banking

Access to banking products, transactional, savings, transmission and loan accounts is the backbone of financial access. Entrée to financial services in general is largely dependent on how accessible banking products and services are. Peoples' ability to have money paid electronically, to move money around, pay bills, institute debit orders for risk mitigation products requires bank products and services.

Recent evidence strongly suggests that poorer, disadvantaged peoples' access (communities' access) to credit products (loans) is the most valuable product for upliftment and to facilitate joining the economic mainstream. It is banks, via branch networks, that provide these products. While each of the industries in the sector is important, it is the banking industry that plays a critical role in financial transformation because of its particular intermediation role. As a consequence of this role, it is vital that the required transformation is achieved in banking to expedite transformation across the sector.

5.3.2.1.1 Product Roll-out

The Charter requires that banks provide a range of products and services that offer transactional, transmission and savings capability.

The industry, via the four largest retail banks, provides two industry-based products as part of their contribution to transformation; the Mzansi Account and Mzansi Money Transfer Product. Other products have been targeted at the unbanked market on a purely competitive basis by these and other banks. In addition, the SA Post Office participated in the Mzansi Initiative, in support of the overall Transformation objective.

The products designed and delivered to address the underbanked and unbanked markets are required to adhere to various criteria, some of which currently have no explicit measures. The intention of the criteria is to facilitate effective access, and thus support transformation. However, with no normative measures, the achievement of effective transformation is, perhaps, speculative. The criteria include:

- Capability to target products into the designated market. I.e., are so-called entry-level products sold and cross-referenced to an explicit measure of "unbanked"?
- Product appropriateness for the target market. There are no normative criteria, but defaulted to Mzansi Account profile. The minimum functionality that applied (per month) at the end of 2006 was:
    - no monthly charges on the account,
    - the account holder would be allowed one free monthly deposit
    - ATM fees of the bank would remain the same regardless of the bank at which the transaction was effected
- A low-level compliance requirement (as per Exemption 17 of the FICA) – accounts opened with minimum of a green bar-coded RSA ID book. No payslip is required if the product is not a loan.
- Contracts be written in languages that would be convenient and understandable for the target market.
- Product structures and features to include "low minimum balances", number of withdrawals per unit time, neutral fee structured for "on-us" and "on-them" ATM transactions, the existence of debit order capability, no monthly fees (e.g., administration fee) payable, minimum number of "free" transactions, and so forth.
- Products be "affordable" to the target market. If one assumes that the cut-off income level for LSM 5 is R2,679 (average income of LSM 5 groups) the "affordability" level should be consistent with this as the maximum average. If one goes down the LSM hierarchy, the "affordability'" level should be consistent with that average, which would be about R663 per person (as opposed to R957 per household). There is an inherent problem with LSM data as it is at household level and not at an individual level or some other disaggregated specific target-market, such as the poor or the unbanked. Refer to the comments in paragraph 5.3.2.1.1.1 below.
    - The total price of this bundle of services will be 17% of the average monthly income of LSM 1 - 5, which has been estimated at R1,000. This is significantly higher than the number set out above and in paragraph 5.3.2.1.1.1 below. It seems that the amount of R1,000 is for a household rather than an individual. The 17% would translate into R17, which is close to the average threshold defined in paragraph 5.3.2.1.1.1 below (namely, an upper limit of R24 and a lower limit of R13).

5.3.2.1.1.1 Comment: What is Affordable?

In 2006 the LSM data suggested that there were 18,336,000 adults in segments 1 – 5.[4] This number of individuals translates into 59% of the adult population. These are ostensibly the universe of the un/der-

[4] SAARF AMPS® 2006.

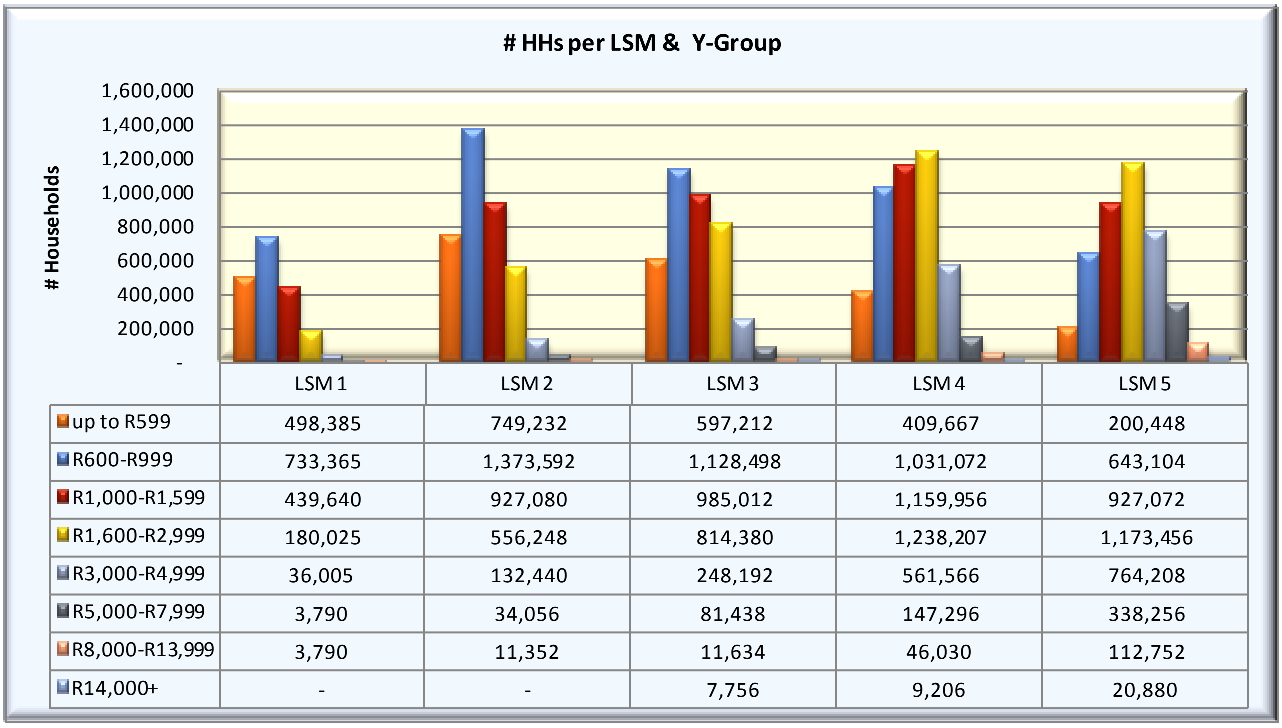
banked. They would also be the poor, with household income of less than R2,679 per month (or R957 *per capita*).[5] Refer to Table 5.3.2.1.1.1 below.

Table 5.3.2.1.1.1: *LSM Income Profiles*

	2004	2005RA	2006RA	PC Y / LSM (2.8 per HH)	(Adult) Population per LSM
LSM 1	R 878	R 911	R 999	R 357	1,895,000
LSM 2	R 1,076	R 1,103	R 1,214	R 434	3,784,000
LSM 3	R 1,412	R 1,434	R 1,521	R 543	3,878,000
LSM 4	R 1,792	R 1,888	R 1,940	R 693	4,603,000
LSM 5	R 2,436	R 2,518	R 2,679	R 957	4,176,000
LSM 6	R 4,057	R 4,194	R 4,398	R 1,571	4,454,000
LSM 7	R 6,437	R 6,444	R 6,833	R 2,440	2,413,000
LSM 8	R 8,429	R 9,174	R 9,235	R 3,298	1,759,000
LSM 9	R 11,499	R 11,864	R 12,488	R 4,460	2,085,000
LSM 10	R 18,643	R 18,822	R 19,532	R 6,976	1,857,000
Total Adult Population (2006)					30,904,000
Adult Population LSM 1 - 5 (2006)					18,336,000
Average per capita Income (2.8 adults / household) LSM 1 - 5 (2006)					R 633

Source: SAARF AMPS®, 2006 and *InsightWorx*, 2007.

Graph 5.3.2.1.1.1: ***Income Range for each LSM Group***



	LSM 1	LSM 2	LSM 3	LSM 4	LSM 5
up to R599	498,385	749,232	597,212	409,667	200,448
R600-R999	733,365	1,373,592	1,128,498	1,031,072	643,104
R1,000-R1,599	439,640	927,080	985,012	1,159,956	927,072
R1,600-R2,999	180,025	556,248	814,380	1,238,207	1,173,456
R3,000-R4,999	36,005	132,440	248,192	561,566	764,208
R5,000-R7,999	3,790	34,056	81,438	147,296	338,256
R8,000-R13,999	3,790	11,352	11,634	46,030	112,752
R14,000+	-	-	7,756	9,206	20,880

Source: SAARF AMPS®, 2006 and *InsightWorx*, 2007.

With an average *per capita* income of R633, the purchasing power (assumed disposable income) of the 18.3 million adults in LSM 1 – 5 is about R 11,608 million. Graph 5.3.2.1.1.1 above illustrates the numbers of households per LSM-category at various income levels...

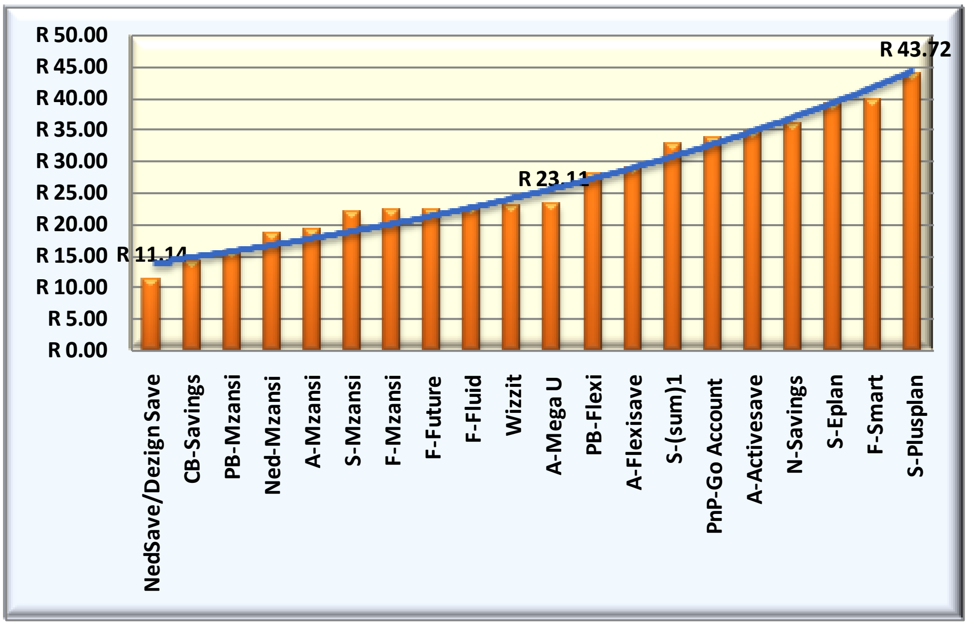
[5] Assumed that there are 4.2 people per household, with 2.8 being adults. Based on SAARF AMPS® Technical Report, p. 59, Table 33.

If the assumption is made that not more than 2% of personal income is the appropriate spend on banking services, then the average adult in LSM 1 – 5 would have about R13 per month to deploy on banking services.[6] If it is further assumed that an average household contains 2.8 adults and that 1.5 of these are the income-earners, then they would have R24 for banking services, per month. If it is assumed that 2 adults are income earners, then they would have R18 per month to spend on banking services. If the proportional assumption was 1% rather than 2%, the consequences are obvious and more challenging for banks.

Even though an amount of between R13 and R24 per month is low in terms of buying current banking services, prospective entry-level clients may not ordinarily require banking services, unless they were packaged in a different product-performance structure.

While there are entry-level banking services that fall within this price range, they fall short of providing the ubiquitous access that is "desirable". In a recent report in Personal Finance, 11 of the cheapest accounts fell below R24 (in cost) for a month. While some are for individuals defined as youths, this is not a material factor. [7] Refer to Graph 5.3.2.1.1.1–SA below.

Graph 5.3.2.1.1.1–SA: ***Sample of Bank Accounts and Costs for Basket of Transactions***



Source: *Personal Finance*, 25 November 2006 and *InsightWorX*, 2007

If the geographic dispersion factor gets layered over the income factors, frictional costs for poor people to be banked add to banking costs and the available funds for banking services are further eroded. For example, the infrastructure coverage for Gauteng, a high density area in terms of both population and banking infrastructure, reveals that infrastructure location is still skewed away from needy communities towards over-supplied areas.

Despite much better aggregate coverage, the target market is still poorly serviced by infrastructure in its community areas. Servicing takes place from more affluent areas. This is not problematic unless there is direct frictional cost for entry-level clients to access infrastructure in distant localities.

[6] The 2% of personal income deployed for banking services originates from work done by FinMark Trust.
[7] *Personal Finance* that sets out "cheapest" entry-level banking costs.

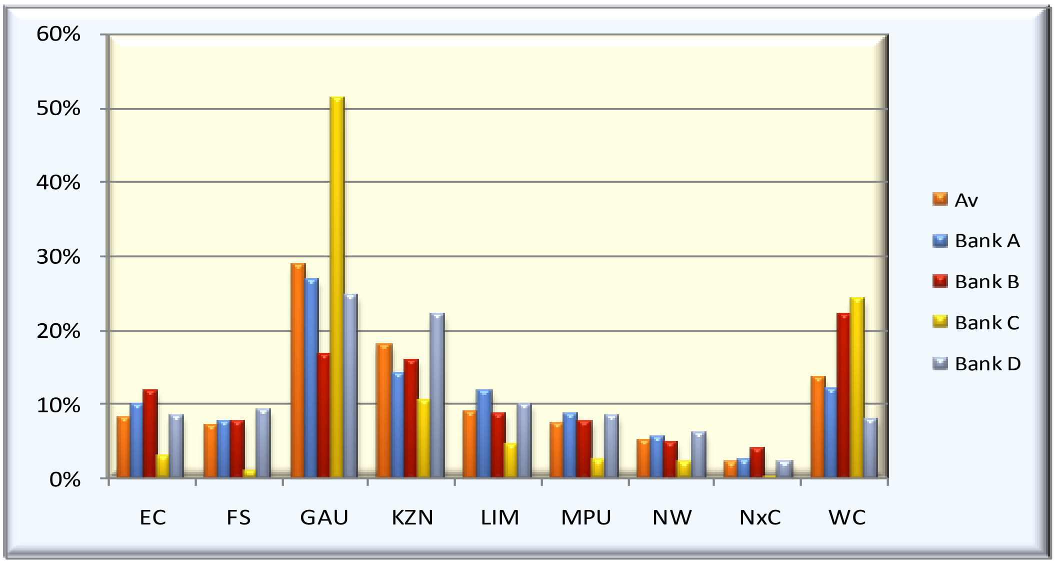
The importance of access to financial services

Making financial markets work effectively is one of the most important issues developing countries face today. Indeed, the effectiveness of financial markets is one of the biggest differentiating factors between developed and developing countries. As The Economist noted in a survey in late 2005, in developed countries "the vast majority of people have access to interest-bearing savings accounts, mortgages at reasonable rates, abundant consumer credit, insurance at premiums that reflect the risk of losses, cheap ways of transferring money, and innumerable sources of capital for funding a business". In developing countries, however, this is not the case. Financial markets are characterised by only partial coverage – or at least only partial coverage by efficient markets offering a broad range of financial products at reasonable prices. Furthermore, it is the poor who tend to be excluded, whether as individuals or as entrepreneurs. Simply put, effective participation in a modern monetary economy requires more than cash.

Keith Jefferies, *Enhancing Access to Banking and Financial Services in Botswana*, Econsult, 2007

The data submitted from banks and the PostBank on product roll-out have been rather varied. Some entities have submitted the aggregate number of Mzansi Accounts opened, others active accounts and others have disaggregated such numbers into provincial distribution. Neither a sector view nor relative performance amongst banks is possible. However, there are enough data to give indications of banking access transformation. What is clear from the data in Graph 5.3.2.1.1-BA is that access was highest in the three most developed provinces, Gauteng, Kwa Zulu Natal and Western Cape. As access to infrastructure is the major factor influencing access to products, there is a strong correlation between product roll-out and access to infrastructure.

Graph 5.3.2.1.1–BA: ***Provincial Distribution of Mzansi-type Accounts***

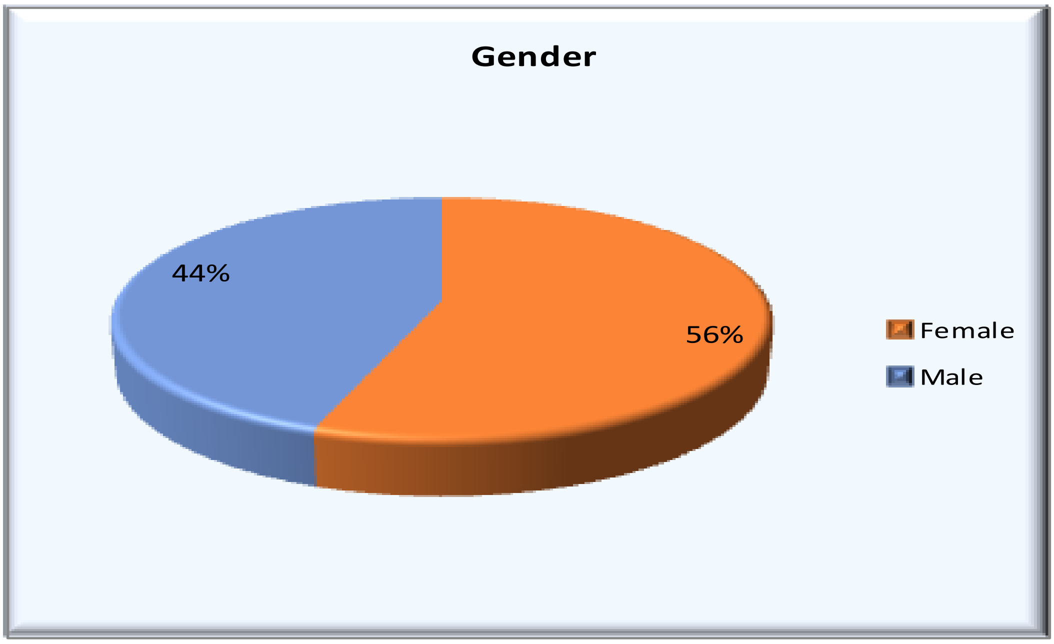


Graph 5.3.2.1.1-BAG indicates the gender distribution of the current entry-level banking products. Females have 12 percentage points more open (active) accounts than males. This is a positive variable as black women require urgent transformation.

What is not clear from the data submitted is whether the transactional products such as the Mzansi Account are targeted at the un/derbanked, being LSM 1 – 5 or identified via some other indicator. Only one bank submitted income-based data. If it is assumed this bank's data is representative of the industry (which is not necessarily the case), then the vast majority (63%) of Mzansi Accounts were opened for clients earning less than R500 per month. The balance of clients for this bank, 37%, earn between R500 and R3,000 per month.

The total number of "entry-level" accounts that reporting entities, including the PostBank, maintain are consistent with the minimum standards set out above, is 4.2 million. Without the PostBank it would be 2.8 million. The 2005 figure excluding the PostBank is just over 1.3 million accounts opened, a 115% increase in the number of accounts opened. Capitec Bank and Teba Bank entry-level products are included in the 2006 figure.

Graph 5.3.2.1.1-BAG: *Gender Distribution*



The reporting parameters for bank product access are very loose and it is not possible to assess performance in any definitive manner. This area of the Charter Council's transformation measures needs significant improvement if accurate and credible assessment is to be made. Also the product range that is included in the portfolio representing effective access needs revision. The international norm is set out in the note below.

For purposes of defining banked/unbanked macro-segments, it may be necessary to define what product/service relationships count for qualification. It is a convention to link either a transaction account ("checking account") or a savings account to banked status. In other words, at entry-level it is not necessarily deemed that an individual is banked if they have a personal- or micro-loan. This convention is moot as it can be argued that a micro-loan from a registered bank or credit union is accessing the financial system, thus the person is banked. However, it is still a useful tool for comparative purposes to assume that sustained access to the formal banking system is done via (i) a transaction account; be it an "ATM card", "debit card", "checking account", "paper-based book" or a bank issued "store of value card", or (ii) a savings account or (iii) a combination transaction/savings account, which uses a similar platform to the transaction account. *("Checking account" is defined as: A demand account (North America: checking account or chequeing account, UK and Commonwealth: current account) is a deposit account held at a bank or other financial institution, for the purpose of securely and quickly providing frequent access to funds on demand, through a diversity of channels.)* InsightWorx, 2007

5.3.2.1.2 Coverage: Physical Access

Established full service branches *economically stabilize communities. Bank branches are the primary place in which consumers have access to products for either building assets and/or obtaining credit. Without a bank branch in their community, many low-income individuals find it difficult to be part of the financial mainstream and subsequently lack opportunities to build financial relationships with a bank that could result in home mortgages, small business loans, electronic remittance products, lines of credit and credit cards with more favourable rates.*

Californian Reinvestment Coalition, *Where are the branches in my community? An analysis of branch distribution in low-income neighborhoods.* 2006

Accessible physical (banking) infrastructure is a key ingredient to achieve high levels of universal participation. While non-physical infrastructure, such as banking-enabled mobile phones, can be valuable secondary infrastructure, and may play an ever more important role in future, it is bank branches, Automated Teller Machines (ATMs) and point of sale devices that are currently essential to the objective of effectively banking those who are not yet banked. Branches are places where those new, prospective clients, unfamiliar with products, and processes, can have conversations with bank staff. It is the place where accounts can be opened and information obtained.

Branches and supporting infrastructure should be within and close to communities to ensure effective access and to reduce frictional costs for potential clients. People who perform low-value and low frequency transactions generally have lower, intermittent and infrequent incomes, thus cannot allocate resources for travelling to do banking. The nature of the infrastructure may also have to be different to those in established banking communities. The kinds of products, services and conversations are likely to be different and require different servicing.

There is no explicit measure for the depth of infrastructure coverage of the unbanked market (LSM 1- 5) at present. The benchmark measure for this kind of Access is a ratio of population to a standard unit of infrastructure, for example, 9,000 (2,500) adults (or target market population) to a standard-type branch, (or ATM).

An alternative, and complementary measure, is so-called "coverage", as set out in the Charter. In this instance the geographic coverage by specific infrastructure of the population (all, adults or target market) is calculated. Here the specific measure is infrastructure coverage of 80% of a target market (the unbanked – LSM 1- 5) who live within a radius of either 15 km (branches – transactional points) and 10 km (ATMs – service points).

Observations

There are two possible reasons for the difficulty in determining coverage. No concrete measures exist to determine what the coverage or depth of infrastructure provision is and some of the submissions have been inadequate to assess performance.

Performance to Target

While there is no concrete data to reach any conclusion on, it is intuited that the coverage element has been met as the banks themselves have requested that the targets be adjusted from 20km to 15km and 10km.

5.3.2.2 Collective Investment Schemes

➢ **Targets: Product and Coverage**

The collective investment schemes industry is required to capture 1% of the LSM 1 -5 market, plus 250,000 clients. This translates into about 450,000 adults in the designated market for 2006.

There is no specific coverage requirement in terms of infrastructure through which collective investments can be accessed, although the generic requirement for "effective access", the 20km radius of coverage for the target market, is applicable.

Explicit measures of performance that are quantifiable are absent. There is a range of digital and subjective measures, such as whether share-call lines are available or not, and whether the fund/s are fixed interest income funds (low risk with capital protection). There are no normative benchmarks for the critical variables, such as affordability and physical access

5.3.2.2.1 Product Roll-out

Proposals for the establishment of the Mzansi Fundisa industry-based product was put to government for approval. The Fundisa product will be made up of unit trusts and will have no fixed term. Participants will have to commit to a minimum investment of R40 and a maximum of R200 a month. At the end of each year whatever the customer has saved will be enhanced with another 25% of the value of the amount saved in the form of a grant. Market penetration into the designated LSM segments was not available due to the fact that the product had not been launched in the public arena by the end of 2006.

5.3.2.2.2 Coverage: Physical Access

There is no data available to assess the status of this measure.

5.3.2.3 Long-term Insurance

➢ **Targets: Product and Coverage**

Similar to the other retail industries in the sector, the long-term insurance industry is required to provide products that are appropriate, affordable and accessible via physical infrastructure points, supported by client sensitive business processes.

The target requirements, as agreed between industry (long-term insurers) and the Charter Council, included 80% coverage of the target population, within a radius of 40km (of where they live or work). There are other criteria, which are largely qualitative than quantitative and not easily measured on a normative basis.

5.3.2.3.1 Product Roll-out

Aside from the standard life insurance product offering, the life insurance industry announced its intention to launch products for the bottom-end of the market early in 2006. The first so-called CAT (stands for fair charges, easy access and decent terms) standardised industry product was launched at the beginning of 2007 by Absa Life and Lion of Africa Life in the form of the Zimele funeral product. No data was therefore available for the 2006 reporting period for these CAT standard products.

5.3.2.3.2 Coverage: Physical Access

Nine reporting entities indicate they do offer the standard life insurance products that meet the coverage requirement, with three that fall outside the 40km radius.

5.3.2.4 *Short-term Insurance*

➤ **Targets: Product and Coverage**

The short-term insurance industry is required to provide suitable products, at appropriate prices, to 6% of the designated target market.

5.3.2.4.1 Product Roll-out

Two short-term insurers indicated that they have provided suitable products at appropriate prices to the target market, with a total of 625,120 units sold. One entity contributed 99.99% of this number.

NOTE: The data is not regarded as accurate and these data should be regarded as illustrative at best.

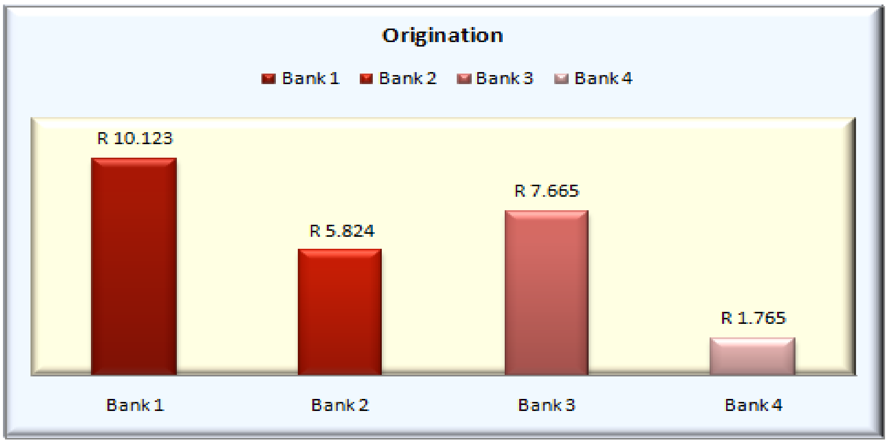
5.3.2.4.2 Coverage: Physical Access

There is no coverage data available.

5.3.3 Origination

Reporting entities were required to submit data and information setting out: the number of qualifying loans originated, the geographic location, loan size, household income (for low-income housing loans), or annual turnover (in case of black SME and agriculture loans. The domestic banks returned figures for origination ranging from R10.1 to R1.7 billion (Graph 5.3.3-O). Refer to section 5.4 below for review.

Graph 5.3.3-O: *Value of loans Originated - 2006*



5.3.3.1 *Low-income Housing*

The target for low-income housing loan origination is R40 billion. Refer to section 5.4 below for review.

5.3.3.2 *Agricultural Development*

The target is R1.5 billion. Refer to section 5.4 below for review.

5.3.3.3 *Black SMEs*

The target is R5 billion. Refer to section 5.4 below for review.

5.3.3.4 *Consumer Education*

Each institution is required to spend 0.2% of net profit after tax on consumer education. The consumer education data captured by institutions on the reporting tool was scanty at best and a separate survey was run to obtain this information. From 68 institutions that responded, the following could be gleaned. The collective investments industry contributed 0.25%, the domestic banks 0.11%; international banks, 0.28%; asset managers, 0.42%; long-term insurers, 0.15%; short-term insurers, 1.74% and the JSE, 1.28%. The domestic banks are lagging behind in consumer education spend though the figures are boosted by the contribution of the international banks within the banking sector. Long-term insurers still need to boost their consumer education spend to meet the shortfall.

The categories of spend vary ranging from financial literacy programmes, print and radio media consumer education initiatives, school support (Boys and Girls Town), other educational initiatives (e.g., Schools Challenge, Read Education), youth development programmes, arts and culture support, health, cellphone banking and agricultural education. Section 7.2.10.1 sets out the implementation guidelines for consumer education.

5.4 Empowerment Financing

5.4.1 Charter Council Recommendations – 2005

5.4.1.1 Targeted investments

The 2005 Review indicated that:

- Transformational infrastructure received proportionally lower levels of in-vestment than the other targeted investment areas. It also indicated a tendency to concentrate transformational infrastructure investment in traditional investment areas (Eskom, Telkom and so on) or in relatively developed local authority areas. It recommended that the Charter Council consider incentives, including the Charter Council development index, to encourage more geographically diverse transformational infrastructure investment.

It was recommended that:

- The Charter Council consider the implication of the repeated report that the lack of appropriate projects restricted investment in the four targeted investment categories, and requests from smaller institutions for the development, at sector or industry level, of investment instruments in which they could invest. Similar requests were made on transaction financing.
- The related issues of risk sharing and risk mitigation are addressed.
- The Charter Council consider the differing targets for low-income housing and black SME funding provided for under origination and targeted investments. These effectively discourage funding for low-income housing for the poorest segment of households and of black SMEs with turnover of less than R500,000 a year and crucially, of start-up black SMEs. The consequences of this do not appear to have been those intended in the Charter.

5.4.1.2 Transaction financing

The Charter currently provides that members of the international banks restricted by global policy may achieve their ownership targets through 'equity equivalent' transaction financing, but does not offer this mechanism to other institutions similarly restricted. This anomaly allows non-international banks members to seek and receive exemption from Charter ownership requirements, rather than incentivising additional 'equity equivalent' transaction financing from these institutions. The differing requirements for international banks and non-international banks members is inconsistent.

It was recommended that:

- The Charter Council review this inconsistency and consider amending the Charter to provide for 'equity equivalent' investments by all institutions restricted by global policy.

5.4.2 Charter Provisions

Empowerment financing is one of the six main components of the Financial Sector Charter and contributes 22% to the overall BEE scorecard. In terms of the Charter, empowerment financing is "the provision of finance for or investment in targeted investment and BEE (Black Economic Empowerment) transactions". Targeted investment may take the form of debt financing, alternative forms of credit extension or equity investment, more particularly in areas where there is a backlog or where gaps exist in economic development and job creation in areas not traditionally serviced by financial institutions.

Targeted investment includes the financing of or investment in:

- Transformational infrastructure
- Agricultural development
- Low-income housing; and
- Black SMEs

17 of the 22 points allocated to empowerment financing are in respect of targeted investment with the remaining 5 points allocated to BEE transaction financing.

For each of the categories in empowerment financing, targets have been set that should be met by 2008. These are detailed below.

- Transformational infrastructure finance of R25 billion by 2008
- Low income housing finance of R40 billion for origination and R31.8 billion for empowerment financing
- Agricultural development financing of R1.5 billion by 2008; and
- Black SME financing of R5 billion by 2008

New targets in these categories will be set for the period 2009 to 2014.

Individual institutions may invest in each category of targeted investment in proportion to the total targeted investment target. According to the Charter, they may 'choose to participate to a greater or lesser extent in each of the components of targeted investment, depending on where they are relatively better positioned to do so'. They are not restricted to investing in each category of investment in proportion to their designated investment holdings.

5.4.3 Performance Review - Empowerment Financing: 2005

By the end of December 2005, the financial sector reported just over R30 billion on its books in targeted investments.

The results suggested that reported low-income housing, transformational infrastructure and agricultural development investments are over-claimed by the financial sector. Further results were geographically skewed with the bulk of the investments being concentrated in the major centres namely Johannesburg, Cape Town and Durban.

The 2005 results were meant to serve as a yardstick against which the 2006 BEE performance in the sector could be measured. Insufficiently detailed reports, specifically with reference to geographical spread, limited the value of the 2005 results for measuring investment in those areas originally meant to have been targeted by the empowerment financing provisions of the charter. This was the case for both targeted investments and BEE transaction financing.

Furthermore, there appeared to be a misallocation of values particularly with regard to the Black SME and BEE transaction financing categories. The assignation of certain institutions to more than one trade association further skewed the sectoral assignations as duplicated data was assigned to one or other trade association, and not both.

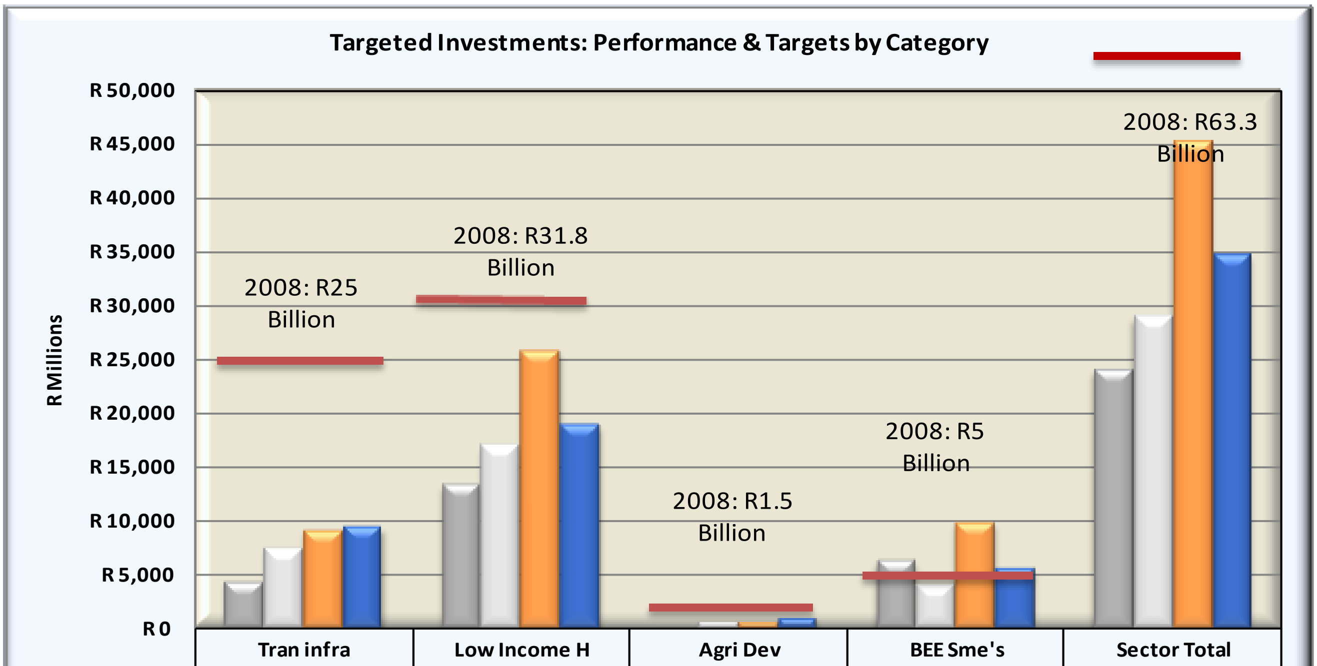
Overall, the banking industry was the most significant contributor to low-income housing loan origination, agricultural development and black SMEs, accounting for close onto 50% of the total targeted investment contribution in the sector. Non-performance by other industries in these categories of investment was attributed to the non-availability of appropriate investment opportunities.

There was strong circumstantial evidence of over-claiming for targeted investments by the sector. Still, disregarding this, the targets going forward were not insubstantial at R9 billion a year to remain within sight of the Charter targets. It was suggested that adjusting the data to compensate for the over-claiming would have resulted in more onerous targets of between R12 and R15 billion a year. The least financed category was that of transformational infrastructure with the larger contributors to this category focussing on the major metropolitan areas.

5.4.4 Performance Review - Targeted Investments: 2006

For the 2006 reporting period the financial sector reported R45.3 billion in targeted investments on its books, exceeding the industry target for the year, bolstered in large part by the disproportionately high contribution of low-income housing financing by the domestic banking sector. Refer to Graph 5.4.4–EF below.

Graph 5.4.4–EF: ***Empowerment Financing by Category: Performance & Targets – 2005 & 2006***



	Tran infra	Low Income H	Agri Dev	BEE Sme's	Sector Total
2005	R 4,290	R 13,269	R 201	R 6,214	R 23,974
2005 Target	R 7,391	R 16,939	R 520	R 3,991	R 28,841
2006	R 9,115	R 25,707	R 604	R 9,840	R 45,265
2006 Target	R 9,372	R 18,830	R 1,002	R 5,480	R 34,683

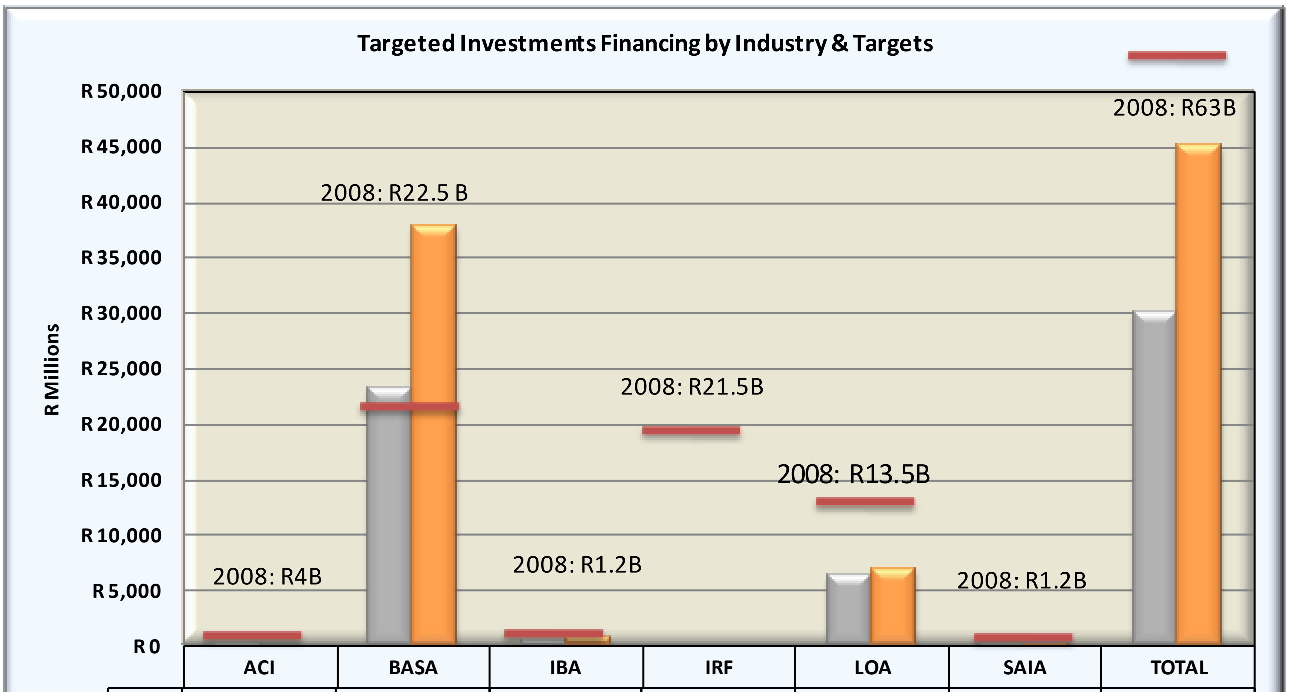
The total targeted investment value comprised R9.1 billion towards transformational infrastructure (36.5% of 2008 target), R25.7 billion towards low-income housing (80.84% of 2008 target), R603 million to agricultural development (40.25% of 2008 target), R9.8 billion for black SMEs (196.8% of annual target), and an amount of R55 million unallocated to any of these categories.

Targeted investments by sector are similarly skewed with domestic banking contributing R37.8 billion (relative to 2008 target of R22,5 billion), international banking R682 million (2008 target R1.2 billion), the long-term insurers R6,8 billion (2008 target R13.5 billion) and short-term insurers R84.9 million (2008 target R1.2 billion). Refer to Graph 5.4.4-TI below. Other sectoral targets for 2008 are R4 billion for collective investments industry.

Retirement funds belonging to the IRF were not obliged to report on either their 2005 or 2006 performance, though three opted to report in 2005 and one in 2006. The IRF represents pension fund trustees and it is moot whether ownership - arguably every member of the pension fund - represents a controlling interest in the pension fund. The IRF is itself undergoing transformation and was exempt from reporting on empowerment financing. Regardless, the Charter targets for the IRF remain in place for 2008 unless agreement is reached by Charter participants to amend this requirement for the IRF for 2008.

Overall, the financial sector targeted investment financing for 2006 has achieved 71,6% of the 2008 target with low-income housing forming the bulk of the investments.

Graph 5.4.4–TI: ***Targeted Investments by Industry and Targets***



	ACI	BASA	IBA	IRF	LOA	SAIA	TOTAL
2005	R 2	R 23,257	R 437		R 6,431	R 17	R 30,127
2006		R 37,750	R 683		R 6,802	R 85	R 45,234

Financing of agricultural development and transformational infrastructure projects is lagging behind and 2008 targets can only be achieved if there is a substantial financing reach in these categories. In order to meet the 2008 target,' the sector will need to generate R9 billion rand per annum in new investments. That will include per annum, R7.9 billion in transformational infrastructure, R3,05 billion in low cost housing and R448 million in agricultural development. Black SME financing reported the most positive performance with a cumulative value at the end of 2006 of R9.8 billion.

5.4.4.1 Transformational Infrastructure

Transformational infrastructure projects are those projects that support economic development in underdeveloped areas and contribute towards equitable access to economic resources. These include, but are not limited to, projects in: transport; telecommunications; water, waste water and solid waste; energy; social infrastructure such as health, correctional services facilities; education, and municipal infrastructure and services.

All commercially productive infrastructure development is excluded from this consideration. Examples of these might be productive assets such as factories and plants. Certain commercial infrastructure may qualify if it can be demonstrated that it supports economic development and contributes towards equitable access to economic resources

In an attempt to incentivise investment in low-development areas, the Charter Council has developed an infrastructure index. Any area will constitute an underdeveloped area if it has a level of infrastructural development below a specified minimum level, as measured in a consistent way. The index uses household survey data from the last national census and comprises measures of access to water (25%), sanitation (25%), electricity (25%) and housing (10%), as well as household income (15%), with weightings as indicated in brackets. Although not comprehensive, these indicators act as a proxy for the level of infrastructure development across South Africa, and the ability to pay for this infrastructure. The survey data coincides with municipal areas, giving a contiguous picture of South Africa. The index provides a range from zero to 100, where the higher the index number, the greater the level of underdevelopment. The index can be used to quantify the level of development in an area and to form the basis of scoring transformational infrastructure funding performance. The financial sector transformational infrastructure financing target for 2008 is R25 billion.

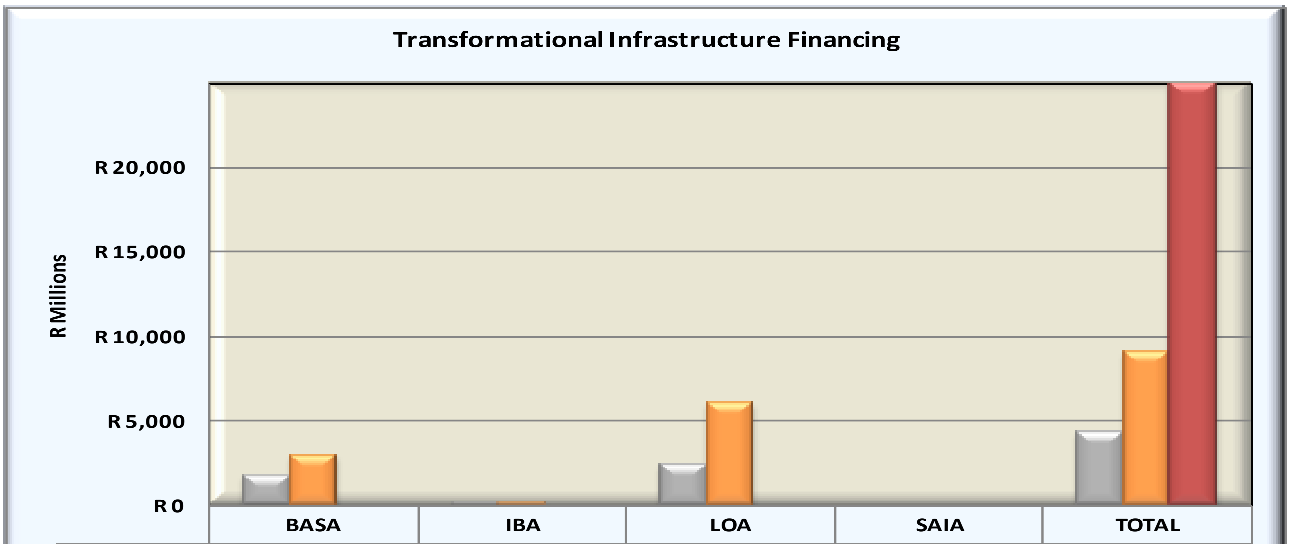
The reported 2005 performance reflected a serious gap in meeting infrastructure targets. From the scant detail reported it appeared that transformational infrastructure funding followed a similar geographic trend to those of other targeted investment categories, with investment tending to cluster around South Africa's main urban metropolises - Johannesburg, Cape Town and Durban.

The long-term insurers contributed the bulk of the transformational infrastructure financing (66.6%), followed by the domestic banks (32.2%) with a lesser contribution by the international banks (1.2%). Refer to Graph 5.4.4.1–TII below.

The bulk of the transformational infrastructure investments were in traditionally held infrastructure entities including Eskom, Transnet, Telkom, Infrastructure Finance Corporation Limited (INCA) and the Development Bank of Southern Africa. Several institutions could not trace the exact path of the funding they provided in particular for loans to parastatals and intermediaries as part of these entities' general raising of finance. In the absence of this information regarding where and how the funds were used, and taking into consideration the nature of the receiving entity, assumptions were made by the reporting institutions about the intended funds use. In general, if the receiving entity was in any way involved in infrastructural development, the reporting institution opted to allocate these loan funds to transformational infrastructure.

Within the domestic banking sector it was commonly held that the development of transformational infrastructure was already being realised by government institutions, local government, parastatals and certain financial intermediaries.

Graph 5.4.4.1–TII: ***Transformational Infrastructure per Industry – 2005 & 2006***



	BASA	IBA	LOA	SAIA	TOTAL
2005	R 1,752	R 109	R 2,428	R 0	R 4,290
2006	R 2,932	R 109	R 6,074	R 0	R 9,115
2008 Target					R 25,000

The entrenched positions of some of these financial intermediaries, long associated with transformational infrastructure developments, made it difficult for other institutions entering this area of financing to make a significant impact. It was further held that the lack of public-private partnerships in municipal infrastructure projects limited the opportunities for investment in transformational infrastructure.

5.4.4.2 Low-income Housing

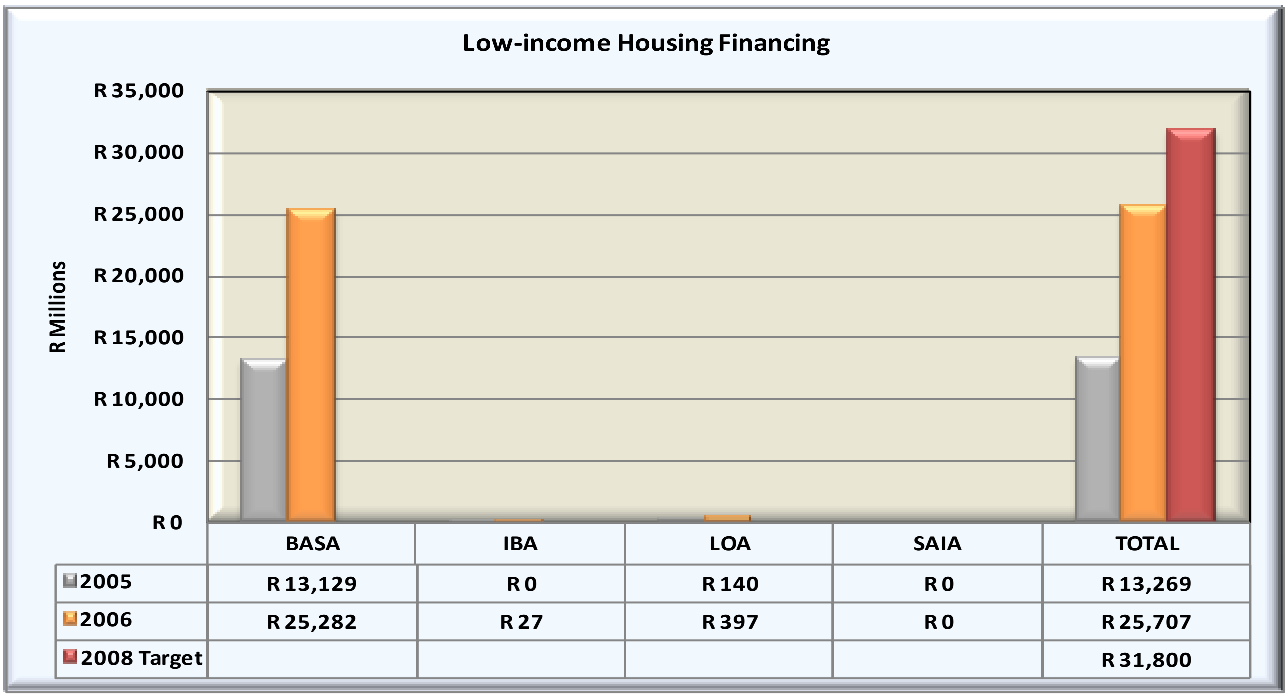
This refers to housing for households having a stable income of R1,600.00 to R8,200.00. The range for 2005 was R1,600.00 to R7,900.00. This income band is linked to the CPIX as of the first January for the year in which results are being reported and increases annually accordingly. Refer to Graph 5.4.4.2–LIH below. The financial sector low-income housing financing target for 2008 is R31.8 billion.

Low-income housing loans, specifically for those households with incomes of between R1,600.00 and R7,900.00, originated largely from the domestic banking sector in 2005 with funding being provided for housing units not exceeding R180,000.00.

Also, the information received suggested that funding was typically pitched at those individuals / households earning at the upper end of the housing band with lower income households representing a disproportionately small number of borrowers. The major lending and borrowing trend was once again higher in the main metropoles.

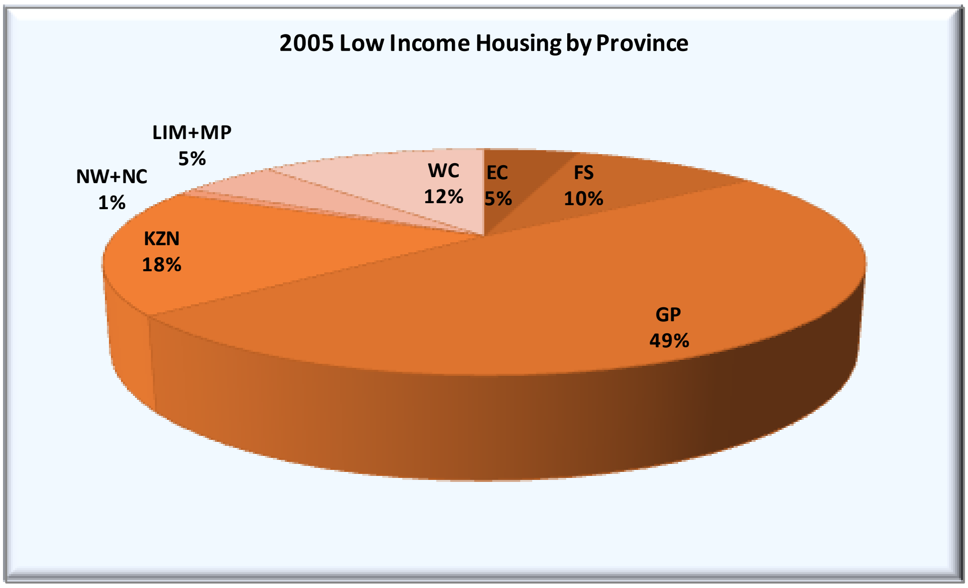
For the 2006 reporting period, low-income housing finance, loans and other forms of credit guarantees must be to households earning a combined income of between R1,600.00 to R8,200.00. Domestic banks accounted for 98% of the low-income housing financing with the international banks and the long-term insurers accounting for the remaining 2%. Of the total R25.7 billion in low-income housing financing, R13.7 billion (53.5%) was unallocated in terms of geographical distribution. For the remaining R12 billion (46,5%), the bulk of the financing was in Gauteng followed by Kwa-Zulu Natal and the Western Cape. Refer to Graphs 5.4.4.2–LHP5 and -6.

Graph 5.4.4.2–LIH: ***Low-income Housing Finance per Industry – 2005 & 2006***



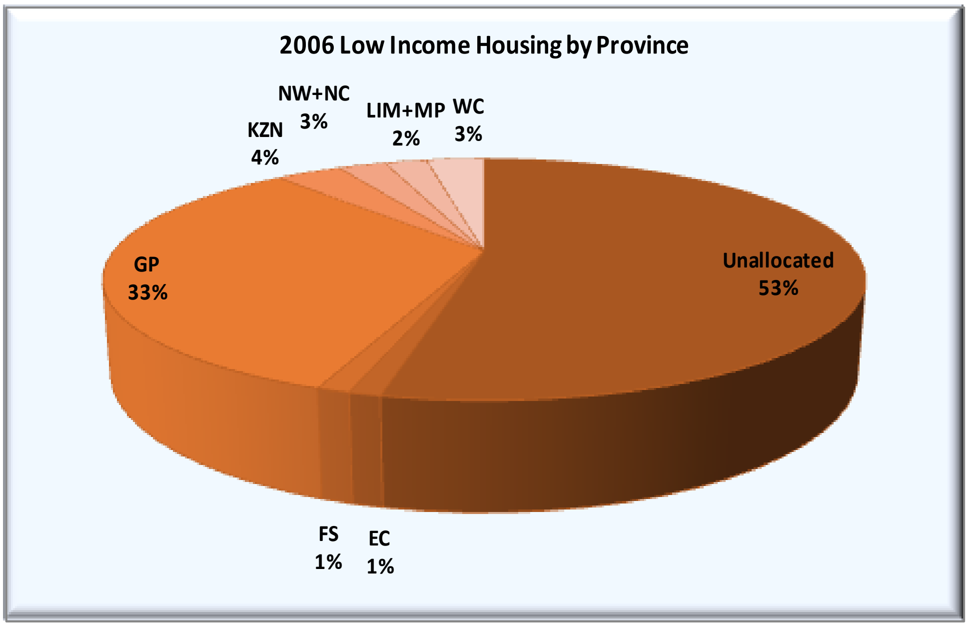
	BASA	IBA	LOA	SAIA	TOTAL
2005	R 13,129	R 0	R 140	R 0	R 13,269
2006	R 25,282	R 27	R 397	R 0	R 25,707
2008 Target					R 31,800

Graph 5.4.4.2–LHP5: ***Housing Spend per Province - 2005***



One of the reporting requirements for low-income housing was that institutions provide detail on the breakdown of the loans according to household income band, loan type (mortgage or non-mortgage) and if possible, loan purpose, e.g. whether the loans were for new houses or were incremental loans. In addition to the online reporting exercise by the Charter Council, a separate directed survey, of the major banks and lending institutions, for detailed breakdown as per these reporting guidelines, was run. The results from this survey did not in any way contribute to the online reporting information originally submitted. Several of the domestic banks in particular reported difficulty in extracting the information in the required format. This is, however, set to change as lenders will be obliged to report according to these very guidelines to the National Credit Regulator in future. Currently the banks are preparing to provide this detailed information in line with compliance with the National Credit Act.

Graph 5.4.4.2–LHP6: ***Housing Spend per Province - 2006***



The lack of detailed information, in particular that of total household income, limits the reliability of the reported figures. During the 2005 reporting process it was observed that individual rather than household income was one of the deciding criteria for granting low-income housing financing. In those instances where one household member earned at or near the R7,900 ceiling, other earning household members would tip the household income over the low-income housing income range, thereby not qualifying for inclusion in the reported figures. Some of the major banks have reported figures for this reporting period based again on individual income. In the absence of detailed breakdowns, the extent to which this might have been repeated in 2006 across the different sectors cannot be confidently assessed.

5.4.4.3 Agricultural Development

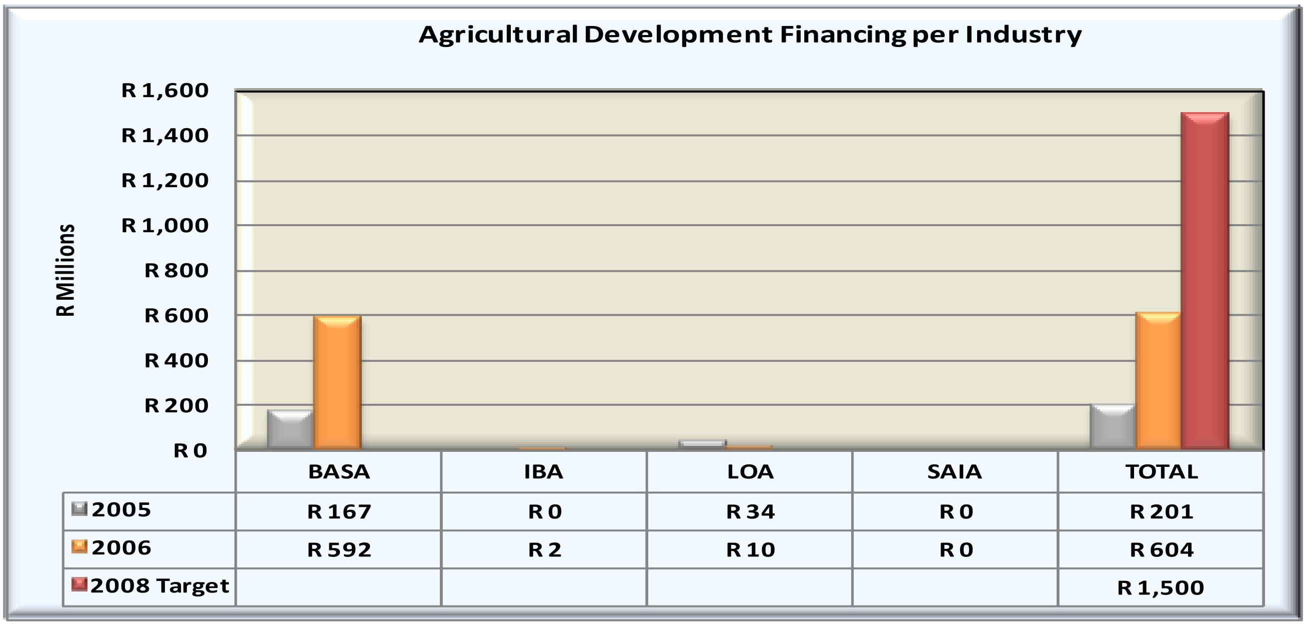
Agricultural development refers to integrated support for resource-poor farmers, through enabling access to and the sustainable use of resources. The financial sector agricultural development financing target for 2008 is R1.5 billion.`

Agricultural development financing year for 2005 did not even go a third of the way towards meeting the 2008 target with the bulk of the investments listed under agricultural development funding going into the Western Cape. Furthermore, the results were skewed by inclusion of agricultural development investments which do not fall within the Charter definition.

For the 2006 reporting period, the situation was not greatly improved and agricultural development was underfinanced relative to the other targeted investments. With domestic banks claiming just over 98% of the total R603 million. Refer to Graph 5.4.4.3–AD below.

Geographical distribution reporting was scanty for agricultural development and whatever geographical distribution information supplied, showed a repeated pattern of financing was in the major centres. The data was further skewed by the inclusion under agricultural development of transactions which did not fall within the Charter guidelines of first-order retail financial services, e.g. the funding of agricultural development loan books for other lenders.

Graph 5.4.4.3–AD: ***Agricultural Development Financing per Industry – 2005 & 2006***

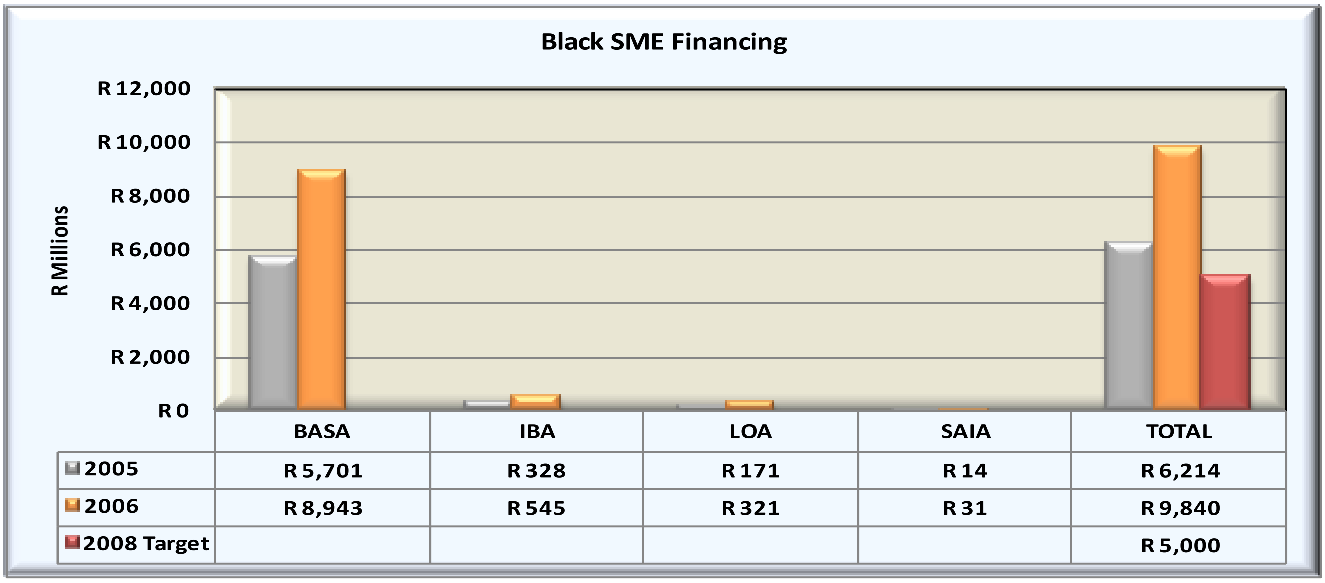


	BASA	IBA	LOA	SAIA	TOTAL
2005	R 167	R 0	R 34	R 0	R 201
2006	R 592	R 2	R 10	R 0	R 604
2008 Target					R 1,500

5.4.4.4 Black SMEs

Black SME support refers to support for companies that are more than 50% black owned and have an annual turnover of between R500,000.00 and R20 million. The financial sector black SME financing target for 2008 is R5 billion, with the 2006 level being R9.84 billion. Refer to Graph 5.4.4.4–BS below.

Graph 5.4.4.4–BS: ***Black SME Financing – 2005 & 2006***



	BASA	IBA	LOA	SAIA	TOTAL
2005	R 5,701	R 328	R 171	R 14	R 6,214
2006	R 8,943	R 545	R 321	R 31	R 9,840
2008 Target					R 5,000

The sector significantly bettered the black SME targeted investment for 2005 and the 2008 end-target. In 2005, close to 90% of the black SME funding went to cities within the provinces of Gauteng, Western Cape and KZN. This asymmetry in geographical spread of black SME financing was more pronounced at the end of 2006 with 98% of all black SME financing concentrated in the above-mentioned provinces. While the asymmetry here correlates to other economic variables reflecting the primacy of the three regional economic nodes, it is not ideal. It suggests that no real progress has been made in financing black SMEs in the poorer provinces, which is a function of larger economic distortions.

5.4.5 Performance Review - Transaction Financing: 2006

BEE transactions encompass all transactions for the acquisition, by black people, of direct ownership in an existing or new entity, other than an SME, in any sector of the economy, and joint ventures with debt financing or other form of credit extension, or equity investments in BEE companies, other than SMEs. Facilities that represent financing risk, but do not involve a flow of funds to BEE entities, such as guarantees, are not counted towards BEE transaction financing credits.

Transactions for the acquisition, by black people, of direct ownership in an existing or new entity, other than an SME, are scored in full. Transactions that are joint ventures with, debt financing of, other form of credit extension to or equity investments in, BEE companies, other than SMEs should be scored in proportion to the level of black ownership. Proportional recognition will depend on the level of black ownership in the entity receiving financing. The application of proportional recognition means that a threshold of 25% applies such that financing of entities with 25% black ownership or less contribute nothing to the score. Institutions financing entities with black ownership of between 25% and 50% score at the rate of twice the percentage of black ownership per rand of financing. An institution providing finance to a 25% black-owned company should score 50% of possible points. Full points would be scored where financing is provided to an entity which has 50% or more black ownership.

Graph 5.4.5–BTF: ***BEE Transaction Financing – 2005 & 2006***

	ACI	BASA	IBA	IRF	JSE	LOA	SAIA	TOTAL
2005	R 43	R 23,371	R 1,494			R 8,083	R 1,431	R 34,422
2006	R 53	R 41,178	R 3,196	R 813	R 450	R 8,950	R 233	R 54,873
2008 target								R 50,000

The BEE transaction financing figure for 2005 and 2006 comfortably exceeded the annual target set by reporting institutions and by the end of this reporting period had even exceeded the 2008 target of R50 billion. Refer to Graph 5.4.5-BTF above.

5.5 Ownership

5.5.1 Charter Council Recommendations - 2005

The 2005 Report made no recommendations on ownership.

5.5.2 Charter Provisions

Direct ownership is measured by the ownership of an equity interest plus the shareholder's control over all of the voting rights obtained as a result of the equity interest. Indirect ownership occurs where an institution or other investor owns equity in a company on behalf of beneficiaries where there is no direct participation by the beneficiaries in the voting rights. Each financial institution has a target of a minimum of 25% black ownership, measured at holding company level, by 2010. Black ownership is calculated as the agreed standard valuation of the black interests expressed as a percentage of the agreed standard valuation of the South African operations of the financial institution on the date of the transaction.

Paragraph 10.1 of the Charter requires that a minimum of 10% of the target must be satisfied by way of direct ownership by black people, provided further that the financial institution will have a target of 33% black people on the board of directors by 2008 (refer section on "control"). If the principle of interim ratings applies, which states that the respective year's equivalent of the rating bands for 2008 will be established, and that the rating bands for each of the intervening years will be a linear progression from the 2004 ratings to the 2008 ratings, then the target for black people on the board of directors for 2006 translates into 23%.

Any transaction which involves BEE parties acquiring equity on a conditional, deferred basis, with no issue of equity carrying upfront economic interest, is not counted as direct ownership for the purposes of this provision, until such time as the equity is actually transferred.

5.5.3 Performance Review: 2006

The 2006 ownership performance is not weighted by market capitalisation of individual institutions or any other factors. Therefore the stated black ownership average percentages do not necessarily translate into an achievement of direct black ownership of 25% in the financial sector.

The average direct black ownership of reporting institutions has increased from 16% to 17.78%. Two-thirds of reporting institutions submitted returns on direct ownership. However, only 47% of institutions which submitted reports claim any black ownership at all. The Charter does allow financial institutions which are subject to global policy that is inconsistent with ownership transformation to be exempt from ownership objectives. However, the institution needs to demonstrate that the global policy precludes the financial institution from accommodating local ownership participation.

Ownership is an area which is still beset with measurement reporting data challenges. It is anticipated that there will be a much improved story-line to assess transformation progress in the forthcoming measurement period. As is the case with a critical mass of directors and executives to ensure effective and credible transformation, ownership is a foundation stone for building new institutions and the sector as a whole.

5.6 Control

5.6.1 Charter Council Recommendations - 2005

The 2005 Report states the following:

- Although the Charter gives greater incentives for the employment of black executives than it does for the involvement of black directors, it sets lower targets for the former than latter. This is more consistent with first-generation, narrow-based BEE approaches than it is with the broad-based approach that prevails in the rest of the Charter.

- **It is recommended that**, whatever the outcome of the process of aligning the Charter with the Codes, the Charter Council consider incentives to promote the appointment of black executives and raises the targets for black executives and black women executives.

5.6.2 Charter Provisions

Control of institutions and the sector, as a transformation objective, centre on the authority and power to manage assets, determine policies and direct business operations. Control includes participation in the control structures of a company, the exercising of voting rights on the board and participation in executive management.

This section of the Charter aims to ensure transformation in the involvement of black people at the levels of board and executive management. The appointment of black people to boards and executive management positions is seen as an answer to a range of transformation challenges. The presence of black directors and black executives may improve transformation processes and achieve objectives sooner than may otherwise be the case.

5.6.3 Performance Review: 2006

5.6.3.1 Black Directors and Black Women Directors

The Charter requires that 33% of directors should be black and 10% black women.

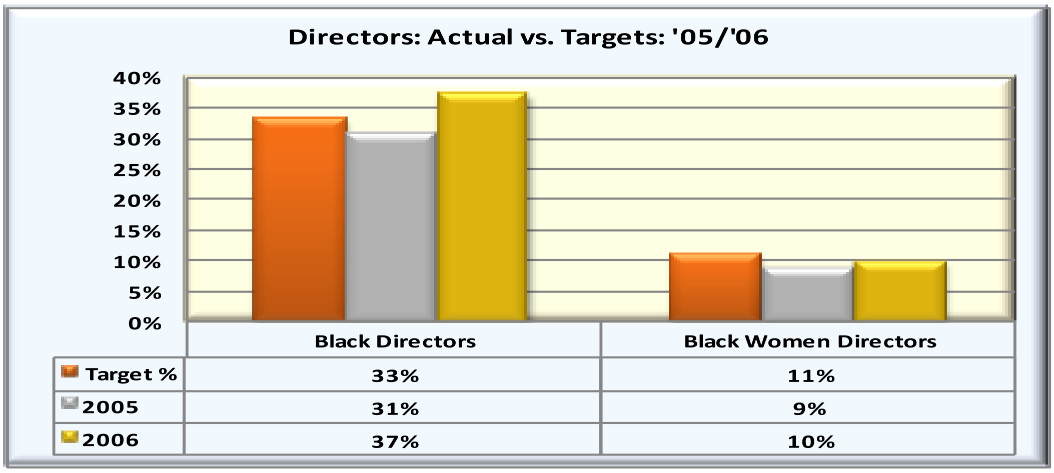
The sector performed above the 2008 targets for black directors, at 37% in 2006, and just below the target for black women directors, 9%. Refer to Table 5.6–A and Graph 5.6–BD below. The increase between years for black directors was 42% and black women directors 32%. Thus, 38 of the 147 additional directors in the sector (as per submissions) were not designated as black (26.53%). The main beneficiaries of the 17% growth in directorships were black males, which took 58% of the aggregate growth. Black women acquired 16% of the growth, thus did not fare well. This is an area where there is still room for improvement.

Table 5.6-A: ***Directors for the Sector – 2005 & 2006***

Sector	2005	2006	Growth %	Growth #
Total Directors	841	988	17%	147
Black Directors	258	367	42%	109
% to Target	31%	37%		
Target %	33%	33%		
Target #	278	326		
Black Women Directors	74	98	32%	24
% to Target	9%	10%		
Target %	11%	11%		
Target #	93	109		

The sector shot past the 33% target in 2006 from 31% in 2005, for black directors. However, there was only a marginal gain of 1 percentage point for black women directors. This is off a low base, so better performance was expected. This should be given effect in 2007.

Graph 5.6–BD: ***Performance to Targets: All Black People & Black Women – 2005 & 2006***

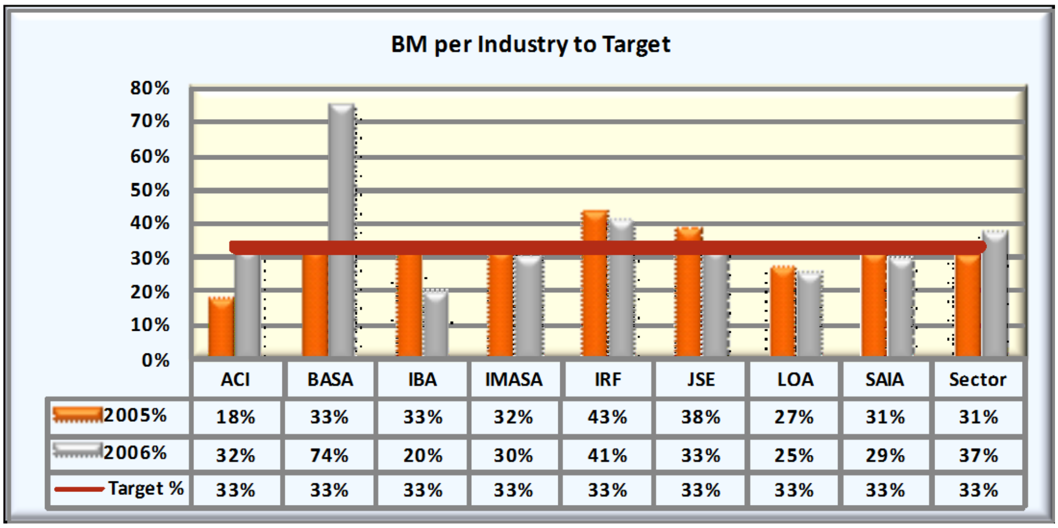


	Black Directors	Black Women Directors
Target %	33%	11%
2005	31%	9%
2006	37%	10%

From an industry point of view, some surged ahead at great pace. The domestic banks shot from 33% in 2005 to 74% in 2006. In numbers this is an increase of 78, which is 72% of the total increase in the number of directors.

Refer to Graph 5.6–BDI below which illustrates the industry performnace on transforming the proportion of black directors per industry. While the international banks has the lowest transformation score, it is justifiable due to foreign policies in regard to organisational structures. The long-term insurers is the laggard in this area, being at 25%, down from 27% in 2005. While the sector makes the grade, five of the industries do not and six have shown a negative trend compared to their 2005 performance. Without the banking industry effort it is doubtful whether the sector would have achieved the same levels it did.

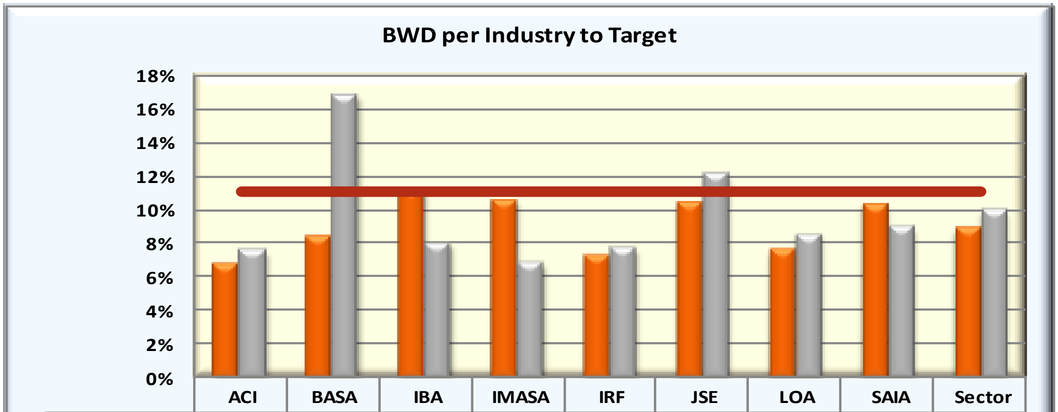
Graph 5.6-BDI: ***Performance per Industry to Target – 2005 & 2006***



	ACI	BASA	IBA	IMASA	IRF	JSE	LOA	SAIA	Sector
2005%	18%	33%	33%	32%	43%	38%	27%	31%	31%
2006%	32%	74%	20%	30%	41%	33%	25%	29%	37%
Target %	33%	33%	33%	33%	33%	33%	33%	33%	33%

A similar profile across industries is evident for black women directors as for black directors in general. Refer to Graph 5.6–BWD below.

Graph 5.6–BWD: ***Black Women per Industry to Target***



	ACI	BASA	IBA	IMASA	IRF	JSE	LOA	SAIA	Sector
% in 2005	7%	8%	11%	11%	7%	10%	8%	10%	9%
% in 2006	8%	17%	8%	7%	8%	12%	9%	9%	10%
Target %	11%	11%	11%	11%	11%	11%	11%	11%	11%

Whereas the sector target has not been achieved, two of the industries have exceeded the target, namely, the domestic banks and the JSE, at 17% and 12% respectively. Of the relevant industries, asset managers performed worst, at 7%, but only marginally less than the collective investments industry (8%) and the long-term insurers (9%) and short-term insurers (9%).

In terms of actual numbers, domestic banks increased its black women directors by 16, more than doubling its complement from 2005, from 14 to 30. This contributed 67% to the overall increase of 24 new black women directors for the sector. The collective investments industry and long-term insurers also added to the new level of this category of directors.

The IRF's contribution to changes in black women directors is neutral at three in each year, so can be ignored as it is immaterial to the dynamics set out above.

These proportions do not differentiate between executive and non-executive directors, nor do they take into account multiple directorships.

5.6.3.2 Black and Black Women Executives

The 2008 targets for black executives and black women executives are set at 25% and 4% respectively.

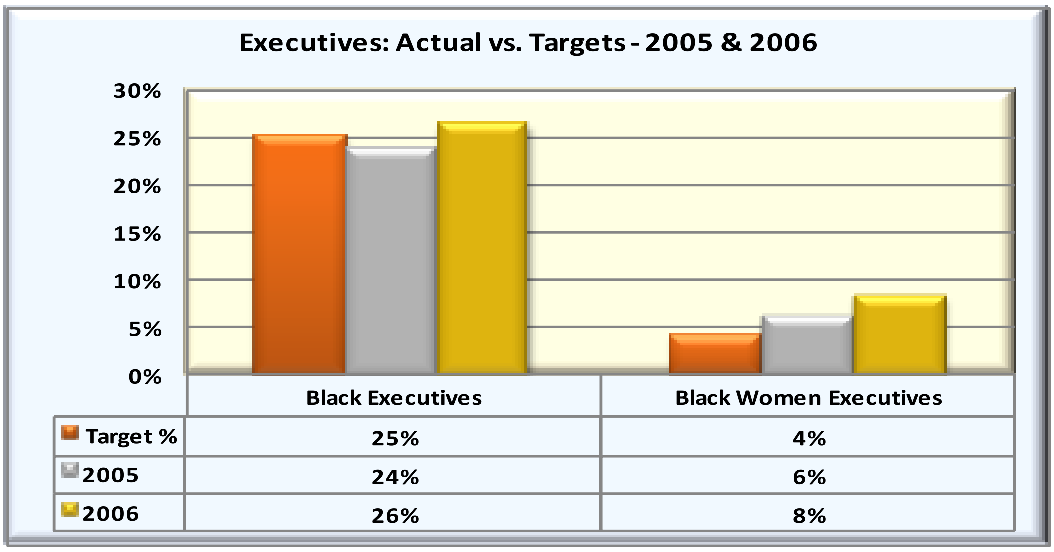
The sector performed above target for both categories. Black executives, as a proportion of total executives, were 26%, while black women executives were at 8%. Refer to the data in Table 5.6–B and Graph 5.6–BEx below.

The aggregate number of executives declined by 61 or 6%, year-on-year. However, the number of black executives increased by 10 (4%) with black women executives racing away with an increase of 18 (29%). Black male executives lost ground relative to their female counterparts. Where in 2005 the former comprised 75% of the black executive category, they were down to 69%, and women increased from 25% to 31%. Non-black designated executives decreased by 7% or 71 in aggregate. It is encouraging that the targets were achieved ahead of time, but this is more a factor of very low targets, than massive transformation. If the racial demographics are taken into account, there was still a substantive gap between current targets and performance, as well as racial equity. The reality is that transformation still has a considerable way to go before equity is achieved.

Table 5.6–B: ***Executives for the Sector – 2005 & 2006***

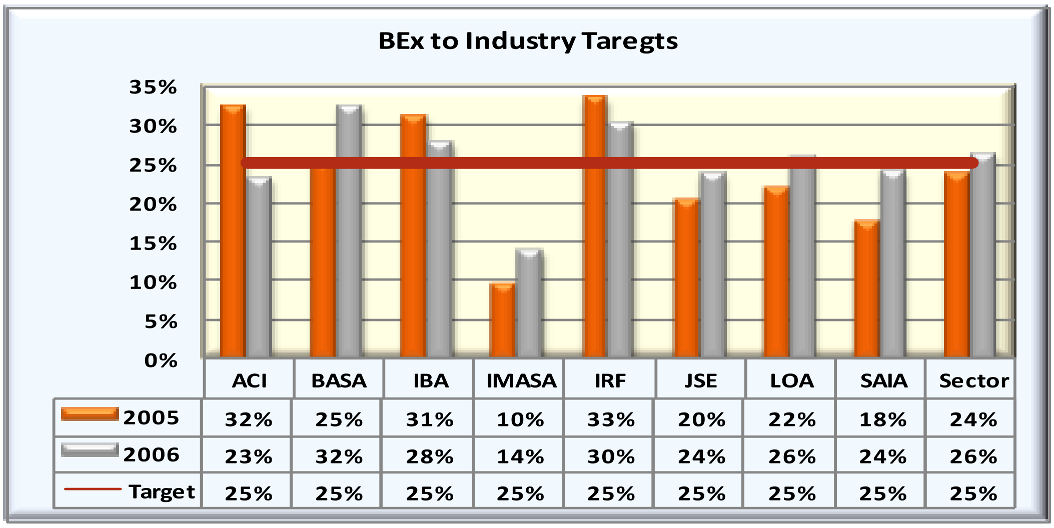
Sector	2005	2006	Growth %	Growth #
Total Executives	1,048	987	-6%	-61
Black Executives	249	259	4%	10
% to Target	24%	26%		
Target %	25%	25%		
Target #	1,048	987		
Black Women Executives	63	81	29%	18
% to Target	6%	8%		
Target %	4%	4%		
Target #	42	39		

Graph 5.6–BEx: ***Black Executives vs. Targets – 2005 & 2006***

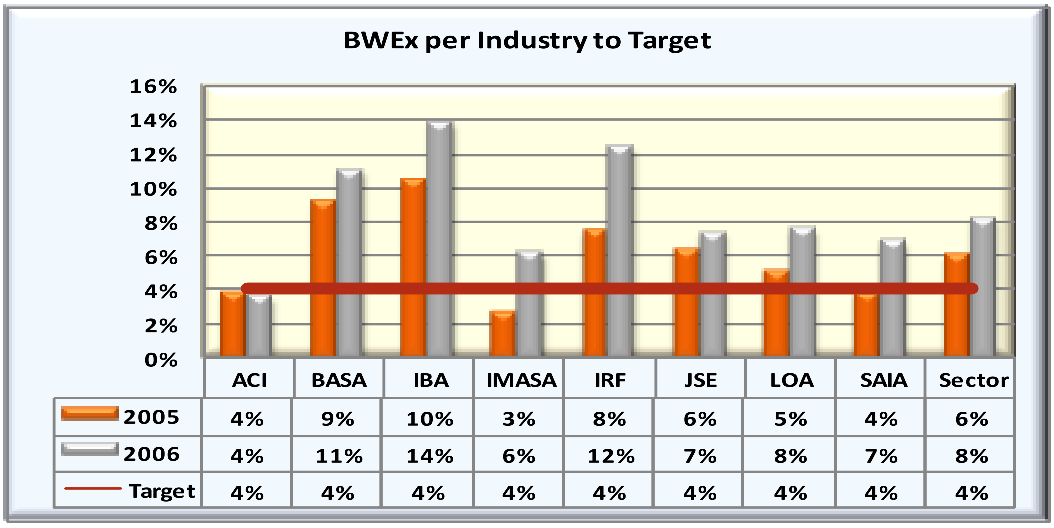


Graph 5.6–BExI below reveals that domestic banks once again performed well, with a level of 32% for black executives, up from 25% in 2005.

Graph 5.6–BExI: ***Performance per Industry to Target – 2005 & 2006***



Graph 5.6-BWEx : ***Black Women per Industry to Target***



	ACI	BASA	IBA	IMASA	IRF	JSE	LOA	SAIA	Sector
2005	4%	9%	10%	3%	8%	6%	5%	4%	6%
2006	4%	11%	14%	6%	12%	7%	8%	7%	8%
Target	4%	4%	4%	4%	4%	4%	4%	4%	4%

The collective investments industry, asset managers, JSE and short-term insurers were all below the target threshold, with asset managers the poorest performer at 14%. The collective investments industry dropped from 32% to 23%, which could be a concern if the trend continued.

While affirming the caveat above, regarding current transformation targets, it is to the sector's credit that the target for black women executives was exceeded by 100%. Graph 5.6–BWEx above demonstrates the sectors and each of the industries' performance for 2005 and 2006.

All the industries were at or above the 4% target level. The collective investments industry was lowest at 4% transformation for black women executives.

5.7 Corporate Social Investment

5.7.1 Charter Council Recommendations - 2005

There were no recommendations in the 2005 Report.

5.7.2 Charter Provisions

The Charter requires each financial institution to invest 0,5% a year of post-tax operating profits in corporate social investment projects aimed primarily at black groups, communities and individuals that have a strong developmental approach and contribute towards transformation.

5.7.3 Performance Review: 2006

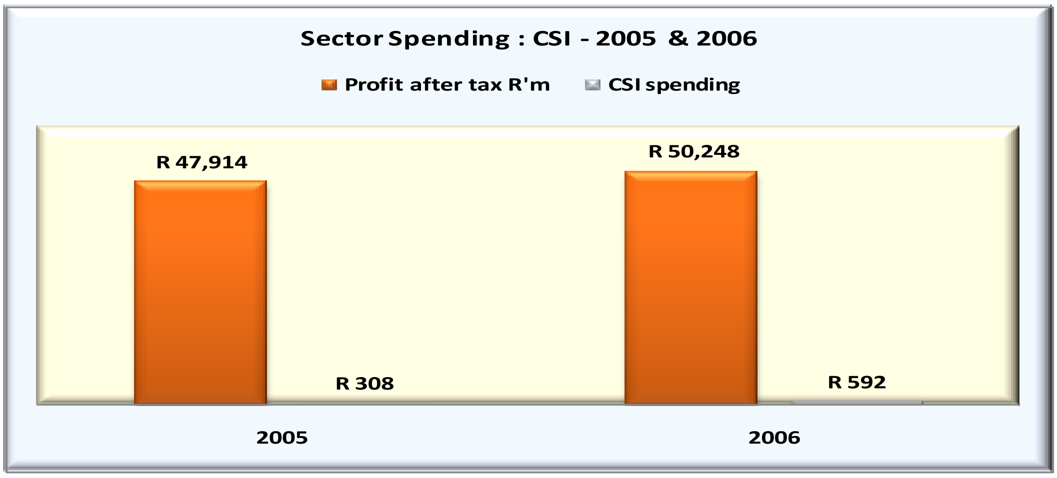
The sector invested R592 million in Corporate Social Investment in 2006, an increase of R283 million compared to 2005. This is almost double (91.95%) the previous year's contribution. Operating profits after tax, the basis for the CSI spend measurement, only increased by 4.87%. Thus the increased CSI spend was largely a function of redirected spending rather than aggregate base growth, which is surely a positive signal. Refer to Table 5.7 and Graph 5.7 below.

The sector outperformed the target of spending 0.5% of post tax profits on CSI in 2005 (0.64%) and 2006; in which it increased spending to 1.18%. The only industry not meeting the CSI requirement was short-term insurers, but with a current investment allocation of 0.43%, it is highly likely that the industry will meet the 2008 target. Refer to Graph 5.7.3-A.

Table 5.7: ***Corporate Social Investment for the Sector to Target – 2005 & 2006***

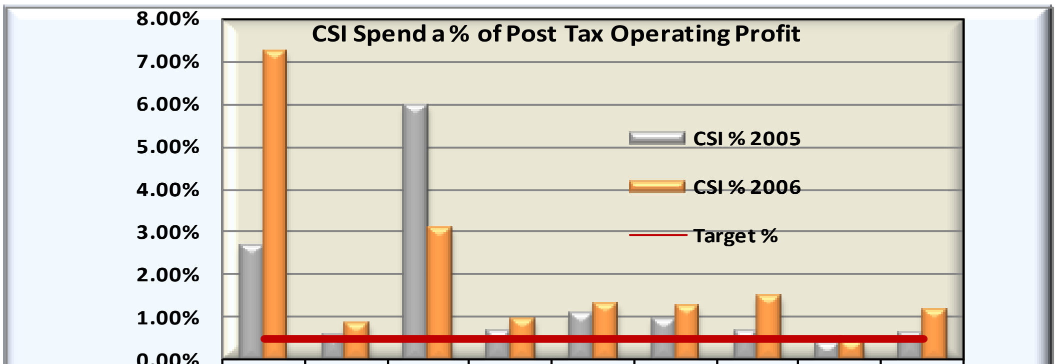
Sector	2005	2006	Gowth %	Growth R
Profit after Tax R'm	R 47,914	R 50,248	4.87%	R 2,334
CSI Spending R'm	R 308	R 592	91.95%	R 283
Performance to Target	0.64%	1.18%		

Graph 5.7: ***CSI Spending Relative to NPAT – 2005 & 2006***



The only industry not meeting the CSI requirement was short-term insurers, but with a current investment allocation of 0.43%, it is highly likely that the industry will meet the 2008 target. Refer to Graph 5.7.3-A. The collective investments industry did particularly well, achieving CSI spend of 7.25%, up from 2.67% in 2005.

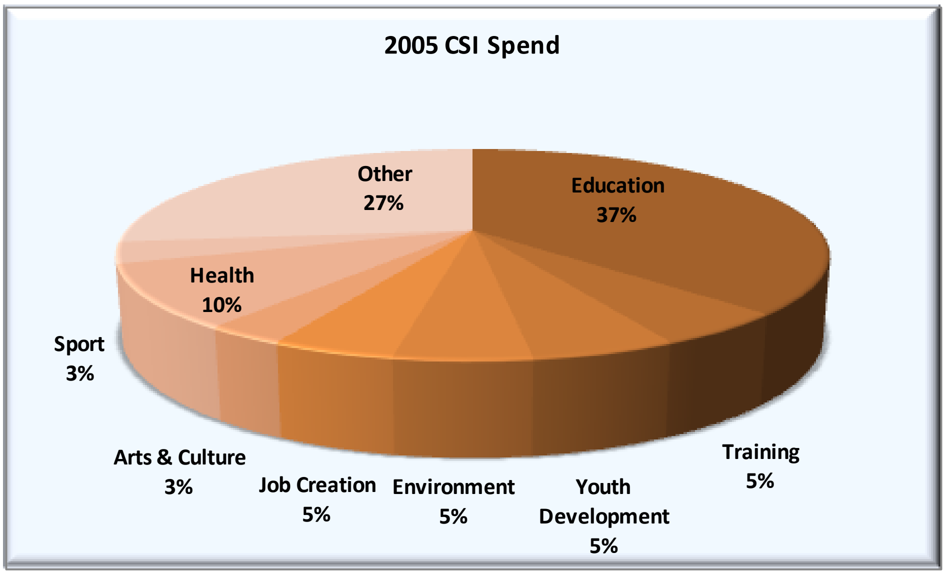
Graph 5.7.3-A-*Industry Spending on CSI to Target – 2005 & 2006*



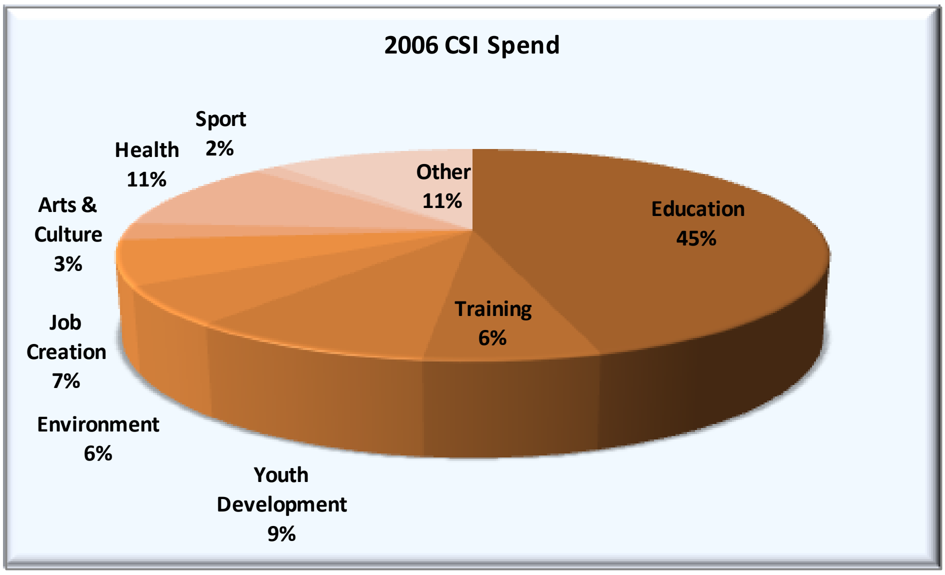
	ACI	BASA	IBA	IMASA	IRF	JSE	LOA	SAIA	TOTAL
CSI % 2005	2.67%	0.59%	5.96%	0.67%	1.10%	0.96%	0.66%	0.41%	0.64%
CSI % 2006	7.25%	0.85%	3.12%	0.96%	1.31%	1.26%	1.49%	0.43%	1.18%
Target %	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%

Taking the nature of the CSI spend into consideration, the following can be distilled. There was a definite shift in spending, with education (34% of CSI in 2005 to 45% of CSI in 2006) receiving four times more than the CSI programme receiving the next highest spending, namely on health projects (10%). It appears that this could be due to improved reporting as the "other" category decreased from 27% in 2005 to only 11% in 2006. It is important that this "other" category be minimised and that spending categories be accurately captured. The areas of most significant percentage growth was in youth development, 259.5% (R38.8 million) and job creation 213.8% (R27.4 million). The largest value increase was R163 million for education. Refer to Graphs 5.7.3–B and –C.

Graph 5.7.3-B: ***CSI Spending Focus - 2005***



Graph 5.7.3-C: ***CSI Spending Focus – 2006***



5.8 Unquantified Commitments

5.8.1 Charter Provisions

The so-called unquantified commitments or responsibilities in the Charter could be recognised as the cement between layers of hard "bricks"; i.e. the soft substance that holds together the transformational objectives that can be quantitatively measured. Perhaps it is best expressed as the new functional culture of the sector and the institutions that make it up. It is the transformed "way they do things". It goes back to the words of Derek Cooper, suggesting that it cannot be business as usual.

It is because this constituent of the transformational Charter is both multi-facetted and not easily expressed in quantifiable terms that it has no hard performance targets. Perhaps the best assessment of sector performance here is the attitude and diligence with which the hard measures are implemented and reported on. This is after all a reflection of the "way things are done".

5.8.2 Recommendations - 2005

The 2005 review stated that:

- …there is little motivation for reporting institutions either to meet or to report comprehensively on the unquantified responsibilities identified in the Charter and that institutions do not therefore report comprehensively on these responsibilities. It is recommended that the Charter Council consider introducing mechanisms to ensure institutions pay greater attention to meeting the unquantified responsibilities, possibly through the award of bonus points for doing so, or the deduction of points for failure to do so.

5.8.3 Performance Review: 2006

As was the case in the 2005 Review, submissions have been less than adequate in this area. The reports have largely just answered questions in a mechanistic manner, giving the impression that institutions may just be doing what needs to be done to get Charter points, rather than that there is a greater objective at play.

It is understood that institutional cultures do not change overnight and that large entities take even longer to evolve new ways of thinking and doing things. It is ventured that two years may be too early to assess what the state of play is for this factor.

While the option of awarding bonus points for meeting these obligations was suggested last year, this may simply be ineffective as measures would, by definition, be subjective and open to interpretation.

6. GENERAL CONCLUSIONS AND RECOMMENDATIONS: 2006

Section 15.1.2 of the Charter requires, amongst others, that:

- The Charter Council prepare an annual review which outlines progress and evaluates new areas of intervention; and
- Submit the annual review to the BEE Advisory Council.

These conclusions and recommendations should be read in conjunction with the **Executive Summary** at the beginning of the Report.

There were a number of recommendations tabled in the 2005 Review. These have already been appended to each of the relevant sections in the body of the 2006 Review. There are outstanding actions from these previous recommendations that the Charter Council needs to pursue, and are not catalogued any further here, but should be considered in conjunction with the comments and recommendations offered below.

6.1 Participation and Reporting

There is still not universal participation across the sector, with some industries given formal exclusion, while a gamut of institutions have not opted to participate. The overall credibility of the Charter and its transformation objectives are not currently undermined by complete participation, as on various measures the mass of the sector is involved and is actively being transformed.

However, it is important that there are no islands of dis-association from the Charter or its transformation processes, so it is important that universal participation is encouraged.

- It is recommended that the Charter Council pursue a heightened advocacy programme to secure universal participation in the sector transformation process. The Principal Officer is best placed to execute this programme.

As part of the advocacy program it is recommended that each institution that is a licensed financial services provider receive a formal communication from the Chairman of the Charter Council, inviting then to engage in the Charter processes.

Reporting, while improved from 2005, is still not suitably effective. There are inefficiencies in both the Charter Council processes and institutional reporting. In the former instance, gaps include: (i) the development of quantitative performance standards (possibly normative standards) for some Charter elements, such as access; (ii) more practical and better understood guidance notes and services, such as workshops; and (iii) the collection, processing and interpretation of data.

- It is recommended that the Charter Council acquires project management competencies to ensure that the reporting process is better coordinated and managed.

It appears that some reporting institutions do not dedicate resources to effectively compile submissions. This may emanate from either resource constraints or a lack of commitment to the transformation process and outcomes.

- It is recommended that sector members take whatever steps are necessary to provide effective submissions, which will ensure accurate and credible assessment of transformation progress.

While it is acknowledged that the first two years are a foundation on which further progress must be built, it is imperative that more rapid transformation is now promoted, consolidating the gains that have been made already. This is especially the case in areas where progress has not been satisfactory.

6.2 Human Resources Development

In the area of employment equity, neither black senior managers nor black junior managers achieved the 2008 targets. It is recommended that special attention is given to these elements as they tarnish generally satisfactory performance.

The progress in skills development was less satisfying, where both funding of training for black staff and the creation of learnerships failed to achieve respective targets. Most disconcerting is that the former element fared less well than in 2005, and in the latter instance the gap to target is still significant. It is recommended that reporting institutions provide the Charter Council with feedback on this situation and what their remedial plans are to ensure progress for 2007 and 2008.

6.3 Procurement

There appears to have been sound progress in the area of procurement, with a significant improvement across the board. While not all industries have yet made target, the trend seems promising.

Enterprise development also showed improvement.

6.4 Access to Financial Services

It is in the area of access to financial services that there is still much work to be done. Notwithstanding the litany of evidence identifying the importance of broad and deep general access to financial services, for both individuals and businesses, there has been little progress in terms of substantive transformation or measurement effort and capability.

➢ It is recommended that credible performance standards are developed and implemented forthwith. If this is not done, the levels of transformation envisaged here will surely not materialise by 2008. This requirement applies across the board.

6.5 Empowerment Financing

A number of the sub-components of empowerment financing have not performed adequately, such as agricultural development and transformational infrastructure.

Where there are still conflicts and/or inadequate incentives between different transformation areas it is recommended that these be resolved before the next reporting period. The typical asymmetrical geographic profile of economic activity still bedevils investment financing.

➢ It is recommended that a concerted effort be made to shift investment financing into less developed areas of South Africa, both rural and urban.

6.6 Ownership

There was less than adequate progress here, both in terms of submissions and levels of ownership transformation. It is recommended that reporting data and information be improved considerably so that a more credible ownership status can be ascertained in 2007.

6.7 Control

The targets for control are regarded as inadequate to effectively promote transformation at the pace hoped for, thus it is common knowledge that targets should be raised.

➢ It is recommended that where appropriate alignment with the Codes be achieved, and if targets are to be adjusted this be done as soon as possible so that institutions can manage the processes necessary to achieve targets.

6.8 Corporate Social Investment

In this area the sector has done very well and significantly over performed in terms of rand spend and the distribution of spending across areas of focus Education and training, for example, received 51% of the 2006 investment.

- It is recommended that institutions continue to invest at these kinds of levels, the most critical sectors such as education, and also in the most disadvantaged geographic areas.

7. Appendices

7.1 Reporting Entities

South Africa's financial sector is made up of ten industries , each with a trade association representing institutions within an industry. The industries and their respective trade associations are listed in Table 7.1 below:

Table 7.1: ***Industries and Trade Associations Comprising the Financial Sector***

	Industry	Trade Association
1	Asset Management	Investment Managers' Association of South Africa (IMASA)
2	Banking	Banking Association of South Africa (BASA)
3	Trading in Debt Securities	Bond Exchange of South Africa (BESA)
4	Collective Investment Schemes	Association of Collective Investments (ACI)
5	International Banking	International Bankers' Association of South Africa (IBA)
6	Trading in Equities	JSE Securities Exchange (JSE)
7	Life Assurance	Life Offices' Association of South Africa (LOA)
8	Re-insurance	South African Reinsurance Association (SAREA)
9	Retirement Funds	Institute of Retirement Funds (IRF)
10	Short Term Insurance	South African Insurance Association (SAIA)

The Charter requires that all institutions that are members of the above Trade Associations, with the exception of BESA and IRF, report annually on their implementation of transformational endeavours provided for in the Sector Charter. SAREA have also not been included in the Review. In terms of Paragraph 4.7 certain institutions may be formally exempt by the Charter Council. Exemptions take the form of either full or partial exemption. The catalogue of submissions and exemptions for 2006 are illustrated in Table 7.1A and Graph 7.1 A below.

Table 7.1A: ***Profile of Submissions and Exemptions per Industry - 2006***

Trade Association / Industry	Total Inst.	Submissions	Nil Return	Full Exmt	Partial Exemt
ACI	104	24	74	6	22
BASA	35	26	9	0	7
BESA	0	0	0	0	0
IBA	12	9	3	0	6
IMASA	25	13	11	1	15
IRF	3	0	0	0	2
JSE	162	17	122	23	6
LOA	35	16	19	0	7
SAREA	0	0	0	0	0
SAIA	52	26	16	10	13
Non-Member	9	0	0	6	3
Total	437	131	254	46	81

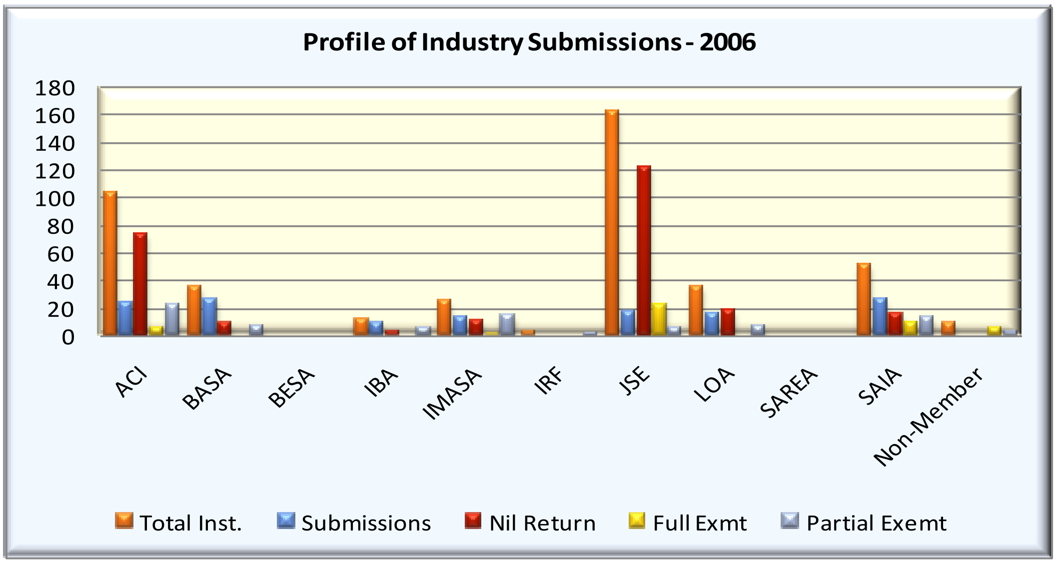
NOTE: While the BESA, IRF and SAREA are part of the financial sector and included in these data, they are not formally required to report on their transformation. Their inclusion here is for completeness and is not material to the Review.

Looking across industries the rate of submission varies considerably, ranging from 74% (domestic banks) to 10% for the JSE, with a sector rate of 31%. The rate of exemption (partial and full) ranges from 18% (JSE) to 64% for asset managers.

The fundamental question is whether the information and data supplied for processing and interpretation is sufficiently representative of each industry and the sector as a whole. Keeping in mind the transformational objective of the Charter and the signatories commitment thereto, it is necessary that there be adequate, effective participation by the bulk of institutions. While the number of effective submissions is important and sets the participative tone for the sector, there are other ways to assess the size and rate of transformation. These measures include the following:

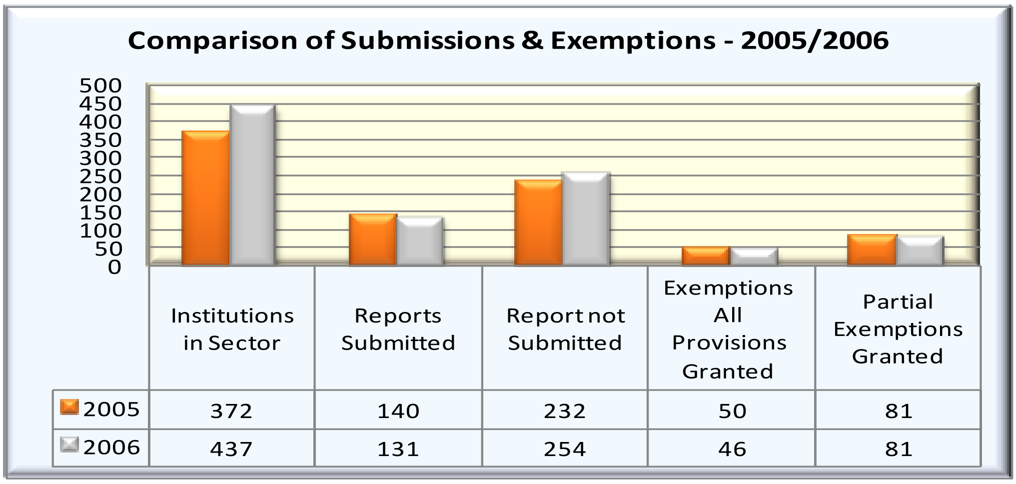
- The relative size of the institution vis-à-vis its industry and the industry vis-à-vis the sector. Size can be measured variously in terms of:
  - Absolute size of staff complement,
  - Educational profile of personnel,
  - Size of remuneration costs and *per capita* average,
  - Influence of the industry across the economy and society in general, or
  - Various financial measures, such as aggregate income statement and balance sheet, or capital value or market capitalisation.
- In the 2005 Report it was mentioned that there was credibility of transformation reporting as "...institutions that did report account for an estimated 75% of market capitalisation." There has been an improvement in 2006 reporting in this arena and thus, at least on this measure, there is a level of credibility.

Graph 7.1A: *Profile of Industry Submissions - 2006*



The 2005 reporting period was the first year in which members of the financial sector began reporting on institutional and sector transformation. This was intended to be the base-year from which progress would be assessed by the Charter Council and the BEE Advisory Council. In 2005 nearly 50% of the 372 participating institutions submitted reports on transformation progress (including those exempted). This year (2006) saw a 17% increase in the number of institutions within the sector to 437, but there was no commensurate increase in the reporting submissions. Refer Graph 7.1B below.

Graph 7.1B: *Comparison of Submissions and Exemptions – 2005/2006*



Reporting was down to 30% in 2006 from 38% in 2005, with a further 11% (14%) exempted for all provisions including reporting, leaving 59% (42%) of the industry that did not submit reports.

The same level of detail for the first and current years' review was not available at the time of producing this report. As a result, no year-on-year comparative analysis could be made at a more detailed industry level, with the required credibility.

In comparative terms, there has been a material change in the number of exemptions on various provisions for participating members within the Financial Sector, going from 131 to 184. Refer to Table 7.1B below.

Table 7.1B: *Exemptions Granted per Charter Provision – 2005 & 2006*

Exemption Category	Across All Trade Associations / Industries	
	2005	2006
All Provisions	50	46
Human Resources	5	22
Procurement	0	0
Access to Financial Services	51	63
Empowerment Financing	11	41
Ownership	7	0
Control	7	0
Global Policy	0	12
CSI	0	0
Total	131	184

NOTE: There are likely to be inaccuracies in this data and are thus to be treated as indicative only.

7.2 Extracts from Guidance and Standards Notes

The Extracts from the Guidance Notes included below can be used to position the submissions and subsequent Review of each area of the Charter.

7.2.1 Employment Equity & Skills Development

For the purpose of calculating employment equity and skills development performance, institutions must use the definition of employee in the Labour Relations Act as amended (see Definitions in Chapter 1), but must take account of the following:

- The employees of temporary employment services, as defined in the Basic Conditions of Employment Act of 1997, shall not be considered in the head count of employees of the reporting institution
- All labour brokers and their employees are to be excluded from head count and total basic payroll calculation, but included under procurement.
- Expatriates may be excluded from headcount if the institution is subject to a global policy in terms of Section 4.6.4 of the Charter. If expatriates are excluded from headcount, the institution must provide evidence of the global policy to which it is subject in their reporting.
- A person who does work for a company and gets paid a fee, but is excluded from paying skills development levies, must be excluded for headcount and total basic payroll purposes.
- A person who does work for a company, gets paid a salary and has statutory deductions deducted by the company, must be included for headcount and total basic payroll purposes.

Further definitions required for reporting on employment equity and skills development are to be found in the Definitions in Chapter 1.

Institutions may include or exclude people of Chinese origin in their calculation of black people for the purpose of calculating employment equity and skills development performance and should indicate in their responses which option they have chosen.

- **Employment Equity**

The primary objective in the employment equity Charter commitments is to increase the presence of black South Africans in senior, middle and junior management in financial institutions and to increase the presence of black women in particular in those employment categories.

The Charter recognises that both starting points and 2008 targets in the Charter are low (Section 5.3), and undertakes, before 2008, to review and increase the general targets for 2014. For 2014, the target for black women in each category will be 33,3% of the total target for black people in that category.

- **Skills Development**

The objective of the skills development sub-element is twofold: to give effect to the commitment that the pool of intellectual capital in the sector must be improved by focusing on attracting new entrants and continually investing in the skills development and training of existing and new black professionals and managers; and to increase participation by black people in skilled, strategic and operational leadership in the sector through investment in human resource development across the full spectrum of skills.

To this end the Charter commits financial institutions to spend 1,5% of basic payroll each year from 2004 to 2008 on training black employees (Section 5.5), and to implement a learnership programme in terms of which each financial institution will employ up to 4,5% of its total staff in the form of black matriculants, or the NQF Level Four equivalent, in registered learnerships (Section 5.7).

The 1,5% of basic payroll excludes any skills levy payable by financial institutions, although direct spending on learnership programmes in excess of that recovered from the SETAs or government may be included when measuring institutions' performance against the 1,5% skills development spend target.

7.2.2 Procurement

The following items are excluded when calculating total procurement spend:

- Broker commissions;
- Broker fees (for asset managers members, they include discretionary stock brokerage and custodian fees in procurement);
- Reinsurance premiums;
- Commissions or fees to insurance intermediaries;
- Property and rental purchases (although property management is included);
- Expenditure classes covered elsewhere in the Charter e.g. salaries and wages;
- Procurement spending where the supplier is a natural monopoly;
- Any items of procurement where the supplier is imposed in terms of global policy for technical (but specifically not commercial) reasons;
- Inter-entity charges for services rendered by other members of the group including transfer pricing;
- Social investment expenditure and donations; and
- All VAT payable (this excludes long-term insurers as VAT is included in the reported procurement expenditure. Although registered for VAT they are unable to claim VAT incurred on expenditure);
- Underwriting managers (as an interim measure within the short-term insurance industry);
- Administration managers (as an interim measure within the short-term insurance industry);
- All labour brokers and their employees are to be excluded from head count and total basic payroll calculation, but included under procurement.

The following items are included when calculating total procurement spend:

- Payment of VAT for long-term insurers members exclusively – all other financial institutions must exclude VAT payments from procurement;
- Commissions and fees paid to stockbrokers by asset managers members;
- Transfer pricing;
- The cost of training and other skills development expenses, including training undertaken as a contribution to the consumer education indicator.

7.2.3 Enterprise Development

For the purposes of measuring institutions' BEE contribution, enterprise development means those initiatives undertaken in respect of:

- Improving the levels of assistance provided to BEE accredited companies/suppliers in the financial sector and other sectors of the economy through skills transfer, secondment of staff, infrastructure support, and the giving of technical and administrative support assistance, and

- Supporting the establishment and growth of BEE accredited companies/suppliers as broking agencies and/or enterprises in the financial sector through which the sector sells its products and services.

Measurable activities that demonstrably fall within this definition and are both quantifiable and auditable may be included in the procurement and enterprise scorecard.

Note that expenditure incurred in the course of enterprise development must not be double counted as both procurement and enterprise development.

Note further that the Charter (Section 7.1.3) specifies that 'joint ventures with debt financing of, and equity investments in' black SMEs may be scored under targeted investments, and in BEE companies may be scored under BEE transactions financing. Both form part of Section 4 of the scorecard and are measured on the basis of Rand spend.

Finally, note that corporate social investment expenditure (as scored under the Section 6 of the scorecard) is not to be included in enterprise development.

7.2.4 Access to First-order Products and Services: General

Reporting institutions are required to:

- Report on initiatives undertaken in 2006 and will be scored on the basis of their reported performance in terms of the provisions of s8.3 of the Charter.

- Report on initiatives undertaken in 2006 be scored on the basis of their reported performance in terms of the provisions of s8.3 of the Charter only if they are exempted in writing by the Principal Officer from the provisions of s8.3 of the Charter for 2006. Exemption granted by the Charter Council or the Principal Officer for any reporting period other than 2006 do not constitute exemption from reporting on initiatives undertaken in 2006.

To score any points each institution required to report is must demonstrate compliance with all standards binding on the industry to which it belongs.

Demonstration of compliance may take the following form:

- A verified statement that the reporting institution has complied with the requirements of the standards binding on members of the industry (association) to which it belongs. The statement must confirm compliance with each of the standards for the relevant industry standard.
- An unconditional verification by the reporting institution, or the parent company of the reporting institution, that the reporting institution has complied with all of the requirements of the standards binding on members of the industry (association) to which it belongs. The statement must confirm compliance with each of the standards for the relevant industry.

7.2.5 Banking Savings Products and Services

- **(Infrastructure) Access to transaction savings products and services**

This is a measure of coverage as a demonstration of effective access and is measured by the number of bank savings transaction points countrywide.

- **Definition**

Effective physical access to transaction savings products and services is defined as having a service point at which first-order retail financial services can be undertaken, including ATM and other origination points, within a distance of 10km of all people living in previously un- or underserved areas, with the target population defined as all people in LSM 1-5.

- **Targets**

Physical access targets (to be achieved by 2008)

- A point of transaction within 10 km of 80% of LSM 1-5
- A point of service within 15 km of 80% of LSM 1-5
- A maximum number of people per bank branch or point of service and per point of transaction. (This was not determined in time to apply to the 2006 reporting period and will therefore apply only from the 2007 reporting period onwards.)

Institutions are required to perform in proportion to their market share on the effective date.

Other measures are qualitative at this time, such as non-discrimination and product feature requirements.

7.2.6 Life Assurance Products and Services

For the 2006 reporting period, institutions are required to report on three aspects:

- The appropriateness of products offered,
- Their initiatives ensuring physical transactional access,
- The usage of life assurance products and services. (For 2006 this will apply to any product sold to LSM 1-5 and not only CAT standard products).

7.2.7 Collective Investment Products and Services

The Charter explicitly defines a performance target for 2008: 'the financial sector specifically undertakes … (that) 1% of LSM 1-5 plus 250 000 have effective access to formal collective investment savings products and services' (Clause 8.3).

7.2.8 Short-term Insurance Products and Services

The Charter explicitly defines a performance target for 2008: 'The financial sector specifically undertakes … (that) 6% of LSM 1-5 have effective access to short term risk insurance products and services (Clause 8.3).

7.2.9 Origination

Each reporting institution shall include in its annual submission to the Charter Council information on the number of qualifying loans originated, and shall specify the geographic location, loan size, loan type and household income (in the case of low-income housing loans) or annual turnover (in the case of Black SME loans and agricultural development loans) for each of the loans granted.

- **Origination of Home Loans**

Defined as: Origination of home loans to households with monthly income levels between R1 500 and R7 500 as at the effective date

The sector's objective is to originate R40-billion in home loans for low-income housing from the effective date to 2008, increasing proportionately year-on-year. The Charter Council will introduce standards for access to low-income housing finance only for the 2007 reporting period. For 2006, the measure is the number of low-income home loans originated since the effective date.

The following areas will be covered for the 2006 reporting period:

- Mortgages

- Pension backed loans
- Personal loans
- Wholesale loans to intermediaries
- Residential development Loans
- Social Housing

The Charter Council realises that it may be difficult to provide information on pension backed and wholesale loans. However, where the information is available institutions are required to provide any such info to the Charter Council. The Charter Council also acknowledges that these products have different dynamics which may have an impact on reporting capabilities. The Charter Council would, however, requests that reporting institutions provide the data and information according to the following categories:

- The number and value of loans in each category;
- A sub segmentation income band split on all loans. The income band split is as follows:
  - Loans up to R3,500 income per month;
  - Loans between an income of R3,501 and R5,500 income per month;
  - Loans between an income of R5,501 and R8,200 income per month.
- Geographical area. For this category bank are required to provide both the towns/cities and the provinces;
- New housing loans issued.
- The interest rate charged on the loan. Banks are required to provide information on the highest, lowest and average interest rate charged.

- **Origination of Agricultural Loans**

Defined as; Origination of loans to support resource-poor farmers, through enabling access to and the sustainable use of resources.

The industry **target** is a R1,5-billion increase in agriculture development loans over the 2004-2008 period. Institutions are required to perform in proportion to their market share on the effective date.

- **Origination of Black SME Loans**

Defined as; Black SME loans include all term loans of any length advanced to Black SMEs recognising the average exposure over a 12-month period, including:

Lease and rentals;

- Overdraft facilities (measurement to be based on average utilisation over the reporting period);
- Equity investments (valued at cost);
- Property finance including commercial mortgages (measure only commercial property finance that is registered in the name of the business in question and is 100% reserved on the bank's balance sheet);
- Invoice discounting measurement to be based on average utilisation over the reporting period) and
- Guarantees

Finance advanced to a sole proprietor will be recognised if it is obtained in his or her personal capacity trading as a sole proprietor.

When a black SME expands out of the SME definition, the lending institution may continue to recognise a maximum of R5-million as Black SME loan origination.

- **Target**

The industry target is a R5 billion increase in loans to black SMEs over the 2004-2008 period. Institutions are required to perform in proportion to their market share on the effective date.

7.2.10 Consumer Education

Definition: Consumer education will include programmes that are aimed at empowering consumers with knowledge to enable them to make more informed decisions about their finances and lifestyles.

Target: Paragraph 8.4 of the Charter states: Each financial institution commits, from the effective date of the charter to 2008, to annually invest a minimum of 0,2% of post tax operating profits in consumer education.

Institutions are required to perform against and report on their progress in implementing the provisions of Paragraph 8.4 unless they have applied for exemption in terms of Paragraph 4.7 of the Charter and have been granted exemption in terms of Paragraph 4.6.3 or Paragraph 4.6.5, bullet point 2.

7.2.10.1 Implementation Guidelines for Consumer Education Standards

The Charter Council produced a set of implementation guidelines for consumer education, set out below.

Definition:

Consumer education is the process of gaining knowledge and skills to manage personal resources and to participate in decisions that affect individual well-being and the public good. The outcome of the consumer education process is the development of consumers' skills, attitudes, knowledge and understanding of the financial sector and its products and services so that they are able to use consumer information effectively. Consumer education empowers consumers with knowledge and skills to enable them to make informed decisions about their finances and lifestyles.

Charter Access principle	Consumer Education Standard	Implementation guideline proposal
Physical Accessibility		
	Consumer education initiatives and programmes must be offered and available to all consumers of Charter products and services at points of service or transaction.	Consumers or potential consumers of financial products and services must be referred to the nearest available and appropriate place for easy access and time at which appropriate consumer education will be available Funds available must be used to optimal effectiveness to provide for the greatest good for the greatest number, provided a minimum of 25% is allocated to rural areas i.e. outside the major metropolitan areas.
Appropriateness		
	Consumer education initiatives and programmes must meet the	The Charter Council must, and trade associations or financial institutions may,

Charter Access principle	Consumer Education Standard	Implementation guideline proposal
	identified needs of and be directed at consumers in the Charter target groups with the aim of achieving the Charter's access goals.	identify the consumer education needs of the target groups: ➢ People in LSM 1-5 who are consumers or potential consumers of first order retail financial services as defined in the Charter. ➢ consumers of credit for low-income housing, ➢ Black SMEs and agricultural development as defined in 2.27.3 and 2.34 of the Charter.
	The outcomes of Charter consumer education programmes must be measurable, in order to contribute to the achievement of scoring points, and consumer education must enable consumers to make more informed decisions about their finances and lifestyles.	To satisfy the Charter standards for measurability, consumer education suppliers and the goods and services they provide must meet minimum criteria: ➢ Suppliers of consumer education must be qualified, registered and accredited by the appropriate authorities. ➢ Facilitators and assessors must be accredited. ➢ Training methodologies must be SAQA-approved and NQF-aligned. ➢ Programmes must enable consumers to receive education in: o basic financial literacy o financial services o Credit made available through the Access provisions of the Charter. ➢ Consumer education course materials must be developed for or adapted to the South African context. ➢ Consumer education must be targeted at LSM 1-5. Where face-to-face type education is used the groups must be of appropriate size to enable effective learning. ➢ Consumer education programmes that are measurable and delivered face-to-face can account for up to 80% of the threshold spend of 0,2% of post tax profit. ➢ Up to 20% of the remaining compulsory spend can be on media-based or other channels which do not need to be measured. ➢ This 80:20 allocation will be phased in over three years as follows: o Year 1 – 2007 – 60:40 o Year 2 – 2008 – 70:30

Charter Access principle	Consumer Education Standard	Implementation guideline proposal
		○ Year 3 2009 – 80:20 Financial institutions will not be able to receive points for credit made available to applicants for Charter Access credit products until the applicant has received financial education, or demonstrated they can make an informed choice whether to enter into a credit agreement, or the financial institution has taken the appropriate steps to ensure that the applicant can make an informed choice whether to enter into a credit agreement.
	Branding Any image branding by Charter participants or individual financial institutions of consumer education should be appropriate, and not overwhelm the educational content.	Specific product or service marketing will not count as consumer education. There will be no branding in the education content itself. Branding will be allowed in the following manner: Booklets: The logo and the pay-off line on the cover for both institutional and trade association branding and limited to a maximum of 10% of the education material. Posters and other aids not in booklet format: The logo and pay-off line in the footer limited to a maximum of 5% of the area of the material. Radio/Television: Less than 5% of airtime. The quality of the branding should generally be consistent with that of the education content (e.g. all full colour, or all black and white).
Affordability		
	Consumer education must be offered free of charge to the consumer.	No fees must be requested of, or paid by, recipients of consumer education
Simplicity		
	All consumer education materials must meet Charter criteria for simplicity and understandability and disclosure.	Consumer education materials must be simple and easy to understand. They must be designed to meet unit standards determined by NQF requirements and be written at the appropriate NQF level to deliver consumer education to the target market They must disclose generic (i.e. non-company product specific) information to enable recipients to make better informed decisions.
Non-discrimination		
	Consumer education materials must be freely available in all	Materials must be available in the most common languages of a province.

Charter Access principle	Consumer Education Standard	Implementation guideline proposal
	languages.	Education must be presented in the language preferred by the recipients.
	Suppliers must comply with the procurement provisions of the FS Charter procurement policies.	Refer to procurement policies.

Scoring guidance notes:

For the purpose of the Financial Sector Charter, mandatory consumer education spend excludes any expenditure on employee skills development. This includes any expenditure a financial institution may make on upgrading the customer care, customer complaints handling, client liaison or related skills of employees. No employee skills development programmes can be included in consumer education spend for scoring purpose.

7.2.11 Empowerment Financing

7.2.11.1 Targeted Investments

Definition: Targeted investment means debt financing of, other form of credit extension to, or equity investment in, South African projects in areas where gaps or backlogs in economic development and job creation have not been adequately addressed by financial institutions (Charter: Section 2.34).

There are four categories of targeted financing: transformational infrastructure, low income housing, agricultural development and black SMEs, with a combined sectoral target of R63,5-billion invested between the effective date and 2008.

The sectoral **target** for transformational infrastructure is R25-billion; for low-income housing R31,8-billion (rounded to R32-billion for the purpose of calculation); for agricultural development R1,5-billion; and for black SME investment R5-billion.

7.2.11.1.1 Transformational Infrastructure

The Charter defines transformational infrastructure projects as those 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 services facilities; and
- Municipal infrastructure and services.

The Charter does not recognise productive assets such as factories and plant or commercial infrastructure as transformational infrastructure. No projects of this type may therefore be reported or scored as transformational infrastructure for 2006 reporting purposes.

7.2.11.1.2 Low-income Housing, Agricultural Development and Black SMEs

Targeted investment in **low-income housing** has a target of R41,8-billion to be achieved by 2008 as the balance on the books as a sector, or R32 billion should risk-sharing arrangements between Government and the Sector not materialise.

7.2.12 BEE Transaction Financing

The Charter **recognises BEE transactions** as encompassing all transactions for the acquisition, by black people, of direct ownership in an existing or new entity, other than an SME, in any sector of the economy; and joint ventures with, debt financing of, other form of credit extension to, or equity investments in BEE companies, other than SMEs. Facilities that represent financing risk, but do not involve a flow of funds to BEE entities, such as guarantees, are not counted towards BEE transaction financing credits.

Transactions for the acquisition, by black people, of direct ownership in an existing or new entity, other than an SME, are scored in full. Transactions that are joint ventures with, debt financing of, other form of credit extension to or equity investments in, BEE companies, other than SMEs should be scored in proportion to the level of black ownership proportional recognition which will depend on the level of black ownership in the entity receiving financing. The application of this proportional recognition is:

- A threshold of 25% applies: financing of entities with 25% black ownership or less contribute nothing to the score.
- Institutions financing entities with black ownership of between 25% and 50% score at the rate of twice the percentage of black ownership per Rand of financing. An institution providing finance to a 25% black-owned company should score 50% of possible points.
- For the financing of entities with black ownership of 50% or more, institutions score in full.

For 2006, vendor financing may be included in the calculation of BEE transactions financed in the reporting period.

For 2006 reporting purposes, scoring does not distinguish between broad-based and narrow-based ownership, although if institutions wish to score on the basis the Charter Council's 2006 standards or other methodology taking account of broad-based ownership they may do so, provided they give details and an explanation of the methodology and scoring formulae used.

- **Target**

The sector's BEE transaction target to 2008 is R50-billion. Each institution's individual target is in proportion to the institution's percentage share of total designated investments as at the effective date.

7.2.13 Ownership

The ownership **targets** of 10% direct black ownership, and 25% direct black ownership and indirect black ownership combined, are to be achieved by 2010 rather than by 2008.

7.2.14 Control

Targets:

- Each financial institution will have a target of 33% black people on the board of directors by 2008;
- Each financial institution will have a target of a minimum of 11% black women on the board of directors by 2008.
- Based on an estimated ratio of 15% for 2002, each financial institution will have a target of a minimum of 25% black people at executive level by 2008;

- Based on an estimated ratio of 2% for 2002, each financial institution will have a target of a minimum of 4% black women at executive level by 2008.

7.2.15 Corporate Social Investment

The Charter commits all financial institutions to a target of directing 0,5% a year of post-tax operating profit to corporate social investment (CSI) from 2004 to 2014.

It stipulates that CSI 'means projects aimed primarily at black groups, communities and individuals' are developmental and contribute to transformation. Section 13 of the Charter provides further direction.

NOTES