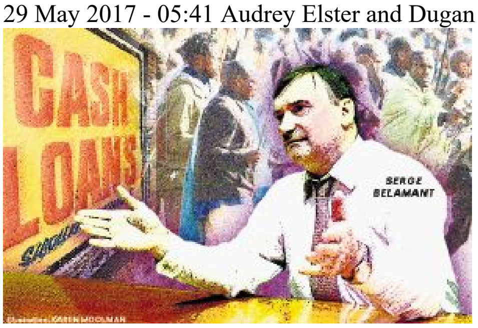
Opinion

INTERNATIONAL FINANCE CORPORATION

How World Bank unit’s goals were sabotaged by capture of SA grants

Asset owners drive inequality when they act with impunity and avoid accountability for their investee firms

29 May 2017 - 05:41 Audrey Elster and Dugan Fraser



Access to basic financial products — bank accounts, debit cards, and housing loans — is the cornerstone of prosperity. This is the sort of claim that soon-to-retire Net1 CEO Serge Belamant made several times in defence of a business model that wreaked devastation on the lives of possibly hundreds of thousands of SA’s most vulnerable citizens.

But this claim is not Belamant’s. It belongs to the International Finance Corporation (IFC), which boasts that, through its funding, it helps individuals as well as micro, small and medium enterprises to obtain the credit they need to grow and succeed. Financial inclusion is what the IFC’s $107m investment in Net1 is all about.

It is a noble, if somewhat paternalistic, objective with a late 20th-century ring to it. To comparatively wealthy citizens of sophisticated economies, the concept of financial inclusion is such an accepted part of life, it’s taken for granted. Not to have it must mean undevelopment, so having it must surely lead to development. There’s an almost religious fervour in the commitment to financial inclusion as an essential part of economic development — reminiscent of the missionaries who accompanied the colonialists and peddled the notion that Christ and capitalism were the way of the future.

Perhaps there is evidence of its success scattered across the developing regions of the globe. But by April 2016, when the IFC announced it had poured all that money into Net1, there was absolutely no evidence that Net1’s activities in SA promoted economic development or financial inclusion. By 2016, Net1 had already left a trail of financial destruction in its wake.

The IFC is a member of the World Bank group and describes itself as the largest global development institution focused on the private sector. It has 135 investments in SA, its fifth-most important country. Ahead of SA are India with 589 investments, Egypt (167), Nigeria (151) and Kenya (144).

Trawling through IFC’s website creates the impression of an institution that wants to make a difference. "IFC promotes financial citizenship to the world’s poorest by backing innovative companies that have proven, scalable and sustainable business models and suitable technology solutions with the intent to reach millions of previously excluded customers."

This is what it said about Net1 in 2016: "Net1’s core offering is basic, affordable financial services to low-income customers and rural populations that are often excluded from established financial services. IFC has been tracking for some time the company’s development in SA, its primary market, and sees the potential for applying its technology to expand [the] reach of services elsewhere."

Perhaps the IFC was so mesmerised by Net1’s "disruptive technology" that it failed to notice the extensive coverage of the heart-wrenching stories of low-income customers who had taken up Net1’s so-called "affordable" offerings. Did the decision-makers in Washington know anything of the problems related to Net1’s handling of the contract to distribute social grants on behalf of the South African Social Security Agency (Sassa)? If so, had Belamant persuaded them it was all contrived by a bunch of do-gooder civil society organisations? Were they not a little nervous about a company that had been the subject (albeit indirectly) of a high-profile Constitutional Court ruling; whose chairman was also the CEO and which had only three independent directors appointed back in 2005?

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What South African-based research had the IFC undertaken to support its $107m investment in Net1? Or was it so sure it knew what was best for "the world's poorest" that it didn't need to be distracted by these sort of details? Even if it were only the technology that interested the IFC and not the Sassa-related business, surely it checked to see if Net1's controversial business model was inextricably linked with that technology? On a recent teleconference Belamant told analysts about plans to market the same sort of financial products to the 800,000 employees whose wages Net1 manages. Another captured market.

The chances that the IFC, which has been at this game for more than 50 years, will have learnt from its Net1 experience are not great. Back in 2007 the IFC announced a $150m debt and equity investment in Lonmin intended to "help the company expand and improve the development impact of its platinum mining operations". It hoped to empower the 350,000 people in the communities surrounding Lonmin operations. (The loan is no longer active.)

Again, the IFC as investor was at its absentee best. It either knew nothing about the reality of life in Marikana or chose to ignore reality and instead listen to management's grandiose vision of "comfortably middle-class communities".

A year before the tie-up with Lonmin, the Benchmarks Foundation released a detailed report on conditions in communities around Marikana. No doubt, far from the filth and despair of life in Marikana, IFC executives took comfort from tales in successive Lonmin annual reports about continuous investment in uplifting the community. The Bench Marks Foundation pointed out in the wake of the 2012 tragedy that far from improving, the quality of life of the Marikana community had deteriorated appreciably since 2007.

In 2015, the women of Marikana laid a complaint with the World Bank's investment ombudsman over Lonmin's failure to uplift the community in the way it had pledged to the IFC back in 2007. They have been stalled at every turn. Almost two years later the parties are in a voluntary dispute-resolution process.

The Raith Foundation believes a key driver to inequality is the way that asset owners are allowed to act with impunity and avoid being held accountable for the behaviour of their investee companies.

Our stewardship policy puts accountability and responsibility at the core of our investment strategy. Stewardship entails monitoring, engaging and intervening — if appropriate — on matters that may affect long-term value, and on the companies' activities in social, environmental and other governance areas. It describes precisely what the IFC has failed to do.

Stewardship is about taking care of something in one's keeping. It aims to promote the long-term success of companies in a way in which the providers of capital also prosper.

For an entity that is so powerful and that peddles the image of being more than an ordinary investor, the IFC has proved itself to be remarkably tin-eared and out of touch with the poor whom it is determined to save. Perhaps it's time to consider more stewardship and fewer grandiose proposals.

• *Elster is executive director and Fraser programme director of the Raith Foundation.*