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BANKING AND SOCIAL RESPONSIBILITY:

TOWARDS SUSTAINABLE SOCIO-ECONOMIC DEVELOPMENT[1]

N Barney Pityana GCOB

Principal and Vice Chancellor, University of South Africa

It is my pleasure, as Principal and Vice Chancellor of the University of South Africa (Unisa), to welcome you to South Africa and to this International Banking Conference. I trust that your experience of both will be at once informative and rewarding.

Business is arguably the most powerful institution in society, both nationally and internationally. As such it wields enormous influence, not only in terms of world economics and economies, but also in terms of the environmental, social and ethical domains. Banking is a critical and essential element of any business environment; and so also is an enabling policy and regulatory framework. Increasingly economic life cannot be viewed in isolation or solely from a national lens. Globalisation has become a fact of life, and the relationships between the rich and poor, producer and consumer nations continue to distinguish trade relations between nations. Somehow bilateral and multilateral trading relations which are intended to ensure fairness and access to goods and services, themselves function to entrench existing inequalities. Banking and financial services in general, and their operations, are least understood by those who access and need their services, and somehow most of us feel that we are at the mercy of banks rather than being clients who are investing our money expecting to receive a fair return- either in financial benefits or in customer service.

[1] Welcome address to mark the opening of the International Banking Conference organised by Unisa's College of Economic and Management Sciences School of Banking, held at Sun City, South Africa from 8 – 11 October 2007.

Banking is somehow indicative of both the social and political climate in which it operates, and yet that political climate is also created and sustained by the extent to which banks contribute to social stability, economic predictability, reading and interpreting economic indicators, judging social variants, and managing the wealth of the nation. My point therefore is that banking operations can never be separated from the social and political environment in which economic life functions.

In Africa, therefore, not only have we had an explosion of traffic between and within nations since the end of the Cold War, we have also seen a consequent increased appetite for economic goods: social development, communications and transport, education and welfare. Where social and economic life becomes more sophisticated, political stability becomes paramount and democratic systems are essential towards building an economic system that can be fairly and safely regulated. Wherever there is war and civil conflict as well political instability and a reckless disregard for human rights, the first casualties are predictably economic systems and management; the regulatory systems become unreliable and corruption prevails.

Part of the consequence of that is emigration; refugee outflows which put a strain on the criminal justice system and distort the labour market. The banking system in particular gets suffocated by authoritarian rule and results in a financial environment characterised by corruption and lack of transparency. We have known much of this in Africa and it has never benefited anybody; not the generals or the strong men of Africa except insofar as they maintained bloated bank accounts in Europe; but they could never ultimately enjoy their ill-begotten gains or bequeath them to their families. It dealt a blow to investments of any kind as the economic environment simply served to enrich those who could exploit the system and who then took out their money, and squandered national resources, and enriched European systems. It led to unmanageable inflationary forces which in turn affected the ability of the national economy to compete in the international economic market.

It seems obvious to me that any banking system to be credit-worthy, must depend on an informed public. It should become the first duty of banks to educate the public about the banking system and its operations. It becomes essential to build knowledge and literacy. This however must also mean that people should learn to trust the banks, and not fear exploitation and being taken advantage of. There are many places in Africa, I am sure, where informal systems of finance management, loans, pooling and contributions towards projects in a rotating and pooling manner occur. These, of course, are rudimentary banking systems; I speak here of the *stokvels*, *umgalelo* and various forms of family housing finance. This ensures the circulation of money and, I suspect, may well mean that such money is beyond the clutches of the taxman. An understanding of some of these community banking systems may be valuable. And therefore, education, training and information are essential tools for enhancing better understanding of banking, engendering confidence in the banking system and opening up banks as a service sector that meets the needs of clients.

All this becomes even more so, if one realises that that the purpose of banking is to become the custodian of monies belonging to clients, invest it, make it available as loans to other with interest, and to make the money work for those clients. This is perhaps the most simplistic view I have. Nonetheless, banking holds the key to social and economic development. It is banks presumably who guarantee that money is secure and take all the attendant risks, but they then make my money that I do not need immediately, available to others. That is where the problem has been. The systems and processes for the distribution of available resources are determined by class and education. The poor traditionally have not been beneficiaries of the system: they have not accessed housing loans, they have been victims of loan sharks, they buy goods on credit and pay high interest rates, their ignorance is exploited and they are burdened. Others, on the other hand, may know how to exploit the system and manipulate the financing environment to advantage; their multiple transactions may be part of schemes for money-laundering. The South African Communist Party’s Red October Campaign has brought these matters powerfully to the attention of the public, challenging banking practices that are inherently anti-poor. They are organising the poor into a campaign machinery to challenge exploitative practices and a banking environment that is alienating to the poor and the under-classes of our society.

In South Africa, the FICA prescriptions may be annoying in that it makes opening a bank account a convoluted process, but there must be at least some assurance of the integrity of those who utilise the banking system; the Banking Codes are promising to open up the banking industry to previously excluded investors; the National Credit Act should go a long way towards ensuring responsible credit lending, and the Mzantsi account has brought millions of previously excluded South Africans into the formal banking sector. I am aware that there are some moves to attend to housing finance to ensure that the poor can access finance for mortgage bonds.

And while there are still some who continue to argue that business’s sole function is to generate profit, general consensus and practice has it that business must now incorporate Corporate Social Responsibility, Corporate Social Investment and responsible Corporate Citizenship. And so we see for example, that single-bottom-line reporting, which focuses solely on the financial performance of an institution, has today largely been replaced by triple-bottom-line reporting, which bestows equal status on financial, social and environmental performance. Clearly, social and environmental issues have become part and parcel of business imperatives.

In the words of Harry Oppenheimer (30 January 1987):

> Just as a large company seeks to conserve its assets and its future survival by reinvesting part of its profits, so it should seek to conserve and improve the social environment in which it does business, in the hope that it will be able to continue to do business in the future, preferably in a better environment that it has at present.

So it should not be naïve then, to expect - even assume - that business, and in our case, banking, has an important and critical role to play in sound and sustained socio-economic development and that part of this, indeed that part directly linked to social responsibility and investment, would be expressed via a commitment to making resources available for development, especially of the poor and the marginalised.

And yet we do not see that happening much. To a large extent, what we have seen, and what we continue to see is a dearth of constructive and feasible options that will provide sound and stable avenues for the poor to not only access finance, but also to manage and grow that access in such a manner that it provides a sustainable platform for individual financial growth, stability and security.

Access to finance is but one issue. We have seen that even where the poor are able to access finance this is perilous to say the least. The Subprime debacle in the USA, which even now continues to impact on the economy, provides a stark reminder of the dichotomous, even schizophrenic nature of so-called social responsibility. For it is the most vulnerable who are affected first - and most - by the vagaries of the banks who are ostensibly there to look after their interests. Those who have insufficient cash to put down as deposits on homes and who receive 100% loans to purchase property, and those who are encouraged to mortgage themselves to such an extent that when interest rates rise even marginally they are unable to meet their commitments – those are the victims. They have their homes repossessed and resold - often at far below their actual value. These seem to be the people who are always hardest hit. We all know that there are many unscrupulous operators out there who exploit such situations, and yet so few mechanisms seem to be in place to mitigate this. And one cannot but question the motives of those who are party to such practices. Could it be that in such cases Corporate Citizenship, Corporate Social Responsibility and Investment practices merely pay lip service to an altruistic notion? Worse, could it be that these ideals are being exploited in the pursuit of plain old greed and profit making; that they are simply "window dressing?" If we are serious about our social responsibility as business, and especially banking, then we need to ask ourselves why it is that the poor and vulnerable stay that way when business is spending billions on social investment and is apparently flourishing – especially in South Africa.

The National Credit Act has elicited a great deal of controversy, and while it does much to vet and control the borrowing of consumers, it simultaneously limits even further, access to finance for the poor. It is indeed a double edged sword. It is easy to understand then, why poor and desperate people are such easy prey for money lenders and other unscrupulous operators and why they succumb so easily to the lure of pyramid schemes and the like.

The King Committee on Corporate Governance (King II, 2002:12) says the following about Corporate Social Responsibility:

> A well managed company will be aware of, and respond to, social issues, placing a high priority on ethical standards. A good corporate citizen is increasingly seen as one that is *non-discriminatory, non-exploitative and responsible with regard to environmental and human rights issues*. A company is likely to experience indirect economic benefits such as improved productivity and corporate reputation by taking those factors into consideration.

The above definition implies that over and above the profit consideration, CSR depends on a sense of philanthropy, and a commitment to ethical behaviour and legal compliance - a seemingly tall order in our cut-throat economic environment. And if we truly hope to be non discriminatory , non- exploitative and responsible with regard to environmental and human rights issues, what is required I would suggest, is a review of the way in which we conduct our business and exercise our social responsibility when it comes to the marginalised.

It is easy to pump millions into environmental programmes. They are compellingly topical, good for business and they have virtually instant buy-in. It is easy to pump millions into sports sponsorships. There is “bang for your bucks” as they say - huge visibility and even bigger goodwill, especially when the home team wins! It is easy to invest in the arts. You are growing and appreciating talent and investing in the future.

It is not easy however, to pump millions into schemes that will benefit poor people and which cannot ever guarantee the same level of return as the above mentioned CSIs. It is not easy to come up with banking solutions that will give the poor sustainable access to finance, and it is not easy to be enthusiastic about poverty alleviation in the face of such massive odds. And yet, if we are honest, then we must acknowledge that if we were able to find sustainable banking solutions for the poor, then this would be the most rewarding investment of all. Not only that, the returns would be immeasurable over the longer term.

So in exercising our CSR we need, for example, to be investing in poverty alleviation programmes, in implementing a training development code, and working more closely with the Bankseta to grow financial qualifications and skills. I am pleased and proud that in this regard the University of South Africa is exercising its social and educational mandate through a variety of short learning programmes, through interaction with the Bankseta and through active cooperation with the banking sector. And I must mention here the recent establishment of the ABSA Chair in Banking at Unisa, which will see an amount of 5 million rand being applied to education in banking over the next 5 years. This is an example of CSR and CSI that will bear lasting fruit. Unisa also has a recently established Centre for Corporate citizenship whose mission is "to be a global leader in building individual and institutional capacity for sustainable business and social cohesion." This Centre is playing an increasingly dynamic role in increasing the capacity and promoting the ethics of corporate citizenship in business though mainstream educational offerings, research and advocacy. I would suggest that this avenue offers a sustainable means of inculcating in business a true sense of what it means to be a responsible corporate citizen, with its attendant responsibilities and understandings. A partnership with ABET, for example, could also ensure that the illiterate can gain an understanding of the rudiments of banking. Schools, as part of the civic education should also be helping our learners to understand banking.

As responsible corporate citizens we also need to take seriously, and promote actively, NEPAD's Short Term Action Plan and its Medium-Long-Term Strategic Framework, particularly in regard to infrastructure development, sound economic and corporate governance and the implementation of banking and financial standards. We should encourage and support the embedding of good and transparent corporate governance and voluntary peer review. The promotion and securing of investments in regional infrastructure will enhance economic development through investment in less developed areas. This will in turn facilitate the movement of goods and people, information flows and the diversification of the economy. Regional integration will provide the environment for productive activities to take place and enhance the generation of trade. Indeed, one of NEPAD's main priorities is the promotion of integration precisely because individual African economies are too small to generate the economies of scale that can be found in larger markets. [2] If we are able to exhibit and exercise this common understanding and purpose, we will be able to enhance and ease trade and contribute to economic stability.

But if we desire to be taken seriously; if we hope to be perceived as being genuine in our commitment to CSR, then surely our integrity must be beyond reproach? We simply must have impeccable credentials. And while we can justifiably be proud of our financial institutions such as the JSE, and of our innovations such as the Financial Services Sector Charter and BEE, the Social Responsibility Investment Index and the FICA, what does it say to the world and to those whose financial and family security hinges on a percentile, when news of huge bonuses for sponsorships is trumpeted across the media? What does it say about our commitment to CSR and to CC when our Minister of Finance feels compelled to write an open letter to express his misgivings about the perceived immorality of the "deal" - be it real or a

[2] Corporate Africa. The ADB & NEPAD. E.G Taylor –Lewis. http;//www.corporate-africa.com/ca/adb_nepad.htm

fabrication? It is not good for the industry and it is not good for its clients. It is of the utmost importance that the banking sector is beyond reproach.

In a climate of high banking costs and a monopolistic banking culture, there must be some means by which banks can demonstrate their credibility and goodwill to their most humble clients. Not enough is being done to break the monopoly of the big banks by regulating and recognising informal and co-operative banking. One needs only to think of trade unions, sport - especially football - and ask why many of these business interests continue to be dependent on the formal or established banking system. Banks could also be more creative in looking at options such as banking co-ops (stokvels), cross subsidisation and other systems that will facilitate more equitable access.

We hear so much about the second economy. Why does the banking sector not look at a banking system that will cater for the poor through a variety of entry and exit levels that will allow mobility in line with personal circumstance? Such a system has been established in many third world and emerging economies. Indeed, there is a growing international recognition of the importance of these innovative, non-formal banking systems to alleviate poverty and promote development. Last year Muhammad Yunus, the founder of the Grameen Bank in Bangladesh won the Nobel Peace Prize for his and the bank's "efforts through microcredit, to create economic and social development from below". Somehow in Africa we have not yet realised the potential of alternative banking mechanisms for the empowerment of the poor because our banking regulatory environment, I suppose, is far too rigid and privileges a monopolistic banking system. In our country Mrs Zanele Mbeki has been labouring for years to establish Women's Development Banking as a credible system controlled by women for their own development, especially in the poor rural areas. The deciding factor I suggest is how serious we actually are about social responsibility. True social responsibility suggests a corporate stewardship that has as its emphasis service and community.

This banking conference will be covering an array of topics which provide a fascinating insight into current banking concerns, trends and realities. I note though, that there is a conspicuous absence of papers on the issues of corporate social responsibility, corporate social investment and corporate citizenship. I trust that as you discuss and interrogate the various topics over the next coupe of days, you will nevertheless bear in mind the core role that the banking sector can play, in the alleviation of poverty and concomitantly in the economic development of the countless numbers of disadvantaged people in our country and in our world.

Ends

Sun City, North West Province, 9 October 2007.