Ann Crotty

“Access to basic financial products – bank accounts, debit cards, and housing loans – is the cornerstone of prosperity.” It’s the sort of claim that Net1 CEO Serge Belamant has made several times in defense of a business model that has wreaked devastation on the lives of possibly hundreds of thousands of South Africa’s most vulnerable citizens.

But this particular claim is not Belamant’s. It belongs to the International Finance Corporation, which boasts that through its funding it is helping 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 $107 million 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 (whether part of a developed or developing country) the concept of financial inclusion is such an accepted part of life it’s taken for granted. Not to have it must mean un-development, so having it must surely lead to development. Indeed there’s an almost religious fervor in the commitment to financial inclusion as an essential part of economic development. Rather reminiscent of the missionaries who accompanied the colonialists in an earlier era and peddled the notion that Christ and capitalism was 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 of Net1’s activities in South Africa promoting economic development or financial inclusion . Far from it. 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 South Africa making it the fifth most important country for the development institution. Ahead of SA is 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.” And then, here’s what it says 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 South Africa, its primary market, and sees the potential for applying its technology to expand reach of services elsewhere."

Perhaps the IFC was so mesmerized by Net1's "disruptive technology" that it failed to notice (as late as 2016) the extensive coverage of the heart-wrenching stories of these 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 Services Agency? If so had Belamant persuaded them it was all contrived by a bunch of do-gooder civil society organisations? Were they not just a little nervous about a company that had been the subject (albeit indirectly) of a high profile Constitutional Court ruling; a company whose chairman was also the CEO and which had only three independent directors each of whom had been appointed way back in 2005?

What South African-based research had the IFC undertaken to support its $107 million investment in Net1? Did it have people in the affected communities getting first-hand knowledge about what financial inclusion Net1 style feels like?

Or was the IFC so sure it knew what was best for "the world's poorest" that it felt it didn't need to be distracted by these sort of details?

Even if it were just the technology the IFC was interested in, 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 over 50 years, will have learnt from its Net1 experience are not great. When it comes to arrogant disregard of the interests of the communities affected by its investment it has form. Back in 2007 the IFC announced a $150 million debt and equity investment in Lonmin intended to "Help the company expand and improve the development impact of its platinum mining operations". The IFC hoped to empower the 350 000 people in the communities surrounding Lonmin's operations. "The goal is to build a long-term relationship with local communities and demonstrate the effects of sustainable development across Africa and worldwide," said the IFC at the time. (The $100 million 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 (the location of Lonmin's platinum mines) or chose to ignore this reality and instead listen to management's grandiose vision to create "comfortably-middle-class communities".

A year before the tie-up with Lonmin, Benchmarks Foundation released a detailed report on conditions in the communities around Marikana. Had the IFC read it, a more realistic plan could have been crafted with Lonmin. But who wants 'realistic' when grandiose in on the table?

No doubt, far from the filth and despair of life in Marikana, the IFC executives took comfort from the tales carried in successive Lonmin annual reports about the ongoing investment in uplifting the community. It may also have visited the Lonmin board at its head office in London to discuss progress on creating a middle class community all those thousands of miles away in Africa.

It was down to Bench Marks Foundation to point 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.

Because of the IFC's special status as more than an ordinary investor the Women of Marikana decided, in June 2015, to lay 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 involved in a voluntary dispute resolution process.

The Raith Foundation believes a key driver to inequality is the way asset owners are allowed to act with impunity and avoid being held accountable for the behavior 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 the ultimate 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 proven 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.