OUTSOURCING THE DISBURSEMENT OF SOCIAL GRANTS AND BANKING THE UNBANKED: THE CASE OF NET1 UEPS TECHNOLOGIES, LTD. IN SOUTH AFRICA

by

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Submitted in fulfilment of the requirements for the degree

MSocSci Development Studies

in the Faculty of Humanities

University of Pretoria

August 2017

Plagiarism Declaration

I declare that this dissertation, titled *Outsourcing the Disbursement of Social Grants and Banking the Unbanked: The Case of Net1 UEPS Technologies, Ltd. in South Africa*, which I hereby submit for the degree MSocSci Development Studies at the University of Pretoria, is my own work and has not previously been submitted by me for a degree at this or any other tertiary institution.

I further declare that all the sources that I have used or quoted have been indicated and acknowledged by means of complete references.

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Ethics Statement

The author, whose name appears on the title page of this dissertation, has obtained, for the research described in this work, the applicable research ethics approval.

The author declares that she has observed the ethical standards required in terms of the University of Pretoria's Code of ethics for researchers and the Policy guidelines for responsible research.

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Summary

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Keywords:	Social grants, outsourcing, corruption, financial inclusion, social grants, financial industry, inclusive marketing, social security, corporate social responsibility, governance, corporate power.

The outsourcing of South Africa's social grant payment system to Cash Paymaster Services, a private financial service provider, has been the subject of increasing public attention in recent years. In 2012, reports of unauthorized deductions from grant beneficiaries' bank accounts for financial services sold by CPS' sister companies emerged, and the looming grant payment crisis facing South Africa's Social Security Agency (SASSA) dominated the news headlines for months in 2016 and 2017.

Many observers saw these events as yet another instance of corruption and incompetence on the part of individuals in high places in government and the private sector in Africa. Such allegations have come to have a prominent place in local and international media reports about the continent, and carry the implication that the solution to the problem lies in getting rid of the guilty individuals – the 'bad apples' – who undermine an otherwise well-functioning system.

This dissertation attempts to take the discussion of the social grants saga beyond this perspective, thus filling the gap between the public debate and the 'bigger

picture'. It questions the conclusion that the social grants case is 'all about corruption and incompetence' and puts it into the context of broader developments at both national and international levels. The central aim of this dissertation is therefore to offer a deeper analysis of the social grants saga and the factors that contributed to it, and to identify the links between its local and its global context.

This is done in several stages: First, by providing a comprehensive overview of the case; second, by identifying the main topics and arguments of the media reports; and third, by placing the case in the context of South Africa's political, economic, and social development in the post-apartheid era. My account is informed by theoretical analysis pertaining to the changing relationship between corporations and nation states in what has been termed 'the end of national capitalism' or the 'post-national order'. More specifically, the analysis explores recent attempts to reconcile developmental aims with the profit motive and greater corporate involvement as advocated by Prahalad's "Bottom of the Pyramid" theory and concepts such as 'corporate social responsibility' and 'financial inclusion'.

The aim is to challenge the public perception of the social grants saga as a case of 'corruption and incompetence' on the part of selected individuals, to make a local contribution to the global debate on the changing relationship between corporations and states, and to illustrate the detrimental effects this changing relationship can have on the poorest and most vulnerable part of the population.

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List of Abbreviations

ABSA	Barclays Africa Group Limited
ACAOSA	Association for Community Advice Offices in South Africa
AFI	Alliance for Financial Inclusion
AFP	Agence France-Presse
ANC	African National Congress
ASGISA	Accelerated and Shared Growth Initiative for South Africa
ATM	Automated Teller Machine
AVS	Added Value Service
BASA	The Banking Association South Africa
B-BBEE	Broad-Based Black Economic Empowerment
BEE	Black Economic Empowerment
BFA	Bankable Frontiers Association
BoP	Bottom of the Pyramid
BP	British Petroleum
CEO	Chief Executive Officer
CMAP	Community Monitoring and Advocacy Project
COIDA	Compensation for Occupational Injuries and Diseases Act
COSATU	Congress of South African Trade Unions
CoT	City of Tshwane
CPI	Corruption Perceptions Index
CPS	Cash Paymaster Services
CRP	Center for Responsive Politics
CSG	Child Support Grant
CSR	Corporate Social Responsibility
DA	Democratic Alliance

DG	Disability Grant
DoJ	Department of Justice (United States)
DPE	Department of Public Enterprises
DSD	Department of Social Development
EFT	Electronic Funds Transfer
EPE	EasyPay Everywhere
FDI	Foreign Direct Investment
FNB	First National Bank
FSB	Financial Services Board
FSC	Financial Sector Charter
G2P	Government-to-Person
GDP	Gross Domestic Product
GEAR	Growth Employment and Redistribution Strategy
GGA	Good Governance Africa
ICIJ	International Consortium of Investigative Journalists
ICT	Information and Communications Technology
IFC	International Finance Corporation
IFI	International Financial Institution(s)
IMF	International Monetary Fund
IOL	Independent Online
JSE	Johannesburg Stock Exchange
KOOR	KatoliekeOntwikkelingOranjerivier
MEC	Minerals-Energy Complex
MNC	Multinational Corporation
MP	Member of Parliament
MTT	Ministerial Task Team

NAFTA	North American Free Trade Agreement
NCA	National Credit Act
NCR	National Credit Regulator
NDP	National Development Plan
NEM	Normative Economic Model
NGO	Non-Governmental Organization
NGP	New Growth Path
NPC	National Planning Commission
NPO	Non-Profit Organization
OAG	Old Age Grant
OECD	Organisation for Economic Co-operation and Development
PARI	Public Affairs Research Institute
PMG	Parliamentary Monitoring Group
POS	Point of Sale
Prasa	Passenger Rail Agency of South Africa
PSC	Public Service Commission
RDP	Reconstruction and Development Programme
RFP	Request for Proposals
RSA	Republic of South Africa
SABC	South African Broadcasting Corporation
SAIIA	South African Institute of International Affairs
SAPA	South African Press Association
SAPO	South African Post Office
SAPS	South African Police Service
SARB	South African Reserve Bank
SARS	South African Revenue Service

SASSA	South African Social Security Agency
SCOPA	Standing Committee on Public Accounts
StatsSA	Statistics South Africa
U.E.P.S	Universal Electronic Payment System
UIF	Unemployment Insurance Fund
UK	United Kingdom
UNCTAD	United Nations Conference on Trade and Development
US SEC	United States Securities and Exchange Commission
WCG	Western Cape Government
WFP	World Food Programme

1 Introduction

Sophia[1] is a 36-year-old mother of four children who lives in a rural town in the Western Cape. Her family survives on the child support grants she receives for her children and her weekly wage as a casual labourer on a nearby farm. But when she fell pregnant with her youngest child she was unable to continue the physically demanding work on the farm. Having lost her job, she now had to rely solely on the child support grants for her three older children to sustain her small family. With a monthly amount of R350 per child, the child support grant is by far the lowest of South Africa's seven social grants and Sophia struggled even to get food on the table. Unable to make ends meet, she approached a financial consultant who visits her town on a monthly basis to offer loans and other financial services to people who find themselves in a similar situation as Sophia. She applied for an emergency loan to rent a backyard shack as she and her children had been sleeping outside or at a shelter. She was told that in order to get the loan she would also have to take out a funeral insurance policy offered by another financial company. Further, she would have to open a second bank account with the bank through which her social grant was paid and get a new debit card linked to the new account. Though she didn't want either, she agreed, as she felt this was the only way she could get the loan she so desperately needed. What Sophia didn't know was that from now on her monthly grant payment would be diverted from her grant account to the new, commercial bank account she had just opened. Instead of being able to withdraw her grant money for free at government pay points or through a network of participating stores and merchants, she now had to pay for every single transaction or withdrawal. Further, the legal restrictions on debit deductions from her grant account did not apply to her new, commercial account, the implications of which soon became evident.

At the end of the month, Sophia once again found that she was unable to cover her living expenses, let alone the additional costs of the loan repayment, the funeral policy, and the transaction fees charged for her new account. Desperate, she applied for a second loan from another company to cover the repayment of her first loan. Her

[1] Name changed. Sophia's story is based on an article published in the *Sowetan Live* on 16 March 2017 (Torkelson 2017d).

application was approved but due to her lack of assets that could serve as collateral for the loan she was charged a high interest rate which further increased her monthly expenses. This scenario repeated itself in the following months until her account was in the red and she was unable to cover the most basic expenses for her, her children, and her new-born baby. Finally, as if this wasn't enough, Sophia discovered that the company she got her second loan from had been deducting sums from her account that far exceeded her monthly instalments. And although these deductions were clearly fraudulent, her attempts to stop them were unsuccessful.

Nomalanga[2], who lives in a township at the outskirts of Cape Town and receives the state disability grant, tells a similar story. Shortly after the introduction of South Africa's new grant payment system, which largely replaced cash payments with electronic transfers into special grant accounts, she noticed monthly deductions for prepaid airtime. Since she supplements her grant income by selling airtime to her neighbours using a different service provider, she insists would have never signed up for an additional and more expensive prepaid service or authorized any airtime deductions from her grant. She does, however, remember receiving an SMS offering "free" airtime around the time the new grant system was introduced. She recalls making use of this promotion but says she never consented to monthly deductions. After trying – and failing – to stop these deductions, she decided her only option was to apply for a loan through a company she had used before. Just like Sophia, Nomalanga had to take out an additional insurance policy to qualify for the loan and was charged 30-40% in interest – described as "service fees" – every month.

When she applied for the new loan, she was told she would have to open a second bank account and replace her existing bank card with a new, commercial one, just like Sophia. Yet, even though she accepted the new card and bank account, Nomalanga was denied the loan. However, her monthly grant payments continued to be diverted into her new account which caused additional banking and transaction fees. She is very worried about what will happen when she returns to her home village in the Eastern Cape where she used to collect her grant from the local pay point. Being unable to use the village pay point with her new commercial card and bank account, she will have to embark on a long and expensive taxi ride to town to

[2] Name changed. Nomalanga's story is based on an article published in the *Huffington Post* on 07 March 2017 (Torkelson 2017).

withdraw her grant from an ATM and pay a withdrawal fee on top of her transport costs. Nomalanga has tried to close the new account and to go back to the initial account which is free for all grant beneficiaries, but without success. She even contacted the South African Social Security Agency (SASSA) but was told they had no jurisdiction over commercial bank accounts or additional financial services purchased by her and there was nothing the agency could do. She also tried to get help from the bank – which provides both the state-sponsored social grants account and the new account she was forced to open – but since the bank has no physical branches or even ATMs it is impossible for customers to walk up to a customer service counter to ask for a stop order on the deductions or to close the new account. As a result, Nomalanga is stuck with an expensive and impractical bank account she didn't want in the first place and still faces the monthly deductions for airtime, despite smashing her old SIM card and trying repeatedly to stop the unauthorized deductions. She feels that her only option to make ends meet is to apply for another loan, thus getting closer and closer to being dragged into the vicious cycle of poverty and over-indebtedness.

At first glance, Sophia's and Nomalanga's stories may seem like two typical examples of poor, state-dependent, and financially illiterate individuals who failed to understand the complex financial landscape they were entering and took out loans without considering their ability to repay them. However, there is much more to their story – a story that reaches into the highest political circles and far beyond South Africa's borders. It is the story of a financial corporation that was contracted to modernize and run South Africa's rapidly expanding social grants system and to give the country's millions of financially-excluded grant recipients access to the formal financial sector. Initially, the project seemed like a great success. Instead of queuing in the scorching sun for hours to get their grants from cash pay points, beneficiaries could now receive their monthly payments through a sophisticated financial system which includes biometric identification, free bank accounts for beneficiaries, debit cards, and even a limited number of free transactions. But then cases like Sophia's and Nomalanga's started to emerge, illustrating the flipside of the "financially inclusive" modernization of South Africa's grant system. Cash Paymaster Services (CPS), the company in charge of the new grant payment system, was a sister company of Moneyline, the loan provider used by both Nomalanga and Sophia, as were the insurance provider (Smart Life) and the company that had obliged them to open new bank accounts and swap their social grant cards for commercial debit cards (EasyPay). Operating as a network of interlinked subsidiaries of the same parent corporation – Net1 UEPS Technologies Inc. (Net1) – these companies had established a highly profitable ‘microfinance empire’ using the new payment system established by CPS to market their financial products and services to grant recipients. This not only gave them access to a new client base of almost 17 million people but also allowed them to deduct their fees and repayments as soon as the grant was paid into the beneficiary’s account, thus reducing the risk of payment default to almost zero. Finally, their close relationship with CPS allowed Net1’s subsidiaries to market their products and services directly to grant beneficiaries, many of whom consented to Net1’s business practices out of fear of losing their grant.

When the South African media picked up on the story in late 2012, the case caused a considerable public outcry – especially when human rights organization Black Sash collected hundreds of case studies all across the country which illustrated the magnitude of the problem. But it did not stop there: allegations of corruption surrounding the tender process started to emerge, a fierce and lengthy court battle ensued, calls to get rid of Net1 and to develop an in-house solution for grant payments grew louder and louder, and the involvement of the Minister of Social Development in this web of dodgy dealings came under increasing scrutiny. Some observers saw this as a typical case of the African-style corruption and incompetence that has come to dominate the media, not only on the continent but all over the world. But is that really all there is to the social grants saga? Is it just another isolated, local incident caused by a few ‘bad apples’ in an otherwise well-functioning system? Most of the media reports, at least, seem to have reached this conclusion. Instead of trying to connect the numerous ‘puzzle pieces’ of the case or considering it in the framework of its broader political, social and economic context, most media reports simply reiterated the ‘corruption and incompetence’ rhetoric – be it to please their readers or their editors.

This dissertation attempts to take the debate on the social grants saga beyond the rather short-sighted perspective of the media, thus filling the gap between the public debate and the ‘bigger picture’. It questions the conclusion that the case is “all about corruption and incompetence" and puts it into the context of broader developments and debates, both at a local and a global level. The central aim of this dissertation is therefore not simply to illustrate the issue of deductions further by collecting more case studies or by creating a timeline of events based on the existing material on the case. Rather, it attempts to offer an analysis of the social grants saga and the factors that contributed to its existence deeper than the one offered by the media, and to identify the links between its local and its global context. More specifically, this study will:

1) Give a comprehensive and detailed account of the case based on the media coverage and identify the main issues, actors, and events, as well as the links between them;

2) Examine how the case was reported on and identify possible reasons for the media's rather narrow focus on corruption and incompetence;

3) Consider the case in the context of South Africa's post-apartheid trajectory with a special focus on the role of social grants, the outsourcing of public services and government functions, and financial inclusion, based on Prahalad's "Bottom of the Pyramid" model;

4) Analyse the case against the backdrop of the global debate about the changing relationship between states and corporations and illustrate the relevance of this debate for the overall aim of seeing the 'bigger picture' of the social grants saga.

The first part of the study is predominantly descriptive and is based largely on the media coverage of the case, as well as supporting documents such as company statements, annual reports court documents, laws and regulations, press releases, government statements, and online sources. In addition, content analysis is used to substantiate the argument about the media's main focus areas and conclusions. The second part, on the other hand, is mostly analytical and draws on Prahalad's "Bottom of the Pyramid" theory (Prahalad & S. Hart 2002), K. Hart's work on the relationship between corporations and nation states during and after the era of 'national capitalism' (K. Hart 2005; 2009; 2012; K. Hart & Padayachee 2013), and Scherer and Palazzo's understanding of a new, politicized role for Corporate Social

Responsibility in the post-national era (Scherer & Palazzo 2007; 2008; 2011; Scherer & Smid 2000).

Consisting of seven chapters, including this introductory chapter, this dissertation is organised as follows:

Chapter two gives a comprehensive account of the main events and actors in the social grants saga from its inception in the early 1990s to May 2017. It includes a brief overview of the history of social grants in South Africa and introduces Net1, its main subsidiaries, and their activities related to the case. Further, the chapter covers the establishment of SASSA, the centralization of the grant payment system under CPS, the controversial tender process and the subsequent court cases, the consequences for grant beneficiaries, and the government's – rather unsuccessful – attempts to put an end to the activities of Net1 and its subsidiaries.

Based on this, chapter three takes a closer look at the main topics and arguments of the media reports, as well as the factors that influenced the media's strong use of 'corruption and incompetence' rhetoric. More specifically, it outlines the main allegations of corruption that surrounded the case, such as irregularities in the tender process, the role of presidential lawyer Michael Hulley, BEE deals in connection with the social grants tender, and the role of SASSA and Minister Bathabile Dlamini. In addition, content analysis is used to illustrate the main focus areas and arguments of the media reports. The second part of the chapter then attempts to explain these findings by looking at how typical constraints faced by journalists and the rise of corruption as one of the dominating issues in the neoliberal era influence the way cases like the social grants saga are generally portrayed in the media.

Moving away from the media coverage and beyond the 'corruption and incompetence' argument, chapter four looks at two issues that have received relatively little media attention, despite the fact that they played a central role in the social grants saga. The first part of the chapter examines the dual role of social grants as a lifeline for the poor on the one hand and a political instrument on the other, and their significance as a stabilizing force in the new, democratic South Africa. Subsequently, part two outlines the outsourcing of government functions in post-apartheid South Africa in line with the country's adoption of neoliberal ideas, thus outlining the broader context of the state’s decision to outsource the payment of social grants.

Next, chapter five examines another crucial aspect of the case by introducing the concept of financial inclusion and outlining South Africa’s attempts to become more financially inclusive. Again, a special focus is placed on the role of social grants in this process. The chapter links the general idea of financial inclusion with Prahalad’s “Bottom of the Pyramid” argument and examines its “win-win” rhetoric which is frequently used to promote the ‘business case’ for financial inclusion.

Based on this, chapter six takes the discussion to a global level and puts the social grants saga in the context of the changing power relations between corporations and nation states. After a brief overview of the history and development of the state-corporate relationship, it discusses the recent increase in corporate power, the increasing involvement of corporations in political and social matters, the concept of corporate social responsibility (“CSR”) and its more recent counterpart corporate citizenship, as well as the notion of corporate personhood. Finally, the links between the social grants saga and these overarching concepts and developments are highlighted, thus illustrating the effects this power struggle can have on the poor.

Finally, chapter seven sums up the main arguments of the study and highlights the key conclusions drawn.

Overall, this dissertation challenges the public perception of the social grants saga as a case of “corruption and incompetence” that was created by the narrow focus of the media reports and considers the case from an academic rather than a ‘sensationalist’ perspective. It thus aims to make a local contribution to the global debate on the changing relationship between corporations and states and to illustrate the detrimental effects the state-corporate power struggle can have on the poorest and most vulnerable part of the population.

2 The Net 1 Saga – Timeline and Overview of the Main Events and Actors of the Case Study

In order to understand the full scope and significance of the social grants case it is crucial to establish a clear account of the events that transpired, as well as of the main players involved. However, most of the media coverage has only focused on specific aspects of the case, such as the unauthorized deductions, the court cases, allegations of corruption, Minister Dlamini's conduct, and, most recently, SASSA's inability to find a new payment provider. Very few have attempted to connect the different elements of the case and to present a detailed overview of the sequence of events. This, as well as the fact that journalists often tend to focus on the most scandalous aspects of a case in order to boost sales, has shaped the public discourse on the Net1 saga in a powerful way. Not only has it resulted in an incomplete and limited understanding of the case and its implications, but it has led to the widespread perception that "all that has happened is that the people in charge are so incompetent, and so uncaring, and allegedly so corrupt" (Grootes 2017). In other words: It all comes down to corruption and incompetence.

While this is not entirely wrong given the indisputable presence of both corruption and ineptitude, this dissertation argues that such a narrow angle of analysis prevents us from seeing the case in terms of the "bigger picture". Essentially, it implies that if we simply get rid of the corrupt individuals, all problems will be solved. However, both recent literature and the increasing body of evidence illustrating the failure of anti-corruption initiatives to bring about prosperity and development, point in a very different direction (see chapter three).

In order to overcome these shortcomings, this chapter establishes a detailed account of how the case developed, who the central players were, and how the events and actors that constitute the case are related and interlinked.

While most of the information presented in this chapter is based on media coverage, its focus is not merely on the many rather scandalous allegations and opinions around the case, but on the factual information presented in these reports, such as dates, actors, places and events. Quotes and short extracts from these articles will, however, be used to illustrate the way in which these facts were reported, in order to provide a basis for the content analysis presented in the next chapter.

This chapter is divided into five sub-chapters, each of which focuses on a particular episode of the social grants saga and which present the case in chronological order. Section one starts by providing background information on the process of outsourcing the administration and payment of social grants as part of the overall reform and expansion of the social grant system in South Africa and the emergence of Net1 as the main payment provider. Subsequently, section two takes a closer look at the issue of unauthorized deductions from grant accounts and illustrates the impact this had on beneficiaries. Based on this, section three provides an overview of the activities of Net1's various subsidiaries and its partner Grindrod Bank, and illustrates their involvement in the selling of financial products and services to grant recipients. Section four focuses on the outcomes and implications of the tender court case, the regulatory changes that resulted from the public outcry over the deductions, as well as SASSA's unsuccessful attempt to find an alternative service provider. Finally, section five describes the escalation of the social grants crisis that started in the last quarter of 2016, dominated both the media and politics in early 2017, exponentially increased people's awareness of the case, and fuelled the public discourse.

2.1 The Outsourcing of Social Grants in South Africa and the Emergence of Net1 as the Main Payment Service Provider

Contrary to most other developing countries, South Africa has a long tradition of social welfare, the first elements of which were introduced after the British regained control over the Cape Colony in 1806 (Visser 2004:2). However, another century would pass until the first social security schemes for workers and maintenance payments for children were introduced in 1910, mirroring the trend towards the creation of European-style social welfare systems in many settler colonies at the time (Devereux 2011:415). Like most of South Africa's public services in the 20th century, the country's social welfare system was heavily skewed along racial lines, having been established primarily as a response to the 'poor white problem'[3] that emerged in the 1920s and 1930s (Visser 2004:2). By 1943, the government was spending a mere 4% of its social assistance budget on Africans (Woolard et al.

[3] For further reading, see: Fourie (2007), Klausen (2004), Seekings (2007) or Davies (1973).

2011:360) and despite a partial de-racialization in the 1940s, which extended some of the benefits to Blacks and Asians (although at much lower levels), it was not until the end of apartheid that the racial divisions within the social assistance system were abolished (Potts 2012:77).

With the end of apartheid rule also came a range of political, social and economic reforms to address the injustices of the past, as well as the chronic backlogs and inefficiencies in virtually every aspect of the public sector. This included, among other things, radical changes with regard to the provision of social grants. Although considerable progress had been made during the late apartheid years, mainly as an effort to appease the increasingly dissatisfied and rebellious Black majority (Visser 2004:5), the newly elected government inherited a "costly, inequitable and highly fragmented welfare system […] in dire need of reform" (Delany & Jehoma 2016:60).

The main changes that were implemented over the next two decades can be summarized as follows:

1. Expanding grant coverage by relaxing and mainstreaming the eligibility criteria, which resulted in an exponential increase in the total number of grant recipients from 2.5 million in 1998 (National Treasury 2013:84) to over 17 million in 2017, which equals about a third of the total population (Rossouw 2017);
2. Enshrining social security as a basic right in section 27(2) of the country's new constitution, which states that all South Africans "have the right […] to social security, including, if they are unable to support themselves and their dependants, appropriate social assistance" (NPC 2013:357)[4];
3. Deracializing the system and eliminating all discriminatory provisions with the passing of the Social Assistance Act of 1992 (amended in 1997), which provides for equal access to all forms of social assistance;

[4] This right was later formalized in the Social Assistance Act of 2004, thus making it possible for ordinary citizens to enforce their right to social security through the country's legal system. Devereux (2011:422) notes that "this combination of constitutional provision, a bill of rights, legislation, and an appeals process, amounts to a "social contract" on social protection, which is unique in Africa".

4. Addressing the urban/rural divide in the provision and accessibility of social grants[5] by integrating local structures into the public sector (Gray 2006:55);
5. Consolidating the fragmented and inefficient system which had previously consisted of 14 separate social protection systems (Reddy & Sokomani 2008:15) by establishing the South African Social Security Agency (SASSA) as the central body for the administration and payment of social grants;
6. Addressing the lack of staff and capacity at the local level which had resulted in unacceptable service delivery conditions, such as pensioners having to queue in the rain or in the scorching sun for hours to collect their grants (Reddy & Sokomani 2008:48) by contracting private service providers; and
7. Promoting financial inclusion and "banking the unbanked" by modernizing the previously cash-based social grants system and by integrating grant recipients into the formal financial sector (Torkelson 2017b).

This reform process was informed by the findings and recommendations of the Taylor Committee and the Chikane Commission[6] and had its legal basis in a 2004 Constitutional Court ruling which stated that "social assistance is a matter that cannot be regulated effectively by provincial legislation and that requires to be regulated or co-ordinated by uniform norms and standards that apply generally throughout the Republic" (Constitutional Court of South Africa 2004). The corresponding legislation was introduced in the same year with the passing of the Social Assistance Act No. 13 of 2004 and the South African Social Security Agency Act No. 9 of 2004. These two acts constitute the framework for South Africa's social protection system as it is today and laid the foundation for the establishment of SASSA as the central agency for social assistance (Republic of South Africa 2004).

[5] Gray (2006:55) describes the South African social protection system in the early 1990s as consisting of "two welfare systems": Urban areas were serviced mainly by voluntary welfare organizations partnering with the state, while a second, alternative welfare sector was made up of externally-funded NGOs, many of which had been part of the anti-apartheid movement.

[6] The government had appointed the Committee for the Restructuring of Social Security (the "Chikane Commission") in 1996 to review the "high level of abnormalities" in the system and to provide recommendations for improvements (Reddy & Sokomani 2008:18). The commission reached the conclusion that, in order to deal with the above mentioned problems, (a) a nationally organised social security system should be established, and (b) management systems should be standardised and integrated (Reddy & Sokomani 2008:18-19). This was seconded by the findings of the Taylor Commission, which proposed the implementation of a central social security agency to operationalize various social security functions outside the civil service (Reddy & Sokomani 2008:48).

SASSA was established as an independent government agency with the mandate to "ensure effective and efficient administration, management, and payment of social assistance [and] to provide for the prospective administration and payment of social security, including the provision of services related thereto" (CGAP 2011:17). This is summed up in SASSA's commitment to "paying the right social grant, to the right person, at the right time and place" (SASSA 2014). In addition to the day-to-day business of administering and disbursing social grants, the agency's functions include setting up and maintaining a national database of all applicants and beneficiaries, and establishing compliance and fraud prevention mechanisms (Reddy & Sokomani 2008:49). The agency is overseen by the Department of Social Development (DSD) which is also responsible for social policy development, funded by National Treasury, and supposed to be monitored by the Inspectorate for Social Assistance, which is, however, yet to be established (Ngubeni 2014). The agency has its own CEO who is appointed by the president for a renewable five-year term (CGAP 2011:17).

While the establishment of SASSA addressed many of the administrative issues and the high levels of fraud the social grants system was facing (Monama 2013), the actual payment of grants remained in the hands of the provinces. Lacking the technological infrastructure, experience and manpower to distribute the increasing number of grants efficiently and effectively, the provinces had, however, outsourced the payment process to a number of different service providers (FinMark Trust 2012:25; Breckenridge 2005). As can be seen in Figure 1, Net1's subsidiary Cash Paymaster Services (CPS) had established itself as the main service provider, serving more than half of all grant beneficiaries in 2012. ABSA's subsidiary AllPay – the company which later sued CPS over the national social grants tender – was the second largest grant distributor with 36%, followed by Postbank and Empilweni, both relatively minor players.

Table 6: Service Providers by Province

Service provider	Operating provinces	No of pay points managed	% of beneficiaries served
Cash Payment Services	Eastern Cape, Northern Cape, KwaZulu Natal, North West, Limpopo	8,310	56%
All Pay	Western Cape, Eastern Cape, Free State, Gauteng	1,297	36%
Postbank	Mpumalanga, Limpopo	1,289	5%
Empilweni	Mpumalanga	308	3%
Total		**11,204**	**100%**

Figure 1: Service providers by province (Source: FinMark Trust 2012:25).

Yet, despite the use of these professional payment providers, the provincial payment system was facing several severe challenges. Competing demands on budgets and inadequate budgetary allocations led to long delays and difficulties in accessing payments. Together with insufficient administrative capacity and a lack of standardisation, this led to considerable differences in implementation between the provinces (Delany & Jehoma 2016:60). In addition, the predominantly cash-based system left grant recipients vulnerable to a range of financial companies and moneylenders who were operating at or around pay points and who had a keen interest in their grant money. Moreover, according to Monama (2013), “one of the biggest problems was that [pensioners] were sold items at inflated prices at some shops from which they got their money.” Further, “double payments, as well as fraudulent claims of various kinds were widespread” (Stanwix 2015). Last but not least, the National Treasury was getting increasingly concerned over the high costs of distributing grants and had started to push for the centralization of the payment system as early as 2004 (National Treasury 2004). The strategic intent behind such a system operated by a private service provider was, according to the DSD, “to ensure that service providers […] provide a standardised payment service […], to ensure a cost-effective service with the maximum transfer of risk to the private sector and to address the principles of BEE” (DSD 2009).

The shift of the payment of grants to the national sphere was supposed to be implemented as soon as “the social security agency is up and running” (National Treasury 2004) and the newly-established SASSA issued the request for proposals (RFP) for its first national tender for the distribution of grants on 23 February 2007 (DSD 2009). According to Mahlong (2010), the three-year tender for the distribution of R70 bn in social grants was worth a total of R21 bn. However, after having received nine bids (DSD 2009), SASSA cancelled the tender process in November 2008 on the advice of the bid adjudication committee (McKune 2012e) “due to a lack of clarity on certain requirements in the request for proposals” (Mahlong 2010). However, other sources such as Harris (2009), McKune (2012e) and a series of City Press exposés, alleged that the tender was “canned” due to serious irregularities, such as “links between the bidders and the wife of Social Development Minister Zola Skweyiya” (DSD 2009) and that an “open chequebook bribe” had allegedly been offered to committee chairman Norman Arendse (McKune & Sole 2012).

Instead of immediately issuing a new version of the tender, SASSA decided to bypass the official tender process and entered into a direct agreement with the South African Post Offices Ltd (SAPO) in on 1 July 2009 (North Gauteng High Court 2009). Under this agreement, SAPO would “help beneficiaries open Postbank accounts and pay their grants into them” and “provide beneficiaries with additional services including a free mini-statement, an Mzansi bank card[7] and two free ATM withdrawals each month” (City Press 2011). However, before the agreement could come into effect, Net1 sued SASSA for not following proper tender procedures and the arrangement was set aside. According to Mabuza (2011), CPS had filed a similar lawsuit the previous year with regard to similar contracts into which SASSA had allegedly entered with a number of banks – again, without following a competitive tender process.

In this context, Michael Hulley, President Zuma’s personal lawyer, made his first appearance in the case. According to several reports by McKune (2012a, 2012b, 2012c, 2013), Hulley was hired by by SASSA to advise the agency on “how to settle a rash of law suits with Cash Paymaster Services” in the wake of the Post Office agreement, and later switched to a new role as an advisor on the 2013 social grants tender – during which time the above-mentioned lawsuits were dropped. Hulley’s

[7] More on the Mzansi bank account in section 5.2.1.

involvement became controversial when “Sassa strategy and business development executive manager Raphaahle Ramokgopa reportedly admitted that Hulley had not sent invoices to Sassa and was not paid by the agency” (SAPA 2013). Claims that CPS had paid Hulley’s daily fee of R21 000 to advise SASSA – presumably with a favourable outcome for CPS – repeatedly emerged during the court proceedings but were vehemently denied by SASSA (United States District Court 2015:5).

On 15 April 2011, four years after SASSA’s first attempt to centralize the grant distribution system, the RFP for a five-year tender for the nationwide distribution of all social grants in South Africa was finally issued successfully. By the final closing date on 27 June 2011, 21 bids had been received and were subsequently evaluated in a three-stage process over a period of nine months (North Gauteng High Court 2012). On 17 January 2012, the tender was formally awarded to CPS, followed by the signing of the service level agreement and contracts on 3 February 2012 (North Gauteng High Court 2012).

At this point, it is appropriate to take a closer look at Net1, the company behind South Africa’s new social grants payment provider CPS:

Net1 UEPS Technologies, Ltd. (Net1) was founded by its current CEO and chairman Serge Belamant and his late partner Andre Mansveld in September 1989. It is a financial services and payment technology company that facilitates payments between institutions and individuals who lack easy access to banking services. The group has grown rapidly over the past few years which is, among others, reflected by its staff which increased from 4,764 in 2015 to 5,701 in 2016, and its growth in revenue from 390.3 million USD in 2012 to 625.9 million USD in 2015 (Net1 2016b:4).

In addition to being credited with the invention of the world’s first electronic purse, Net1 released the first version of its patented Funds Transfer System (FTS) in 1991 (Net1 2005:1). Initially only a licence holder for the U.E.P.S. technology – Net1’s patented Universal Electronic Payment System – outside of Southern Africa, the company acquired Applied Technologies Holdings Limited (Aplitec), the holder of the U.E.P.S. technology licence for South Africa, Namibia and Botswana, in 2004. With this move, Net1 managed to consolidate all intellectual property related to the technology in one company. Today, Net1 has an estimated value of R12.8 billion

(Goko 2015) and is listed on both the NASDAQ and the JSE (Net1 2012c). The International Finance Corporation (IFC), a member of the World Bank Group, recently announced that it was purchasing an 18% interest – valued at $107m – in the company, which is the largest technology-related investment the IFC has made to date (Seeking Alpha 2016:3).

Perhaps one of Net1's most noteworthy projects on the African continent was the introduction of the U.E.P.S. and smart card-based e-Zwitch platform in Ghana, which is now the country's national payments system (Tarrant 2009:34). By awarding the 2007 National Switch and Smart Card Payment System tender to Net1, Ghana made it compulsory for all of the country's 169 commercial banks and financial services providers to become part of the system, and the country has since moved from a situation where only 800,000 of its 22 million citizens – 3.6% of the population – were banked (Tarrant 2009:34), to a coverage of approximately 30% (CGAP 2011b:2).

Although the U.E.P.S. system could potentially have a large number of applications in developed financial markets, Belamant chose to focus on developing and emerging countries – at least initially: "Why fight the giant card providers for 10 percent of the world market? It makes far more sense to go for the 90 percent that are not serviced where there are no barriers to entry" (Net1 2005:3). The company currently operates in South Korea, India, Malawi, Botswana, Vietnam, Rwanda, Ghana, Russia, Latvia, Burundi, Iraq, Cameroon, Colombia, Namibia, Nigeria, The Philippines, Mozambique, Russia, Oman, Ukraine, Uzbekistan and, of course, South Africa, and is busy expanding into other markets as well. According to market analyst platform Seeking Alpha (2016), Net1 currently generates the majority of its revenues (close to 70%) in South Africa, while approximately 25% are generated by its South Korean subsidiary KSNET and 5% in the USA and in Europe.

Net1 does not sell the hardware on which its technology is based, but, as CEO Serge Belamant put it: "We don't sell technology, we make our money off people who use it" (Anderson 2008). In addition to the grant and government payment technology used in South Africa, Net1's product portfolio comprises web- and app-based mobile payment solutions, payroll and healthcare transaction management systems, smart cards and the corresponding virtual online and offline payment technologies (Net1 2012).

In the long run, Net1 intends to "to provide the leading transacting system for the billions of unbanked and under-banked people in the world to engage in electronic transactions, as well as to provide our transaction processing, value-added services processing, new secure mobile payment technologies, and health care processing services globally" (Net1 2012b). The company sees itself as a main player in the promotion and implementation of a global financial inclusion agenda through its innovative technologies (Net1 2017b) and Serge Belamant has described the company's activities in connection with the SASSA tender as "a question of providing financial inclusion for 10-million people who had nothing before that" (Hogg 2016).

Net1's involvement in the South African social security system dates back to 1990 when the newly founded CPS – a joint venture of FNB and Datakor – submitted a bid for the distribution of state pensions using biometric identification to the provincial government of KwaZulu-Natal. The bid was accepted and in 1992 CPS was hired to set up a system of fixed and mobile payment centres for the payment of social grants in the province, using fingerprints as a form of biometric identification (Breckenridge 2005). After a successful first term, the contract was extended to the Free State in 1997, where CPS catered for a total of 5,400 grant recipients (CGAP 2011:25). By the end of the 1990s, CPS was providing pensions and unemployment benefits to over 1 million people from about 5,000 fixed and mobile sites in six South African provinces, as well as in Namibia (Breckenridge 2005:272).

The success of the Net1 group continued unabated in the new millennium. In February 2002, the previously-mentioned company Aplitec took over part of the Eastern Cape's pension distribution system, thus gaining control of more than 70% of the entire grant and welfare system in SA. Two years later, 2.5 million grant recipients were using Aplitec's biometric "citizen card" – an early version of the smart cards used today – at 7,500 pay points to collect pensions and grants (Breckenridge 2005:273). In 2008, Net1 was in charge of the administration and payment of roughly 65% of South Africa's state old age pensions, from which it derived 80% of its income (Anderson 2008:14). The strong uptake of Net1's payment platforms resulted in revenue growth from 51.8 million USD in 2002 to 180 million USD in 2005 (Net1 2005:3).

While SASSA was busy with the preparations for the 2012 social grants tender, Net1 gradually extended its relationship with the state and won its first provincial SASSA-issued social grant tender in 2009. From then on, Net1's Universal Electronic Payment System was used to deliver wages and government grants in five provinces (Menezies 2009). This first service level agreement between SASSA and Net1 expired in June 2010, but was renewed in August 2010, extended until March 2011 (Fin24 2010), and then finally replaced by the national social grants tender in 2012.

In short, Net1 can be described as a powerful and innovative financial services and payment technologies company with a strong focus on providing financial inclusion for the un- and under-banked segments of the population. The company has traditionally focused on the South African market and has generated most of its income via the social grants tender, but is rapidly expanding its international footprint, especially in developing and emerging markets. It specializes in the development of new payment technologies which it then implements via large government contracts, using strategic partnerships for the provision of a financial infrastructure, and generating profits from the fees charged for its services.

With the award of the nationwide social grants tender to its subsidiary CPS, Net1 had gained full control over the administration and payment of social grants and pensions after having been involved in the South African welfare system for over 30 years. The company was ready to modernize and overhaul the system in accordance with the provisions set under the tender. These upgrades were not only designed to save costs but to herald a new era in terms of financial inclusion by switching from the predominantly cash-based system to one based on the provision of free bank accounts for all grant recipients (Grindrod Bank 2017). This was done by implementing a number of technological changes:

1. Giving each grant beneficiary a free special bank account provided by Grindrod Bank[8] which, in co-operation with MasterCard, provides full access to banking services such as ATMs, AFTs and POS transactions (Grindrod Bank 2017);

[8] Grindrod Bank is a national financial institution, based in South Africa. The bank is a subsidiary of Grindrod Limited, a large shipping, logistics, manufacturing and finance conglomerate. The bank used to cater mainly for high net worth individuals and corporations, but has recently expanded into the low-income sector by entering into a partnership with CPS and SASSA for the delivery of social grant payments (Grindrod Bank 2008). More information about Grindrod Bank in section 2.3.6.

2. Issuing SASSA-branded smart cards to all grant recipients, thus enabling them to withdraw cash at ATMs and through major retailers, check their balance, pay for goods and services, and make offline transactions in rural areas where there is no formal banking infrastructure (Grindrod Bank 2008b);
3. Introducing a biometric verification feature through which grant recipients can be identified via fingerprints, iris scans or voice recording to eliminate fraud (Net1 2015:4);
4. Promoting the use of a wide range of additional financial services through Net1's other subsidiaries and partners, including the use of Net1's EasyPay payment services for e.g. prepaid airtime and electricity, microloans and insurance products designed specifically for grant recipients (GroundUp 2015b; McKune 2012d:2; Net1 2015:4-5).

Yet, after successfully winning the tender, CPS was in for a rough start: One of the competing bidders, ABSA subsidiary AllPay, challenged the award in court, citing irregularities in the tender process (McKune 2014:1). According to the court documents, these allegations included:

- Tender specifications regarding the importance of biometric verification were altered at the last minute, giving applicants only eight working days to make substantial changes to their proposals (North Gauteng High Court 2012);
- Insufficient assessment of CPS' Black Economic Empowerment partners who, according to CPS' bid documents, were to perform 74.57% of the contract (SAPA 2013c);
- Procedural flaws regarding the constitution and decision-making processes of the bid adjudication committee, including the lowering of AllPay's scores by a committee member who had allegedly failed to disclose a conflict of interest (North Gauteng High Court 2012);
- SASSA's failure to investigate or consider the large number of serious allegations of corruption (North Gauteng High Court 2012).

After a lengthy court battle through several instances that went up to the Constitutional Court, Judge Johan Froneman decided in favour of AllPay, declared the tender invalid, and ordered SASSA to re-issue it (McKune 2014). However, in his judgement of 17 April 2014, he refused to set the award of the tender aside until after the new tender process, due to the potential hardship that might be caused by an interruption in grant payments (Constitutional Court of South Africa 2014). In other words, CPS was allowed to continue running the grant system, despite the fact that the tender had been declared invalid for reasons that were seen to undermine the credibility of both the payment provider and SASSA (du Plessis & Coutsoudis 2014:5). The agency in particular received harsh criticism from the judge who stated that "Sassa's irregular conduct has been the sole cause for the declaration of invalidity, and for the setting aside of the contract" (Constitutional Court of South Africa 2017:29). He further expressed his doubts that SASSA could run a new tender process according to the rules and therefore imposed a structural interdict on the agency, thus essentially putting SASSA under the court's supervision (McKune 2014).

2.2 Selling Financial Products and Services to Grant Recipients and the Issue of Unauthorized Deductions

While the case was making its way through the courts, another issue emerged: It turned out that Net1 had been using the personal information of grant recipients – which it had allegedly acquired through CPS' beneficiary database – to market tailor-made financial products and services to them. Via its network of subsidiaries, the company was selling loans, prepaid airtime and electricity, as well as funeral and life cover to grant beneficiaries. In addition to this use of confidential and personal information for commercial purposes, more and more grant recipients reported that they were unable to stop the deductions, most of which were made before they could withdraw their money, thus leaving them with little or nothing to cover their monthly expenses. This section will take a closer look at this issue which turned out to be far more controversial than the tender court case and the declaration of invalidity, and attracted considerable attention from both the media and civil society.

The first reports of these deductions emerged in July 2011 when the Black Sash's[9] Community Monitoring and Advocacy Project (CMAP) began to uncover "violations

[9] The Black Sash is a "veteran human rights organisation whose current programmes draw on a rich institutional heritage of advocating for social justice in South Africa […] Over the last few years, the Black Sash has specifically focussed on broadening the beneficiary coverage of the South African

of Norms and Standards at pay points, as well as evidence of irregular, unauthorised and undocumented third party debit deductions from the social grants beneficiaries' bank accounts" (Black Sash 2017b). Alerted by these reports, the organization started to collect evidence of such deductions among grant recipients in Limpopo, the Free State and the Eastern Cape, in collaboration with the Legal Resources Centre, KatoliekeOntwikkelingOranjerivier (KOOR), CMAP and other partners (Black Sash 2017). The evidence collected showed a "drastic increase" of debit deductions from social grants in 2012 and the subsequent years, which was attributed to the new payment system implemented by CPS (The Black Sash 2017d).

Most of these transactions were made through a scheme called Umoya Manje (Cosatu 2013), which was run by Net1 subsidiary Net1 Mobile Solutions (Pty) Ltd – recently renamed ZAZOO Limited (ZAZOO 2014). The scheme is a so-called "Advance Value Service" (AVS) which allows customers to purchase pre-paid airtime, electricity, water and gas via their cellphones and have the money deducted from their Grindrod bank accounts when their monthly grant is paid at the beginning of the month. According to Net1, the service had more than five million subscribers in South Africa in 2016 (Lee 2016:2). According to a BDlive report, the service was promoted via an announcement on grant payout receipts urging beneficiaries to call *130*4444# "for access to amazing cardholder benefits" (Crotty 2014b). Calling this number then connected them directly to the Umoya Manje services. Reportedly, only the SASSA card number was required in order to make Umoya Manje purchases, thus "leaving the system open to fraudsters" and "potentially resulting in unauthorized deductions on a large scale" (Cosatu 2013:1). There were also reports of deductions made for water from the accounts of residents living in areas without itemized billing for water and in townships where water was provided as a free basic service (Dlamini 2016:1).

Moreover, Carel (2014) reported that when grant beneficiaries were given their Grindrod bank accounts during the re-registration process, these bank accounts were – apparently inadvertently – linked to the national debt registry. Consequently,

social security system, promoting administrative justice, with a focus on the needs of unemployed and poor people" (Black Sash 2017c). The organization was established in 1955 and is headquartered in Cape Town. It played an important role in the resistance movement against apartheid and was described as "the conscience of white South Africa during the dark days of apartheid" by Nelson Mandela in his first speech after being released from prison (Black Sash 2014).

outstanding debts incurred prior to the opening of these bank accounts, e.g. for furniture bought on credit, were suddenly deducted from the grant accounts. In a way, the new social grant system had thus become a debt collection instrument for companies which had no direct links with the grant system.

The deductions themselves, however, were not the only problem reported by grant recipients. Most of those affected stated that it was very difficult or even impossible to stop the deductions. In the case of two pensioners from Port Elizabeth, for example, “it took knocking on many doors for several months to stop these [airtime] deductions” (Dlamini 2016). Mbomvu (2015) reported that grant recipients who complained to SASSA or the DSD were told that they could not help them and that the Department was “not involved in the matter”. Disputes lodged with banks or service providers took “months to resolve” and deductions for loans were “in most instances disputed by CPS officials” (Dlamini 2014). These difficulties were illustrated by several case studies e.g. Damba (2016), Torkelson (2017), Donnelly (2017) and Maragele (2014). In a media briefing in September 2014, Minister Dlamini further reported that “seeking recourse appears particularly challenging and expensive for those living in rural areas. Besides having to fork out additional transport fees to get to their nearest service point to lodge a complaint, there are airtime costs associated with calling what is supposed to be a Toll Free number” (Dlamini 2014). Finally, even in the cases where refunds were made, they excluded interest or service fees, as well as the additional bank charges (Dlamini 2014). As a result, as Black Sash National Director Lynette Maart put it: “When beneficiaries try and get resources, they struggle so much, they just give up in the end” (Maragele 2014:1).

In addition to the negative financial consequences for grant recipients who experienced further pressure on their already tight budgets, the business practices applied by Net1 and its subsidiaries were criticized for being in contravention of the law. As Black Sash Advocacy Manager Elroy Paulus pointed out, “In terms of Regulation 26 (A) to the Social Assistance Act, only one deduction for a funeral benefit, not exceeding ten percent of the monthly grant amount, may be authorised by the grant beneficiary and paid by SASSA. No other deduction may be made from a beneficiary's grant, through their bank account, as a matter of law” (Paulus 2013). More precisely, that Act states that “a grant cannot be “transferred, ceded, pledged or in any other way encumbered or disposed of" (Republic of South Africa 2004:20). Accordingly, debit deductions for airtime, electricity and loans were not only criticized for being "immoral" (GroundUp 2015; Matshediso 2016; Williams 2014) but also for being illegal.

In response to the rising pressure from the media and civil society organizations like the Black Sash, Minister Dlamini appointed a Ministerial Task Team (MTT) in February 2014 (RNews 2014). The team was made up of representatives of the Black Sash, the Association for Community Advice Offices in South Africa (ACAOSA), as well as other civil society partners, the DSD, and SASSA. Its mandate was to "explore the nature of the deductions, provide recommendations to stop them, and ways to ensure that grant recipients had access to appropriate recourse" (Dlamini 2014). The MTT's report, which was submitted on 27 August 2014, confirmed the link between the increasing number of deductions and "financial institutions that may be linked to Net 1" and concluded that "these practices are in contravention of the Social Assistance Act, Regulations of the Social Assistance Act and the SASSA Act" (Dlamini 2014).

However, despite the rising public outrage and despite instructions by Minister Dlamini in late 2013 to stop the deductions and to keep micro-lenders and vendors of financial services away from social grant pay points, the Mail & Guardian reported more than one year later that Net1's subsidiaries were still selling loans and other financial services to grant recipients (Steyn 2014:1). Similarly, the appeal and refund system announced by Minister Dlamini in May 2016, which was designed to process refunds dating back to 2012, did not have the desired impact. According to Gquirana (2016), the system struggled keep up with the large number of inquiries, having received 46,705 in February 2016 alone. Further, GroundUp (2015c) reported that most of SASSA's additional initiatives to protect grant beneficiaries had yet to reach implementation stage or were not functioning properly. In addition, Net1 had started to roll out its EasyPay Everywhere payment system through which grant money was diverted from the SASSA accounts into regular transactional accounts – also administered by Grindrod Bank – from which unrestricted deductions could be made (Gquirana 2016; Dlamini 2016).

On 15 June 2016, SASSA announced that it would file criminal charges against Net1 for having failed to comply with the amended regulations regarding deductions from grant accounts, which state that only a 10% deduction for funeral policies is permitted (Ngoma 2016). According to Dianne Dunkerley, SASSA's executive manager of grant administration, "We sent a letter to CPS and Grindrod as soon as the new regulations were published and we got a response from them saying they didn't agree with our interpretation of the legislation and they were not going to implement" (Dzonzi 2016). Net1 had already submitted an earlier request to the court, asking for clarity on the interpretation of these regulations. The company criticized SASSA for its inconsistent approach, having failed to file "similar criminal charges against the approximately 1 300 other financial institutions (including most of the major South African banks), who submitted debit orders against the bank accounts held by Sassa beneficiaries" (Ngoma 2016). Two weeks later, it was decided to freeze the charges until the court had reached a decision on the interpretation of the regulations, as requested by Net1 (GroundUp 2016). In the meantime, the deductions continued.

2.2.1 The Business of Debit Deductions: Net1's "Hidden Agenda" or a Fair and Transparent Business Model?

Looking at the evidence presented above, one could easily accuse Net1 of taking advantage of its powerful position as the sole distributor of social grants in a secretive and dishonest manner. This, in turn, would justify the sudden public outcry, both from the media and later from government, when evidence of these practices started to emerge. However, it is not that simple: Net1 was, in fact, very clear about its plans and any reasonably attentive observer could have made a fairly accurate prediction of the final outcomes.

First, selling loans and other financial services to grant recipients is not a recent practice: Net 1 started to expand its smart card user base in South Africa systematically in the early 2000s in order to "achieve a critical mass of smart card users" (US SEC 2004:3) to whom it would then, at a later stage, sell financial products and services. As stated by Net1: "Once a critical mass of end-users holding our smart cards is achieved, we will focus on expanding the range of services and products provided to the established smart card-user base, including prepaid electricity and water, prepaid telephone call units, short term loans, wage payment systems and insurance” (US SEC 2004:9). The often-cited argument that Net1 was hiding its intentions is difficult to defend, considering the above statements.

Further, according to its 2004 Annual Report, Net1 ”developed a suite of financial services targeted at social welfare beneficiaries”, including microloans, insurance and food parcels, in 2001. These were then implemented in KwaZulu-Natal and in the Northern Cape under the StarChoice and Smart Life brands respectively, reaching 85,000 customers in these two provinces in 2004 (US SEC 2004:4). Furthermore, the company was running a traditional micro-lending business with over 100 branches under the New World Finance and Moneyline brand names. In addition, Net1 had already adopted the practice of setting up a special salary bank account for the borrower, from which the monthly instalments were then directly deducted via a pre-authorization system – essentially an earlier version of the now commonly-used garnishee orders (US SEC 2004:18).

Simultaneously, Net1 was looking for opportunities in the insurance market and recognized that “the collection of policy premiums remains a problem for insurance companies due to the limited penetration of bank accounts. However, with our offering, premiums can be deducted automatically from a person’s smart card at pre-designated times” (US SEC 2004:4) – which is precisely what Net1’s subsidiary Smart Life eventually did.

In 2006, the company already reported a volume of USD7.4 million in traditional microloans and USD4.4 million in UEPS-based lending in the last two quarters of 2006 alone (US SEC 2008:13). In 2008, the company had a total of 77,332 loan clients with a total value of R28.7 million in South Africa (Net 1 2008:37). Further, Net 1 included forecasts of potential earnings from selling loans and insurance products to grant recipients in its 2008 strategy presentation (Net 1 2008:15, 28). The revenues of Net 1’s Financial Services segment were, however, declining (US SEC 2008:20) and the company sold its traditional, non-U.E.P.S. based microlending business in 2009, owing to the large number of borrowers defaulting on their – mostly cash-based – payments (US SEC 2011:92). This provides a plausible explanation for Net1’s subsequent establishment of new partnerships and its plans to use the social grant infrastructure and the related bank accounts for future business.

This is supported by Net1's statement that "going forward, we plan to grow and develop [our insurance and microfinance] business under different brands by launching new products and by introducing the service into the other provinces where we administer social welfare grants" (US SEC 2004:4).

Even in the run up to the nationwide social grants tender, Net 1 was open about its plans to leverage the contract. In an official statement to its investors, Net1 reiterated that having control over the South African social grant system would allow it to gain access to a "critical mass of beneficiaries" (McKune 2012d:1). In its 2011 Annual Report, which was released during the deliberation process for the nationwide SASSA tender, the company further stated that this would "allow us to use this infrastructure to provide users, at a low incremental cost to us, with a wide array of financial products and services for which we can charge fees" (US SEC 2011:7). In the same document, Net1 reported on its existing, profit-oriented activities selling microloans and insurance products to grant recipients in KwaZulu-Natal and the Northern Cape: "We provide the loans ourselves and generate revenue from the service fees charged on these loans. We also sell life insurance products on behalf of registered underwriters and earn revenue through the commissions we receive on the sale of policies" (US SEC 2011:11).

Finally, the Mail & Guardian reported that Net1 had told its investors that the financial products it would sell to grant beneficiaries would be "based on our understanding of [beneficiaries'] risk profiles, earning and spending patterns, demographics and lifestyle requirements" and that other players in the lending industry had complained that Net1 would benefit unfairly from its dual role as "player and officiator", selling financial products and controlling the flow of money at the same time (McKune 2012d:1). Hence, there were indications that the company was planning to use the personal information of grant beneficiaries to market its other products and services, long before the media reports on the "abuse of personal data" (Allemann 2017) started to criticize the practice.

Finally, a closer look at the Terms and Conditions for the use of the SASSA-branded social grants accounts explains why grant recipients affected by unauthorized deductions found it almost impossible to stop them. According the 2015 version of the T&Cs, the account holder agrees that he or she is "liable […] for all amounts debited to your SASSA Account including amounts debited as a result of any unauthorised and/or illegal access to your SASSA Account by third parties" (Net1 2015:1). This essentially leaves the responsibility for such unauthorized deductions with the account holder, thus benefitting – potentially fraudulent – third parties. Only after the government's regulatory crackdown on these deductions was the wording changed to "…any unauthorised and/or illegal access to your SASSA Account by third parties, prior to having so informed us" (Net1 2016:1). The T&Cs further entitle CPS and Grindrod Bank to charge the account holder a fee to reverse any debits – including unauthorized ones – to his SASSA account (Net1 2016:2) and "in the event that we take legal action against you, you agree to pay our legal costs on an attorney and own-client scale as well as tracing agents' charges and collection fees" (Net1 2016:3). While the potentially serious financial implications of this agreement might be clear to an attentive and well-informed client, it can reasonably be concluded that this was not the case for the majority of financially illiterate grant recipients.

2.3 Net1's Subsidiaries and Partners in South Africa

After having outlined the issue of debit deductions from grant accounts, the last part of this section will take a closer look at the activities of each of the Net1 subsidiaries that were linked to these deductions, thus providing a detailed account of how they conducted their business with social grant recipients.

Figure 2 shows Net1's company structure including all its subsidiaries in South Africa. In addition to the Umoya Manje services, which were introduced in the previous section, several other subsidiaries of Net1 – highlighted in grey in the graph – were also selling their respective products or services to grant recipients. The following five sub-sections will look at these subsidiaries, namely Moneyline Financial Services, EasyPay, The Smart Life Insurance Company, Zazoo Limited, and Net 1 FIHRST Holdings. The CPS and Umoya Manje business units will not be further elaborated upon, as their activities have already been described in the previous section. In addition to these five subsidiaries, the last sub-section will focus on Grindrod Bank, CPS' most important partner in the implementation of the new grant payment system.

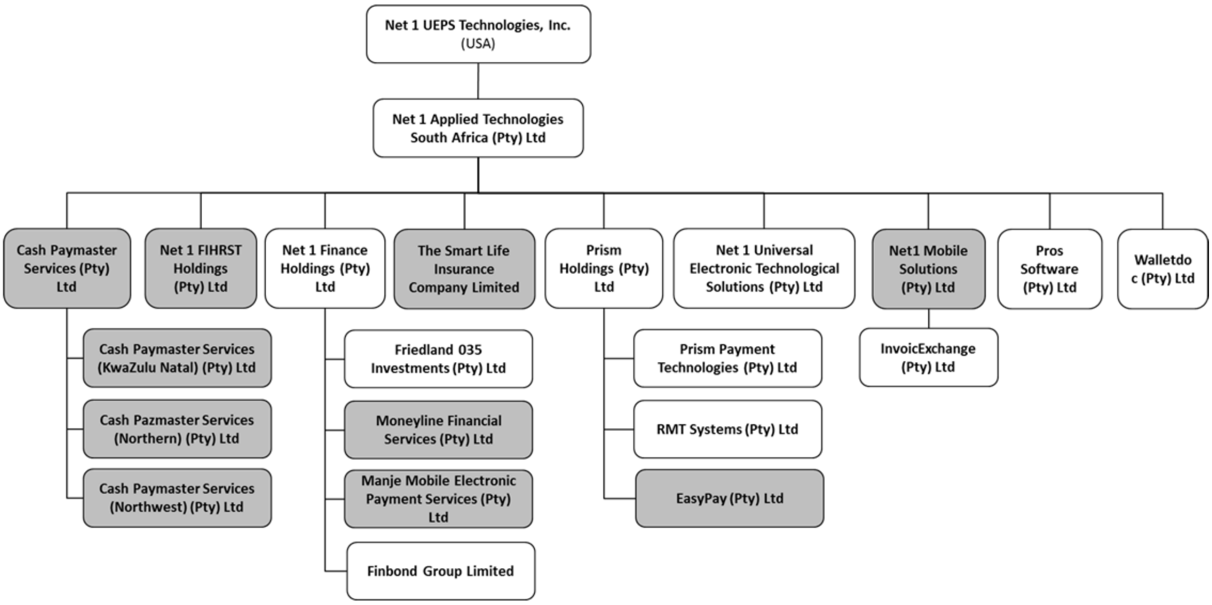

Figure 2: Net 1 Group Structure in South Africa (Source: Net1 2017c).

2.3.1 Moneyline Financial Services (Pty) Ltd

Moneyline, a subsidiary of Net 1 Finance Holdings (Pty) Ltd., is a specialist provider of credit and microloans for the unbanked and, more specifically, for social grant recipients (GroundUp 2015d). The Johannesburg-based company was incorporated in 1998 (Bloomberg 2016) and was acquired by Net 1 in 1999 (US SEC 2004:3). Instead of charging interest on the loans it provides to grant beneficiaries, Moneyline charges a so-called management or service fee (GroundUp 2015d). These fees, once accumulated, have been reported to amount to up to 50% of the principal amount (Carel 2014). On a loan of R850, for instance, the borrower would pay back a total of R1 140 over six months. This equals an interest rate of 34% over a half-year (GroundUp 2015d). In contrast, the prime lending rate was 10.5% over a full year in 2016 (SARB 2016).

While this is legal in terms of the National Credit Act (NCA) – which allows lenders to charge interest rates of up to 60% p.a. on short-term loans of up to R8 000 (NCR 2007:30) – Moneyline has been sharply criticized for basing its business model on targeting grant beneficiaries and for treating grants as regular income when conducting the affordability assessment for its loans. According to GroundUp (2015b), “only applicants with […] a Sassa card were eligible for loans” and “all a client needed [to get a loan] was a Sassa card.” Similarly, Sefali (2015) reports that

Moneyline employees told grant recipients that they “immediately qualified” for a loan if their name was on the social grants database and that no further affordability checks would be done.

Further, Moneyline appears to have built its business specifically around social grant pay points – both in terms of business strategy and physical location. McKune (2017) reports: “I went to Net 1’s “Moneyline” branch in Athlone, Cape Town […] The shop is conveniently located a three-minute walk from the nearest Sassa branch. Its doorway advertises “social grant cash withdrawals”, “instant affordable loans”, “life insurance”, “your green card to financial freedom” and “secure banking for all”. […] I wanted to apply for a loan and a green card [EasyPay Everywhere card], I said. I couldn’t, [the security guard] said, because I was not a registered grant beneficiary and did not carry a Sassa card.” Similar occurrences have been reported by Sefali (2015), Maregele (2017), GroundUp (2015c) and Dlamini (2016).

On 22 September 2014, the National Credit Regulator (NCR) applied to the National Consumer Tribunal to have Moneyline’s registration as a registered credit provider cancelled for contravention of section 57 (1) (a) and (c) of the National Credit Act 34 of 2005 (National Consumer Tribunal 2016:1). Prior to the application, the regulator had investigated Moneyline and found that, among others things, it had based affordability assessments on child support grants and foster care grants. The regulator condemned this practice as “unacceptable”, stating that “it deprives children of money meant to provide for their daily necessities” (Magwaza 2014:1) and that grants should not be treated as income when assessing loan affordability. Other points of criticism raised by the NCR were that Moneyline had failed to assess their clients’ debt repayment history properly, take into account their monthly living expenses, and clearly inform customers of their rights and obligations in terms of the credit agreement (NCR 2014).

The NCR also issued a compliance note to Moneyline, accusing it of “having access into the Grindrod bank accounts of social grant beneficiaries which enables them to see the spending patterns of beneficiaries” (van Zyl 2015:1). However, the judgement, which was delivered by the National Consumer Tribunal on 11 March 2016, dismissed the motion and ruled that Moneyline could keep its licence. Yet, it must be noted that this was not because Moneyline had been cleared of the accusations made by the NCR, but because the NCR had not followed the proper procedures when making its case against Moneyline (National Consumer Tribunal 2016:21).

Moneyline has since partnered with EasyPay, another Net1 subsidiary, with whom it is offering microloans via the EasyPay Everywhere bank accounts (see next section). A sworn affidavit issued by Grindrod Bank in June states that “Moneyline alone accounted for nearly 70 percent of debits against grant beneficiaries’ Grindrod accounts between January and April 2016” (McKune 2017).

2.3.2 EasyPay (Pty) Ltd

The EasyPay business unit, which is based in Cape Town, operates the largest bank-independent financial switch in Southern Africa and is a South African Reserve Bank approved third-party payment processor (Net1 2012h). According to Net1 (2012h), “EasyPay's infrastructure connects into all major South African banks and switches both debit and credit card EFT transactions for some of South Africa's leading retailers and petroleum companies.” EasyPay’s services include, among others, EFT transactions, POS bill payment for over 350 different bill issuers (e.g. phone and utility bills, traffic fines, medical bills, insurance payments), prepaid electricity and airtime, and electronic gift vouchers (Net 1 2012h).

While EasyPay does not seem to have been directly involved in the first “wave” of deductions from grant accounts that started in 2012, the company’s recently introduced EasyPay Everywhere (EPE) product has come under sharp criticism. As reported by News24 (Gquirana 2016) and later confirmed by Minister Dlamini (Dlamini 2016), grant recipients were allegedly told by employees of Net1’s micro-lending branch Moneyline that, in order to qualify for a loan, they had to open an EPE bank account. Just like the SASSA-branded grant accounts, the EPE accounts are administered by Grindrod Bank (Net1 2017). According to Torkelson (2017), beneficiaries were told to replace their SASSA cards with their new EasyPay Cards, thus making it impossible for them to use their old SASSA account. Moreover, they were allegedly not made aware of the higher costs associated with these accounts or with the terms and conditions that permitted the sharing of confidential information with third parties (Donnelly 2017). Similarly, Maregele (2017) reports that grant beneficiaries “have been inundated with SMSs telling them to change over to the EasyPay Everywhere card by January 2017.”

As of February 2017, 1.8 million EasyPay Everywhere accounts had been opened (Wierzycka 2017) – despite SASSA urging grant recipients “not to use this card as they will ‘not be under the regulatory protection’ of the state” (Maregele 2017). This allows Moneyline to divert the monthly grant payments of EPE users from their SASSA-branded accounts directly to the new EasyPay accounts, from which unrestricted deductions can be made. According to Net1’s 2016 Annual Report (Net1 2016b), the company’s considerable increase in transaction processing revenues (USD 213 million) was mainly driven by the growth of its EPE business.

In addition to loans, a basic funeral insurance, issued by Net1’s other subsidiary Smart Life Insurance (see next section), is provided with every EasyPay Account (Net1 2017:2) and Net1 has reportedly sold 280,000 life insurance policies on top of that (Wierzycka 2017).

Attempts to cancel EasyPay have been reported to be as tedious and costly as trying to cancel deductions from the traditional grant accounts (Torkelson 2017). According to Minister Dlamini (2016), this was mainly due to the lack of local EasyPay branches, as well as the company’s failure to provide accessible customer service through their call centre.

2.3.3 The Smart Life Insurance Company Limited

Prior to its acquisition by Net1 in 2011, Smart Life had been run as a relatively inactive ring-fenced life-insurance licence by Saambou Life Assurers Limited. This company had, in turn, been taken over by Capital Alliance Life Limited after the collapse of Saambou Bank in 2002 (Competition Tribunal 2002). Net 1 acquired a 90% majority in Smart Life just a few months before CPS won the SASSA tender and immediately converted the company into a funeral insurance specialist, focusing on selling its policies at grant pay points (McKune 2013b:1). Given the 10% funeral insurance deduction from social grants that is allowed in terms of the SASSA Act, Smart Life did operate within the legal framework. However, after having received numerous complaints about the company’s aggressive marketing techniques at pay points, SASSA reacted in late 2012 and banned any deductions for policies sold after June 2012 (McKune 2013b:1). In February 2013, the Financial Services Board (FSB) prohibited Smart Life from entering into any new long-term policies and suspended its licence (Rose 2013:2). As reported by the Mail & Guardian, the regulator's main concern was that Net1 was using CPS's grant distribution infrastructure to sell its insurance policies (McKune 2013b:1). Moreover, the FSB severely criticized Serge Belamant for his triple role as Net1 CEO, CPS director and Smart Life chairperson – which they called "conflicted" (McKune 2013b:1) – and expressed concern that he "did not function within the confines and parameters of the Smart Life board" (Steyn 2014:3) which "may not be in the interest" of policyholders (McKune 2013b:1).

Three years later, in May 2016, Smart Life was still not operating, despite Net 1's apparent intention to re-open the business. According to Net1's website, Smart Life will provide the company "in the future, with an opportunity to offer relevant insurance products directly to our existing customer and employee base in South Africa, once all the regulatory formalities have been addressed" (Net1 2017).

Another year later, in March 2017, the company was issuing "free" funeral policies for Easy Pay Everywhere account holders (Net1 2017), while still seemingly inactive according to Net1's website and an online search. It is unclear whether the suspension of Smart Life's licence has been revoked, or if the company is offering its services without the necessary regulatory approval.

2.3.4 Zazoo Limited (formerly Net 1 Mobile Solutions (Pty) Ltd)

Net 1 Mobile Solutions was created through a merger of Pbel, a mobile technology company founded by Serge Belamant's son Philip in 2006, with Net 1's FIHRST and Prism businesses in 2013 (ZAZOO 2015). After Pbel's acquisition by Net1, Philip Belamant was made managing director of this newly established Net1 division. In early 2015, the company was re-launched as ZAZOO Limited with headquarters in London, and is now active in 21 countries worldwide, including 12 African countries (ZAZOO 2014b). In line with Net1's general product portfolio, ZAZOO offers a variety of products in the areas of mobile banking, smart card technologies, prepaid vending, mobile operator solutions, cryptography and third party payments. Its partners include big corporations, banks and telecommunication companies such as Microsoft, MasterCard, Grindrod Bank, MTN, Tigo, FNB, Visa, Nedbank, Barclays and, most recently, Uber (ZAZOO 2015b). One of ZAZOO's most innovative products is probably its award-winning mobile virtual card payment application VCpay. With this app, users can create a mobile virtual credit card offline, which is particularly suitable for rural areas and for users who don't have access to a conventional online transaction system or who don't qualify for a credit card (Oxford 2014).

Under its former name Net 1 Mobile Solutions, the company provided the airtime sold through the Umoya Manje scheme, which was at the centre of the complaints about unauthorized deductions from grant accounts (Jacobs 2013:1).

2.3.5 Net 1 FIHRST Holdings (Pty) Ltd

Based in Johannesburg, Net 1's FIHRST business unit is responsible for all business related to Net1's payroll transaction management services. According to Net1, FIHRST currently processes payments exceeding R77.7 billion annually and works with "more than 1,250 employer groups of all sizes across all sectors of the economy, representing 850,000 employees" (Net1 2012g). The company was awarded a tender to manage the payroll of all City of Tshwane (CoT) employees in 2010, but came under harsh criticism in 2013 for allowing micro-lender Propratt to review employees' salary records prior to offering them short-term unsecured loans. Further, Propratt was able to deduct loan repayments from CoT employees even before their salaries were paid into their accounts (Rees 2013:1). An example of the effects of these practices is given in a Moneyweb report, according to which a Tshwane employee with a gross monthly salary or R15 323 ended up with a take home pay of only R910.47 (Rees 2013b:4). Further, Propratt was criticized for not having conducted proper affordability assessments and for charging the maximum legal interest rate of 60% (Rees 2014). The CoT eventually cancelled the contract and today FIHRST mainly works with corporate clients. The case closely resembles the payroll deductions on the government's Persal system, which contributed to the collapse of the micro-lending bubble in 2002 (Rees 2014), as well as the deductions from social grants by FIHRST's sister companies. Hence, although FIHRST was not directly involved in the social grants saga, the methods and practices used are very similar to those applied by Net1's other subsidiaries.

2.3.6 Grindrod Bank

Grindrod Bank is Net1's and SASSA's main partner in the provision of bank accounts for social grant beneficiaries. It plays a central role in Net1's business activities, since the company itself does not have a banking licence and thus depends on Grindrod Bank to provide the necessary banking infrastructure (Torkelson 2017c). Further, Net1 states in its 2016 Annual Report (Net1 2016b:36) that the company is "dependent on Grindrod to defend us against attacks from the other South African banks who may regard the rapid market acceptance of our UEPS/EMV product with biometric verification as disruptive to their funds transfer or other businesses and may seek governmental or other regulatory intervention."

According to its website, "Grindrod Bank is a competitive investment bank, providing bespoke financial services to our private, corporate and institutional clients" (Grindrod Bank 2008). The bank is a registered financial services provider and provides services such as cash deposits, property finance, corporate finance, investments, and mezzanine finance (Grindrod Bank 2016). It processes the payment of 17 million grants to 10.6 million cardholders with a total value of R11bn per month (Grindrod Bank 2016). In addition, Grindrod Bank issues the MasterCard smart cards for grant beneficiaries (Grindrod Limited 2017c) and recently launched a growing network of biometrically-enabled ATMs in co-operation with Net1 (Grindrod 2015:32).

The bank is part of Grindrod Limited, a JSE-listed holding company specializing in freight movement, shipping and related industries in more than 37 countries (Grindrod Limited 2017). With an asset portfolio of R15.7 billion and a contribution to group profit of R165 million (Grindrod Limited 2017b), Grindrod Bank (together with Grindrod Asset Management) is only a relatively small part of the corporation, which has an annual turnover of R10.2 billion and total assets of R36.5 billion (Grindrod Limited 2017b). Hence, Wierzycka (2017b) observes that the bank "does not really fit into [Grindrod Limited's] overall business model." In fact, Grindrod Bank was put up for sale and was almost acquired by Bidvest in 2014. However, after considering the potential "reputational risks associated with the negative publicity relating to the SASSA contract" (Wierzycka 2017b), Bidvest decided against the deal.

In its 2015 annual report, Grindrod specifically mentions the importance of the EasyPay Everywhere debit cards for its business, which, back then, were still a relatively new product. These transactional accounts were also one of the bank's key focus areas for 2016 (Grindrod 2015:30). Its close co-operation with Net1 in terms of facilitating the marketing of additional financial products and services to grant recipients is illustrated by the Terms and Conditions of the SASSA-branded grant accounts. The account holder consents to Grindrod Bank "using your personal information […] and to send marketing material from us and our affiliates to you, if you elected to receive same during enrolment" (Net1 2016:2). While this, in theory, gives the grant recipient the option to refuse this sharing of his personal information, a GroundUp reporter points out that "most beneficiaries I have spoken to cannot remember being asked by a CPS official to consent to receiving "marketing material" during their enrolment. And even if every CPS official did diligently ask for "informed consent", beneficiaries are under pressure to agree to anything in order to get their state entitlements" (GroundUp 2017).

Before partnering with CPS for the national social grants tender in 2012, Grindrod Bank was mainly working with corporate clients and was a minor player in the banking industry. However, Grindrod Limited's retail banking value jumped from R18.6 million in 2012 to R57 million within only one year, which is directly correlated with the millions of grant accounts it opened in 2012 (Wierzycka 2017b). Similarly, headline earnings from financial services have increased sharply from 15% in 2014 to 29% in 2015 (Grindrod 2015:13). It is unclear whether Grindrod Bank can leverage the approximately R11bn in grant money that pass through its bank accounts every month for other profit-making or investment purposes.

All in all, it can be concluded that Net1 has built an extensive network of subsidiaries and partners around its social grants infrastructure through which the company successfully sells a range of financial products and services to grant recipients. Payment is usually done via debit deductions, first from the SASSA-branded bank accounts and, more recently, from Net1's EasyPay Everywhere accounts into which the grant money is diverted. This allows Net1 to make profits from the sale of these products, in addition to the income generated from the grant distribution tender. The establishment of this additional income stream led to a wave of complaints about the deductions, both from grant beneficiaries themselves and from civil society organizations such as the Black Sash. In many cases, the deductions – which many claimed to be unauthorized – caused considerable financial hardship for those affected, given their already precarious financial situation and the difficulties they faced when trying to take action. The deductions continued despite SASSA's growing efforts to put an end to the practice, which included amendments to the regulations governing grant payments, as well as the filing of criminal charges against Net1.

2.4 The New Social Grants Tender, Regulatory Changes, and the Failed Search for an Alternative Service Provider

While the issue of deductions was making its way through the press, SASSA was busy with the implementation of the Constitutional Court's ruling on the constitutional invalidity of the tender. As ordered by the ConCourt, SASSA issued a revised version of the tender which, among other things, addressed the issue of deductions. According to Visser (2014), "the direct costs to SASSA for conducting such a new tender process would be between R5m and R10m" but it is unclear what the final costs of the process turned out to be. The revised tender requirements in the new Request for Proposals (RFP) included the following changes (Theobald 2015):

- The new distributor would receive R14.50 per grant payment, down from R16.44 in the previous tender, a 11.8% decrease despite three years of inflation (Sole & McKune 2017);
- The new provider would be required to provide a broad range of free banking services connected to the beneficiary bank accounts, including one deposit, three free withdrawals and three inquiries per month, and would not be allowed to charge interbank or interchange fees;
- The contractor would have to find a way to physically deliver the grants to those not medically fit to collect them themselves, which could include up to 90,000 recipients;
- The new distributor would not be allowed to lodge debit order deductions against recipients' grants, thus severely limiting the possibility of cross-selling other services;

- Every grant recipient would have to be identified by fingerprint biometrics, whereas about a third of all recipients were currently receiving their grants without any biometric verification.

Due to these stricter requirements and the drastically reduced potential for profits, only three bidders showed interest: Standard Bank, Vodacom, and Durban Knights Investments, a Durban-based consortium linked to businessman Vivian Reddy (Crotty 2015). Although Theobald (2015) notes that Standard Bank could use its low-cost cellphone-based banking model to deliver grants and Vodacom could base its system on its M-Pesa mobile money service, none of the three bidders had any experience in grant distribution (Theobald 2015).

Neither CPS nor AllPay submitted a bid. While AllPay did not comment on its decision to withdraw from the tender process, Theobald (2015) alleges that they “clearly couldn’t make the numbers work.” Net1 mentioned changing priorities as the main reason, saying that it would instead focus on servicing “all SA’s unbanked and underbanked citizens, including social grant beneficiaries, but independently and without Sassa’s limitations and constraints” (Mungadze 2015). Net1 further said it believed the profits to be made from these activities would "over time, far exceed the benefits that could be realised from being the successful bidder for the Sassa request for proposals" (Mungadze 2015). Accordingly, Theobald (2015) noted that “The best outcome for Net1 would be if Sassa decides it cannot make an award in the new tender. Then it gets to carry on with the current contract on the existing, […] terms.”

In October 2015, SASSA announced its decision not to award the tender, citing the “non-responsiveness in mandatory administrative functionality” of the bids (van Zyl 2015b). Around the same time, the agency announced that it intended to administer the social grant system itself from 2017 onwards (Evans 2014:2) and that an advisory committee for this task had already been set up (Mkhwanazi 2015). According to Mkhwanazi (2015), the proposal to in-source the administration and distribution of social grants was first made when the Zuma administration came to office as this was considered cheaper and more cost-effective than working with an external service provider. In view of these plans, Sole and McKune (2017) questioned the reasons behind SASSA’s refusal to award another 5-year tender and

Corruption Watch even openly suggested that the tender was “engineered to fail” (Sole & McKune 2017).

SASSA’s decision allowed CPS to continue distributing social grants until the end of its initial 5-year contract on 31 March 2017, despite the fact that the tender had been declared invalid. However, the decision seems to have triggered a shift in Net1’s strategic and operational thinking, moving away from its reliance on the South African social grants tender as its main source of income. As CEO Belamant put it in a 2015 interview: “The decision not to bid for the controversial multibillion-rand social grants distribution contract has freed up management time at Net1 to aggressively look for acquisitions in Europe, Latin America and in the rest of Africa” (Mochiko 2015).

Perhaps one of the most interesting recent developments in terms of Net1’s international expansion is a tender awarded by the Southern Africa Regional Office of the United Nations World Food Program (WFP) in 2015. The contract is for the distribution of food grants and cash to hundreds of thousands of WFP beneficiaries in 12 countries in the Southern African Development Community (Net1 2015b). Furthermore, together with its partner company MasterCard, Net1 is currently bidding on an extension of the WFP programme to over 80 countries. This, in turn, is related to another major deal: in April 2016, Net1 announced that the International Finance Corporation had bought an 18% interest in the company for USD107 million (R1.58 billion) (Mchunu 2016). This is the IFC’s largest investment ever in the financial technology sector (Peters 2016:1). At the same time, “it is noteworthy that the IFC also has a partnership with MasterCard called ‘The Partnership for Financial Inclusion’ to expand microfinance and mobile financial services in Africa” (Seeking Alpha 2016:3).

Yet, despite its increasing focus on its geographic expansion, Net1 is far from pulling out of the South African market: The company is expanding its biometric verification systems for various purposes, and has started to install ATMs with biometric verification features in high-demand areas (Net1 2015b). Further, Net1 has reportedly tendered for government contracts for water metering and electricity, as well as a large private sector payments processing contract (Seeking Alpha 2016:7), thus further establishing itself as the key provider for large-scale payment services in the country.

SASSA, on the other hand, now had to devise a plan for taking over the highly complex task of paying social grants which it had outsourced almost two decades ago for the very reason that it was not capable of running it itself (FinMark Trust 2012:25; Breckenridge 2005). In September 2013, the agency had first announced the establishment of an advisory committee to make recommendations and assist in the task of taking over the grant payment process. The committee was given 18 months to complete its task (Monama 2013) but media reports on the committee's findings or on the progress in developing a new payment system were scarce until the last quarter of 2016. Only in hindsight did details about the process emerge, which caused considerable uproar in the press and among the public.

The committee submitted its report in December 2014 and, while commenting favourably on the existing CPS solution, recommended that SASSA should build its own in-house payment system (The Citizen 2017). It further recommended that this system should be linked with numerous other government programmes and replace the current SOCPEN system,[10] and that SASSA should acquire ATMs and Point of Sale devices and produce its own specialised bank cards with biometric verification (Sole & McKune 2017).

Despite the short time frame and the technological challenges of developing such a system, the reports indicate that relatively little concrete action was taken within SASSA. Instead, Minister Dlamini retained selected members of the advisory committee – namely Tim Sukazi, Tangkiso Parkies and Patrick Monyeki, whose role in the 2012 tender process had been highly controversial (see chapter three) – to implement "work streams" which ran in parallel to work done by SASSA officials in preparation for in-sourcing grant payments (PMG 2017). According to figures mentioned in the parliamentary public accounts committee, SASSA spent more than R45 million for consulting services rendered by these three individuals, with Monyeki and his company RangeWave Consulting receiving R35 million – none of which had been approved by Treasury (Thamm 2017). At the same time, SASSA spent more

[10] SOCPEN was a national interface system that coordinated the distribution of social grants at provincial prior to Net1's new integrated system (PMG 2002).

than R3 million on transport, accommodation and allowances as part of a two-phase approach to prepare senior managers for the takeover of social grants (Dentlinger 2017, News24 2017b).

Despite the establishment of these two separate sets of structures and the considerable financial investment in the preparation for SASSA's social grants takeover, DSD Director General, Zane Dangor, announced in December 2016 that SASSA's plans had been "overambitious", that the agency would not be able to take over the payment of social grants on 1 April 2017, and that a payment partner would still be required (Ensor 2016).

This announcement resulted in a veritable panic over the possibility of an interruption of grant payments after 1 April 2017, and instantly brought the case into the spotlight. During the next four months, news reports on the topic appeared across all media channels on an almost daily basis and dominated both public and political debates.

During this time, SASSA came under harsh criticism for having been unable to implement five of the seven deliverables set out in the 2014 Constitutional Court ruling, for failing to forward key documents prior to important meetings, and for refusing to make a clear statement about how it was planning to handle the situation (Thamm 2016). According to Thamm (2016), both ANC and DA representatives were "fuming" and stated that "the missed deadlines, countless delays, vague outlines and the contemplation of 'options' of what still needed to be accomplished at this late stage in the process was 'unacceptable'."

Much of the discontent was directed personally at Minister Dlamini and her handling of the case. This included, among others, her failure to appear at several meetings and hearings, including a crucial SCOPA meeting (Thamm 2017c), her refusal to acknowledge the seriousness of the situation by repeatedly stating that there was "no 'national crisis' regarding the payment of social grants" and that "the panic being created among the public is unnecessary" (Dentlinger 2017b), and her lashing out at journalists and committee members when asked probing questions (Cowan 2017). The Minister was repeatedly described as "defensive and rambling" (Thamm 2017b), "petty and unprofessional" (Ndlozi 2015), or "gone completely rogue" (McKune 2017b). In addition, the Constitutional Court "lambasted her for 'absolute incompetence' and a display of naked carelessness for a self-made crisis" (The Citizen 2017b).

In the committee meetings and court hearings that followed, Dlamini gave changing explanations of how SASSA was planning to ensure that social grants would continue to be paid after the end of Net1's contract. In a media briefing in March 2017, she reportedly "explained that there were six options on the table […] and that the long-term plan was to work closely with the SA Post Office to capacitate this state-owned entity to take over the grants payment system" (The Citizen 2017). This would further entail SASSA acquiring own payment cards and the use of a biometric authentication system. In her statement, Dlamini outlined the plans as follows: "The new payment plan is implemented over four phases. The two first phases have already started, that of dealing with the challenges facing our communities and that of the task of the advisory team […] and then the planning of the transition […] including phasing out of the current service provider between the years 2015, 2016 to 2017" (The Citizen 2017).

It appears, however, that this "phasing out" of CPS from 2015 to 2017 failed to happen, considering "Bathabile Dlamini's extreme determination – flouting a 2014 order by the ConCourt – in continuing to do business with US-registered CPS/Net1" (Thamm 2017b). This view was shared by several other sources (e.g. McKune 2017b, The Citizen 2017c, Nicolaides 2017, Merrington 2017) many of whom also wondered what – other than the obvious technological and financial challenges related to the development of a new in-house payment system – was behind the Minister's apparent determination to continue working with CPS. Some sources also point to the controversial role of Presidential lawyer Michael Hulley who apparently "quietly advised" Dlamini and whose alleged advice "firmly favours CPS" (McKune 2017c).

While Dlamini pushed for an extension of the contract with CPS, SASSA's newly appointed CEO Thokozani Magwaza reportedly tried to work out a deal with SAPO (McKune 2017c). According to SAPO CEO Mark Barnes, the parastatal was "ready and willing to take over the payment function" using its "almost 2 500 national outlets and 10 000 payment points" (van Zyl 2017). Van Zyl (2017) further reported that the government's White Paper on ICT policy also expected SAPO to take over social grant payments. However, despite her earlier commitment to a long-term solution with SAPO (see above), Dlamini was reportedly vehemently opposed to Magwaza's plans with SAPO and was allegedly "thinking about suspending him for communicating with [SAPO] about future grant payment models" (McKune, 2017d).

In the end, the case went back to the Constitutional Court, with only a few weeks left until the deadline of 31 March 2017. This second court case had been initiated by a number of NGOs, including the Black Sash and Freedom under Law, in the pursuit of three main goals: first, to ensure the payment of social grants after 01 April 2017; second, to put a stop to CPS' practice of sharing the personal information of grant recipients with Net1's other subsidiaries for the purpose of marketing and selling financial services; and third, to get the Constitutional Court to oversee the subsequent contract extension or re-awarding of the tender (de Vos 2017). Moreover, since the declaration of invalidity of the tender issued by the Constitutional Court had only been suspended until 31 March 2017, the ConCourt's consent for an extension of the contract with CPS was needed (Pather 2017).

The proceedings revealed that, contrary to her initial statements, Minister Dlamini had known as early as July 2015 that the agency would not be able to meet the deadline (Mabuza 2017) and that taking over from CPS would, in fact, probably require a further two years (Sole & McKune 2017). Yet, instead of actively looking for a new contractor, Dlamini had retained direct control of her "work streams" and had reportedly told SASSA's executive management to "concentrate on the day-to-day operations of the agency" and not to interfere with her work streams which "would sort out Sassa's plan to pay social grants" (Mabuza 2017). These statements by current SASSA CEO Thokozani Magwaza were seconded by former DSD Director General Zane Dangor who further raised the suspicion that "the parallel decision-making structures in the form of the workstreams may have been deliberate to ensure a continued relationship with CPS under conditions favourable to CPS, through a self-created emergency" (Quintal 2017).

In March 2017, the Constitutional Court ruled that the invalidity of the contract with CPS would be suspended for another 12 months (News24 2017) and ordered SASSA and CPS to extend their current contract (Pather 2017). In addition, the Court found that CPS, just like SASSA, was essentially "an organ of state for the purposes of paying social grants, which means it cannot walk away from the contract like a private party because it is fulfilling much the same function as a government department (De Vos 2017b). In other words: SASSA and CPS “are under a constitutional obligation to continue to pay social grants on 1 April [2017] until another entity is able to do so” (Nicolaides 2017b). Moreover, instead of entering into a new contract with potentially higher service fees, SASSA and CPS were ordered by Judge Froneman to extend their existing contract on the same terms (Pather 2017). Hence, CPS neither got the increase from R16.44 per payment to between R22 and R25 it had demanded earlier, nor the inflation-based increase the company asked for in court. The judge ruled that only way for CPS to get a fee increase would be to justify it to Treasury which would then decide on the matter (Child 2017).

Further, the agreement was “augmented by certain additional terms and conditions, including that (i) they contain adequate safeguards to ensure that personal data obtained during the payment process remains private and may not be used for any purpose other than the payment of grants, and (ii) preclude anyone from inviting beneficiaries to ‘opt-in’ to the sharing of confidential information for the marketing of goods and services” (Belamant 2017).

The service level agreement between SASSA and CPS was extended accordingly and beneficiaries received their grants on time, with only a two-day delay for those collecting their grants at pay points instead of withdrawing them from their bank accounts (Bosveld Review 2017). The payment crisis, as well as the violent protests and social instability the government had feared in case of an interruption of grant payments, was thus averted for another year.

On 9 May 2017, the Gauteng High Court in Pretoria delivered its ruling on Net1’s inquiry regarding the lawfulness of debit order deductions from grant accounts, as well as on the related criminal charges SASSA had brought against Net1 and Grindrod Bank in 2016 for refusing to comply with SASSA’s demands to stop the deductions (Moatshe 2017). Judge Corrie van der Westhuizen ruled in favour of Net1 and stated that, essentially, “a debit order is nothing more than an electronic form of payment that is effected upon an instruction by the bank account holder to his or her bank in favour of a third party” and thus does not constitute an unlawful deduction (de Wet 2017). Hence, Net1 and its subsidiaries, as well as other financial service providers, were allowed to continue to deduct money for their products and services from the SASSA-branded grant accounts (Moatshe 2017).

This confirmed Belamant's point of view that "the state was overstepping its authority, and being insultingly paternalistic about the roughly 17-million people who receive social grants every month" and that it was "demeaning and unethical […] to infer that 40% of all South Africans should not be treated equally" and that they "lacked the intellectual ability to choose" (de Wet 2017).

The ruling was received with great disappointment by the Black Sash whose lawyers called it "devastating" and lamented that it gave "companies free reign to continue deducting from people's grants" (Herman 2017b). Similarly, Marcellino Martin, Western Cape spokesperson on community development, called the court's decision "a huge blow to the poor which will further cripple the most vulnerable in our society" (Khoza 2017), Minister Dlamini stated that she was "very disappointed with the judgement", and Rosemary Capa, chairperson of the Social Development Portfolio Committee, said that she fully supported an appeal against the judgement which "would allow grant beneficiaries to be "robbed" through the deductions" (Ensor 2017). According to Ensor (2017b), SASSA plans to appeal against the judgement, but no legal steps have been taken at this stage.

In the meantime, SASSA has reportedly been able to resolve only 10,067 of the 95,429 disputes the agency received from April 2016 to February 2017, most of which were about airtime and prepaid electricity deductions (Herman 2017d). According to a statement by Minister Dlamini before the National Council of Provinces on the same day the judgement was delivered, over 50,000 cases were still outstanding owing to missing affidavits. No explanation was given about the status of the remaining 35,000 cases (Herman 2017).

Last but not least, SASSA's search for either a new payment provider or an in-house solution to distribute social grants after 1 April 2018 continues. According to SASSA's CEO Thokozani Magwaza, the agency is currently looking at a possible co-operation with SAPO, as well as the introduction of a special account offered by all of the major banks similar to the Mzanzi account (Herman 2017b; Crotty 2017). At the same time, Dlamini announced on 10 May 2017 that it would take SASSA up to five years at a cost of R6 billion to take over the social grants system (Herman 2017b;

Ensor 2017b) – a sum which DA MP Bridget Masango described as “staggering”, considering the current contract with CPS is worth only R2 billion per year (Herman 2017e).

While Magwaza said that he did not know how Dlamini arrived at the R6 billion estimate and that the takeover could be done in as little as two to three years, both him and Dlamini agreed that the contract with CPS would not be extended beyond the 1-year extension ordered by the Constitutional Court and that (Herman 2017b). At this stage it is, however, unclear how this will be achieved within the 10 months that are left of the contract extension and ANC representatives recently expressed in a SCOPA meeting that they were "very concerned" by SASSA’s apparent lack of a plan to take over payment of social grants” (Herman 2017c).

In accordance with the Constitutional Court’s ruling on the contract extension, the process is supervised by the ConCourt and SASSA is due to submit its first quarterly progress report on 17 June 2017 (Quintal 2017b). Perhaps this will provide more clarity about the currently very uncertain way forward.

3 “It’s All About Corruption and Incompetence” – How the Case Was Portrayed in the Media

While the previous chapter focused on the actors, facts and events that constituted the social grants saga, the way the case was reported in the media was not quite as objective and neutral as it may seem. Allegations of corruption dominated the media coverage and, especially in the more recent articles, the blame for the social grants crisis was frequently put on one individual: Minister Bathabile Dlamini. Similarly, Net1, its subsidiaries, and CEO Serge Belamant were often portrayed as the “bad guys” who exploited the poor in order to make profits and who were essentially holding the state to ransom.

While this is not entirely wrong, given the seriousness of the allegations of corruption and the hardship the deductions inflicted on grant recipients, it is important to consider the constraints journalists faced in their reporting of the case, as well as the underlying views, perceptions and ideologies that are likely to have shaped their work and the resulting conclusion that ‘it is all about corruption and incompetence’.

The aim of this chapter is two-fold: First, it illustrates how the media portrayed the case as a prime example of ‘corruption and incompetence’ and blaming either individuals like Minister Dlamini or the service provider Net1 for the unfortunate outcomes. Based on this, the second part examines the constraints journalists generally face in their work, as well as the views, perceptions and ideologies related to corruption which are likely to have influenced the media reports and thus the public debate on the case.

3.1 Content Analysis and Summary of Allegations of Corruption

When surveying the media coverage of the case, a number of observations were made. First, many articles made reference to the various allegations of corruption that surrounded the case, thus putting particular emphasis on the “stink” that “persists around [the] social grants tender” (McKune 2012d). Second, many of the more recent media reports personally blamed Minister Bathabile Dlamini for the social grants crisis in early 2017 and alleged that she had “manufactured” it in order to continue working with CPS (Herman 2017e). Further, she was harshly criticized for the “highly irresponsible” way in which she handled the case (Rossouw 2017), as well as for her “extraordinary” (Pather 2017) and “unprofessional and petty” (Ndlozi 2015) conduct. Third, the articles made repeated reference to the issue of deductions, using terms such as “immoral” (Paulus 2013), “unlawful” (Crotty 2014b) and "unscrupulous" (Gquirana 2016) and describing Net1 as a gang of “big sharks in suits” (GroundUp 2015d) engaged in “questionable activities” (Dlamini 2016), thus portraying the company in a negative way.

In addition, most of the press reports – except for the most recent ones – only focused on either one or very few of the multiple dimensions of the case, e.g. the tender court case, allegations of corruption, debit deductions, SASSA’s inability to take over the grant system, criticism of Minister Dlamini’s behaviour etc. Thus, until very recently, the media failed to provide a comprehensive overview of the case and to analyze the social grants saga in terms of the “bigger picture”.

3.1.1 Allegations of Corruption

This section will give a brief overview of the allegations of corruption that surrounded the social grants case in order to illustrate the magnitude of the issue. While the reports on which this overview is based were published by reputable sources and are, to the author’s knowledge, based on sufficiently solid evidence, it is important to note that none of these allegedly corrupt activities have been confirmed by a court of law. In most cases, the concerns were acknowledged but were never pursued further. This was mostly due to the complex nature of a case as big as the social grants saga, which made it difficult to prove such allegations with certainty. In addition, the shady and secretive nature of corrupt activities and behaviour makes them notoriously difficult to prove (Aidt 2009:275).

The definition of corruption used in this chapter is rather broad and includes any kind of activity that involves “the abuse of trusted authority for private gain” (Harrison 2007:674), such as bribery, fraud, theft, irregular payments or processes, embezzlement, blackmail, and clientelism.

3.1.1.1 Irregularities in the Tender Process

Many of the allegations of corruption relate to the tender processes for the outsourcing of social grants. The first reports emerged in 2012 and centred on the claim by advocate Norman Arendse, chairperson of the 2007 tender committee (Theobald 2012:1), that he had been approached by Sascoc president Gideon Sam, who allegedly offered him an “open chequebook” bribe while claiming to represent CPS (McKune 2014b). Sam denied the allegations, saying that he had no dealings with social pensions and was only active as a “sports person” (McKune & Sole 2012) Similarly, Net1 denied any knowledge of the incident or of Gideon Sam (McKune & Sole 2012).

In April 2012, the Sunday Independent reported that a R1.4 million deposit had been made into the personal bank account of Human Settlements Director-General Thabane Zulu who was a member of the new SASSA bid adjudication committee (Khanyile & Rampedi 2012). The money was allegedly a bribe paid by a BEE company that stood to benefit from the contract. Further, the article claimed that a R600 000 payment had been made towards the mortgage bond of another member of the committee shortly after the tender was awarded to CPS (Rampedi 2012). According to an article by the Mail & Guardian, SASSA also admitted that one of its officials had received spa treatments paid for by the independent process monitor tasked with overseeing the integrity of the tender process (Whittaker 2013). Further, three government officials had allegedly been bribed with R500 000 each “to swing the terms of the tender to favour CPS” (Theobald 2012:1).

Further, “Bidders Notice Two” was said to constitute a severe procedural irregularity in favour of CPS. It was issued only five days before the final submission deadline, and changed biometric verification from a “preferred” to a “mandatory” requirement (SAPA 2013c). This move eliminated all bidders except CPS which suddenly became the only remaining contender for the contract (McKune 2014b). Yet, two years later many grant recipients were still accessing their grants without biometric verification (Theobald 2014). Hence, as McKune (2014b:3) pointed out, “If voice biometrics were so unimportant that Sassa was content to dither on the issue for between six and 19 months, it is conceivable that South African taxpayers might have scored a cheaper contractor who could have done a good-enough job.”

3.1.1.2 The Role of Michael Hulley

Another instance of alleged corruption is the involvement of President Jacob Zuma’s legal advisor, Michael Hulley, in the case. Hulley has advised Zuma on legal matters which included the spy tapes saga and the more recent allegations of “state capture” (Mail & Guardian 2017). SASSA allegedly hired Hulley in 2011 to manage the litigation with CPS over several tender irregularities. However, with the litigation still pending, SASSA CEO Virgina Petersen then flipped Hulley’s role to that of “strategic advisor” on the new tender for which CPS had submitted a bid (McKune 2012a:1). According to Net1 CEO Belamant, this was because SASSA “didn’t want anybody to somehow infer that these lawsuits and their resolution had anything to do with a potential tender award” (McKune 2012a:1). Further, Hulley apparently never invoiced SASSA for his daily rate of R21 000 and it has been suspected that CPS footed his bill (SAPA 2013a).

Hulley emerged again as an advisor to Dlamini when she decided to push for an extension of the CPS contract in 2016 and several sources have reported at least two meetings between Dlamini and Hulley in December 2016 (Mail & Guardian 2017). According to an official who attended the meeting, "[Hulley’s] participation was very skewed towards CPS and extending their contract and [finding] ways of dealing with the legalities around it” (wa Afrika & Saba 2017). Another official reported that Hulley appeared “out of the blue” at a meeting between Minister Dlamini, Thokozani Magwaza, Zodwa Mvulane, and Zane Dangor on 18 December 2016 to “offer his legal assistance about the Sassa and CPS matter” (wa Afrika & Saba 2017). Dlamini reportedly refused to explain Hulley’s role on numerous occasions and accused those questioning it of going behind her back and trying to destroy her and her work (wa Afrika & Saba 2017). The presidency was apparently “not aware” of these meetings or of Hulley’s involvement in the social grants saga (SANews 2017).

All in all, Hulley’s controversial role in the social grants tender has led journalists to “strongly [suspect] political interference in the decision” first to award and then to renew the contract with CPS (Duncan 2014).

3.1.1.3 The BEE Deal

Further allegations of corruption surrounded a Black Economic Empowerment deal related to the award of the tender. In the Constitutional Court case it emerged that SASSA had failed to investigate CPS’ three BEE partners, which, among other reasons, led to the court's decision to declare the tender "constitutionally invalid" (SAPA 2013b).

Further, the Mail & Guardian reported that, when submitting its bid, CPS had "expressly indicated that 74.57% of the execution and management of the tender would be undertaken by the consortium partners and not by CPS" (SAPA 2013c). However, the contract with the consortium apparently included a circular arrangement under which the BEE partners would subcontract 74.45% of the work back to CPS – thus leaving them with just 0.12% of the contract value (McKune 2016a).

The identity of the three BEE partners raised another red flag. Two of them – Retles Trading and Ekhaya Skills Consulting – were apparently in financial distress and in the process of being deregistered before getting involved in the social grants tender. Moreover, both companies had close ties with Lunga Ncwana, a personal friend of Minister Dlamini (McKune 2016a). The third partner, Born Free Investments 272, was owned by Mazwi Yako who had previously made headlines when journalists discovered that he had cut a former Social Development minister's wife into two of his companies while partnering with CPS (McKune 2016a).

However, the R1.5 billion BEE deal was never executed. Instead, CPS cut another empowerment deal with a consortium led by Mosomo Investment Holdings. Mosomo is headed by Brian Mosehla, another common friend of Lunga Ncwana and Minister Dlamini (Brümmer & McKune 2012). The rest of the consortium consisted of 19 community groups who were to receive 30% of the deal. However, after having approached six of them, Brümmer & McKune (2012) reported that they did not even know of the deal or their alleged involvement in it. Mosehla reportedly walked away with a R83-million cash payout when the deal was executed in 2014, while Lunga Ncwana bought himself a R28-million mansion in Bishopscourt one month later (McKune 2016a).

3.1.1.4 The Roles and Interests of SASSA and Minister Dlamini

When giving its final ruling on the social grants case, the Constitutional Court was highly critical of SASSA's role in the process (Crotty 2014). According to the Mail & Guardian, Judge Froneman called SASSA's stance "unhelpful and almost obstructionist", adding that "its conduct must be deprecated, particularly in view of the important role it plays as guardian of the right to social security and as controller of beneficiaries' access to social assistance." He added that "Sassa's irregular conduct has been the sole cause for the declaration of invalidity" (McKune 2014) and that "deviations from fair process may themselves all too often be symptoms of corruption or malfeasance in the process" (Corruption Watch 2014).

Furthermore, there were suspicions that SASSA's decision not to award the new tender might have had something to do with the agency's plans to administer the grants system itself from 2017 onwards (Evans 2014). Considering this, there were growing suspicions that the decision not to award a new five-year tender might have served the agency's own interest rather than that of the public (Evans 2014; Mungadze 2015).

Further, National Treasury lambasted SASSA for irregular expenditure totalling R316 million which had been paid to CPS (PMG 2017b) for "implementation expenses" related to the re-enrolment of grant recipients (Crotty 2014c). The payment was not part of the initial contract between SASSA and CPS and was based on a claim by CPS that it had enrolled 11.9-million more grant recipients than it was contracted to do (McKune 2016b).

More recently the attention has shifted to the role of Minister Dlamini and her controversial behaviour and decision-making in the social grants saga. The latest accusations suggests that Dlamini's ex-boyfriend Cessaro "was the brains behind establishing a BEE vehicle that partnered with CPS in 2011" which was then carried out by Dlamini's friend Lunga Ncwana (Saba 2017). Moreover, the DA has called for an investigation into the relationship between Dlamini and CPS in order to establish "whether Dlamini will either directly or indirectly benefit from this contract with CPS" (Masango 2017). Dlamini has further been accused of having "manufactured" the social grants crisis (Herman 2017e; Quintal 2017) and of having shown "absolute incompetence" in her handling of the social grants crisis (The Citizen 2017b).

Finally, her single-handed decision to establish "work streams" headed by selected members of the advisory committee – namely Tim Sukazi, Tangkiso Parkies and Patrick Monyeki, whose role in the 2012 tender process had been highly controversial – attracted harsh criticism from both SASSA and National Treasury (PMG 2017). The R45 million paid to these consultants, R35 of which went to

Monyeki, had not been approved by Treasury (Thamm 2017) and the “work streams” were run in parallel to SASSA’s existing efforts to find a new payment provider or to establish a partnership with SAPO (Quintal 2017b).

3.1.2 Content Analysis: Background and Methodology

In order to substantiate the rather subjective evaluation of the media coverage outlined above, a basic content analysis of the media reports used to compile chapter two was conducted. This section will outline the methodology used, followed by a presentation and interpretation of the findings.

Webster’s Dictionary of the English Language defines content analysis as the "analysis of the manifest and latent content of a body of communicated material […] through classification, tabulation, and evaluation of its key symbols and themes in order to ascertain its meaning and probable effect" (Krippendorff 2004:xvii). In other words, content analysis is a method of analysing texts, sounds or images in order to understand their meaning, intention and impact on people. In addition, Weber (1990) notes that content analysis “can be a useful technique for allowing us to discover and describe the focus of individual, group, institutional, or social attention” – which is the main objective of the analysis of the media coverage in this chapter. This “unobtrusive” or “non-reactive method of social research” is widely used in social sciences, and the analysis of newspaper content has been one of its most popular areas of use (Prasad 2008:174-179).[11] Hence, content analysis was chosen as an appropriate research method for the purpose of this chapter.

The analysis covers all of the 122 media publications used to compile the case study, all of which were published by reputable newspapers or online sources such as the Mail & Guardian, the Financial Mail, the Sunday Times, News24, The Citizen, GroundUp, Eyewitness News, SABC News, IOL, or the Daily Maverick. Since these articles represent only a selection of the total number of media reports and were not selected at random but rather because of their high content of factual information on the case, this analysis does not claim to be representative. However, given the credibility of the sources and the fact that their content was verified by cross-referencing them with other articles not included in the official bibliography of this

[11] For further reading, see: Kolbe & Burnett (1991), Hsieh & Shannon (2005) or Stemler (2001).

study, it can be assumed that the content analysis will provide a fairly accurate indication of the general focus areas of the overall media coverage of the case.

Each article was analysed using five categories, the respective presence of which was recorded using a simple yes/no approach (see Appendix 1). Since the aim of this analysis was not to put each article into a specific category, but rather to detect the presence of certain views or sentiments regarding the case, each publication could belong to one, multiple, or none of the five categories. The categories and their respective contents are listed below. Due to the fact that the categories refer to concepts rather than specific words, the list of key terms used for each category is not exhaustive.

1) **Corruption**: Allegations of corruption, including the Constitutional Court case and the investigations by the SEC, the Hawks, the Public Protector, the DoJ and others. Key language includes: Corruption, corrupt, tender irregularities, bribes, corrupt dealings, irregular expenditure.

2) **Incompetence**: Reference to the inability of the government, government bodies or government officials to "do their jobs" or to successfully address the issue of deductions or the social grants crisis. Key language includes (referring to government entities or officials): Incompetence, incompetent, ineptitude, failure to plan, unresponsive, lack of attention to detail, irresponsible.

3) **Negative view of Net1**: Reference to the debit deductions, Net1's controversial role as grant distributor and financial services provider, and negative view of Net1's business practices (including its subsidiaries). Key language includes (referring to Net1, its subsidiaries and representatives): Immoral, Illegal, unlawful, unscrupulous, exploiting the poor, ripping off, devastating consequences, cycle of debt, unethical.

4) **Criticism of Bathabile Dlamini**: Criticism of the Minister's behaviour and actions in connection with the social grants case, blaming her for the chaos and its negative consequences. Key language includes (referring to Dlamini): liable, accountable, unprofessional, chaotic, calamitous behaviour, incapable, "gone rogue", unacceptable, personally responsible, self-created crisis.

3.1.3 Findings

The findings of the content analysis are illustrated in Figure 3 and largely confirm the initial impressions outlined above.

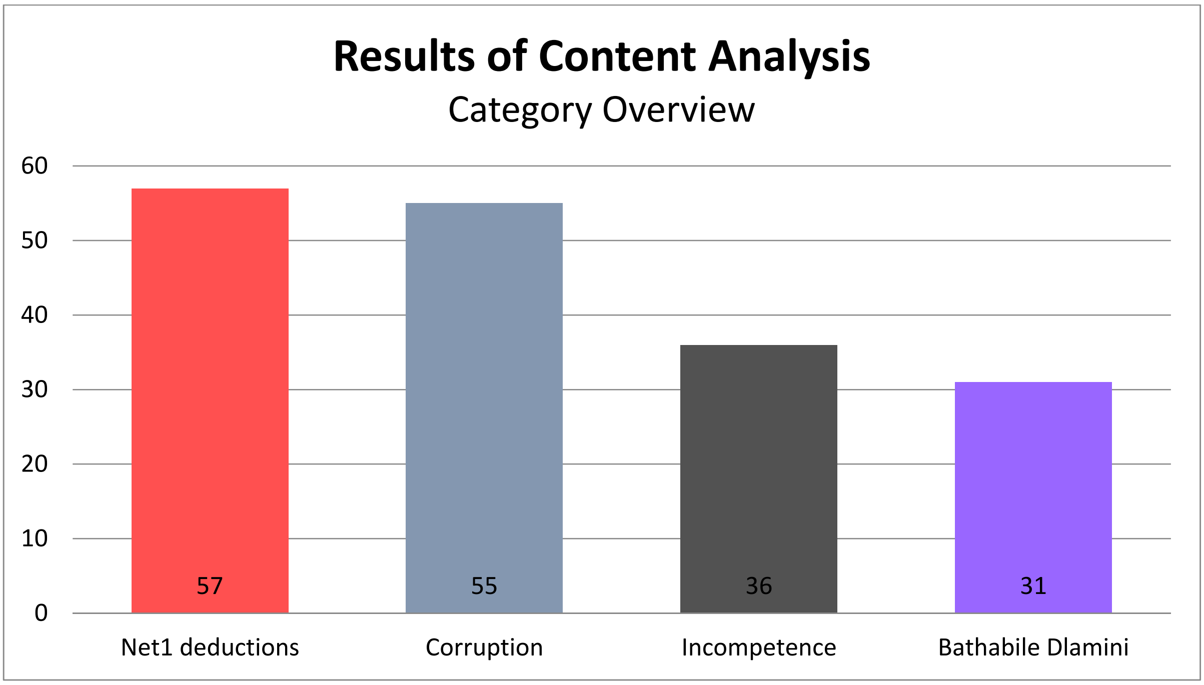

Figure 3: Results of Content Analysis (Source: own data).

Almost half of the 122 publications expressed a negative view of Net1, mostly by making reference to the debit deductions and the ways in which Net1 was perceived to be making money off the poor. With 55 articles, the prevalence of reports referring to allegations of corruption is equally high. A total of 36 articles used language to describe government entities or officials – especially SASSA – as "incompetent", while 31 publications personally blamed Minister Dlamini for the grants crisis.

What is interesting about the last two categories is that most of the rhetoric on incompetence and criticism of Minister Dlamini emerged only in 2017 when the question of who would pay social grants after 31 March 2017 turned into a public crisis: Two thirds of the articles mentioning incompetence, and 87% of the reports criticizing and blaming Dlamini were published in 2017. Previously, reports on both the government and its Minister were mostly favourable and focused on their efforts to put an end to the deductions from grant accounts. This indicates a shift in focus from corruption and deductions in the earlier years of the case to incompetence and the role of the Minister in the final months of the CPS contract.

All in all, it can be concluded that the media reports did indeed have a strong tendency to blame certain organizations or individuals – first Net1 then Minister Dlamini – for the social grants crisis. Further, there was a strong sentiment among journalists that corruption and – to a slightly lesser degree – incompetence were the two defining factors of the case, thus echoing the view of opposition leader Mmusi Maimane who blamed the grants crisis and its adverse consequences on "the corruption and incompetence of Zuma's government" (Karuri 2017).

3.2 Analysis: What Informed the Way the Case Was Reported in the Media?

While the findings presented above paint a fairly clear picture of the way in which the case was portrayed in the media, this should not automatically lead to the conclusion that this is the only valid angle of analysis. Instead, the media reports, their focus areas, and their possible intentions should be analysed within the context in which they were published, as well as the underlying views and ideologies that are likely to have shaped the opinions of their authors.

These factors are outlined in the following three sections. Section one examines the main constraints journalists faced, both generally and regarding the social grants case in particular. Subsequently, section two looks at the public discourse on corruption and illustrates how international organizations and Western governments promoting a neoliberal ideology have given the fight against corruption an unprecedented priority. Based on this, section three examines the notion of corruption as an "African Problem" and challenges the tendency of the media, governments, and the general public, to overlook the possibly much more important issues that are hidden behind the "dark veil" of personalized corruption.

The aim of this chapter is not to give a detailed and comprehensive account of the definitions, views, and debates on corruption, as this would go beyond the scope and intention of this thesis. These issues have been discussed in depth by various authors and further insight on these matters can be found in, for instance, Mauro (1995), Shleifer & Vishny (1993), Heidenheimer & Johnston (1993), Rose-Ackerman

& Palifka (2016), Treisman (2000), and Bardhan (1997). Instead, the following sections aim to highlight selected aspects of the broader discourse on corruption which are likely to have affected the way in which the social grants saga was portrayed by the South African media. Due to the limited scope of this Master's thesis, these factors and the related debates will not be covered in extensive depth and the reader will be referred to the relevant literature where necessary.

3.2.1 Constraints Faced by Journalists Reporting on the Case

As pointed out above, most of the media coverage – especially the reports published before 2017 – focused only on one or very few aspects of the case and thus failed to recognize the "bigger picture", i.e. how the case represents broader trends and issues. While this is certainly a shortcoming of the earlier reports, it must be taken into consideration that these reports were written while the case was still developing. Journalists had no way of knowing how the case would evolve and what the final outcome would be, and insight into the intricate links between the actors involved emerged only over time.

Further, the information available on the case was still scarce during the early years, contrary to the recent "flood" of media reports, court papers and investigations from which information for more in-depth reporting can be drawn. Only now, as the case has completed its "first cycle" and an extensive body of media coverage, court documents, government statements and corporate information is available, is it possible to present such a comprehensive case study and to draw meaningful conclusions.

Another constraint commonly faced by journalists relates to the business side of journalism. As Hamilton (2006:7) points out, "The reality of the news business is that it is a business. The market-driven nature of news leaves some stories uncovered, many people uninformed, and most journalists a bit frustrated and unsatisfied." Hence, even if journalists want to provide detailed, comprehensive and accurate information, they cannot always do so and are constrained by financial and strategic considerations, such as the interests of their target audience, the timing and profitability of publishing a certain piece, providing a platform for advertising, as well as the physical and financial means they have at their disposal in order to collect or uncover the information they are looking for (Hamilton 2006:8). Chomsky (2013) takes a more rigid stance, stating that the “media serve the interests of state and corporate power” and that “it would hardly come as a surprise if the picture of the world they present were to reflect the perspectives and interests of the sellers, the buyers, and the product.” This provides a plausible explanation for the fact that only a few – mostly investigative – journalists, such as amaBhungane’s Craig McKune, were willing and able to go beyond covering the most obvious facts before the case became a public scandal in late 2016.

In other words, the timing, content, and focus of each media report was potentially influenced by these factors which might, for instance, have limited the scope of the coverage in the early years, and also caused the recent increase in coverage and detail due to the surge in public interest and the associated potential for higher newspaper sales.

Finally, corruption has, without doubt, become one of the most widely-reported issues in the South Africa media. According to Mantzaris (2017), “The country’s media are replete with reports of corruption at all levels of government”, KaNkomonde (2016) stated that “there has been a litany of media coverage on “corruption” in South Africa”, and the Media Monitoring Africa study even claimed that “corruption was ‘over-reported’ compared to other issues” in the run-up to the 2014 elections (Louw-Vaudran 2014). Nkandla, Eskom, the Guptas, public tenders and “tenderpreneurs”, Prasa, the SAPS, and even the country’s state broadcaster SABC (Fin24 2015) are prime examples of this.

These findings suggest, that the strong focus on corruption and the frequent use of the “corruption and incompetence” rhetoric might not accurately reflect the issues behind the social grants saga in their entirety. Instead, it might – at least partly – be influenced by certain constraints or limitations journalists faced, or simply be a reflection of pre-existing opinions and popular topics in the South African media.

3.2.2 The “Corruption Eruption” and the Role of Neoliberal Ideology

As pointed out in the previous section, there is a strong – and perhaps even exaggerated – focus on corruption in the South African media. However, this is by no means a local phenomenon, nor is it restricted to the press. Together with a perceived increase in corrupt activities and high-profile corruption cases, the role of corruption in international political debates has grown exponentially in recent years. And while the increasing use of anti-corruption rhetoric was initially driven by international organizations and donors, NGOs and developing country governments soon joined in, driven by an increasingly dominant neoliberal ideology. This section will take a closer look at this so-called “corruption eruption”, the role of the media, and the ways in which they have shaped the public discourse on the topic.

Much of the current anti-corruption discourse has its origins in the concept of good governance and came into the global spotlight when James D. Wolfensohn became President of the World Bank in 1995. In a famous and controversial speech in 1996, he called upon the international community to “deal with the cancer of corruption” (Szeftel 1998:225), which marked the beginning of the World Bank’s leading role in the “anti-corruption crusade” (Harrison 2007:673). The IMF soon followed suit, with its Managing Director at the time, Michel Camdessus (IMF 2016), encouraging governments to “demonstrate their intolerance for corruption in all its forms” (Mauro 1997:1). Most other donor organizations and countries followed, which led Marquette (2001:395) to conclude that “in this era of political conditionality and good governance, anti-corruption has emerged as a top priority (at least in theory) for all major donors.”

Countries in the global South, NGOs and civil society organizations soon joined in, and today “riding on a wave of righteous virtue, anti-corruption talk comes from diverse quarters and, for many, is unquestionable” (Harrison 2007:676). This has led to the establishment of an “anti-corruption universe” (Warburton 2006:3), characterized by an enormous diversity of actors, programmes and strategies, and, above all, information – including in the mainstream media. However, as Szeftel (1998:232) puts it, “these efforts are more noteworthy for their limits than their successes.” According to the 2013 Corruption Perception Index (CPI), “more than half of the world's people believe global corruption has worsened over the past two years” (Reuters 2013) and the 2015 CPI concluded that 68% of countries have a serious corruption problem and “not one single country, anywhere in the world, is corruption-free” (Transparency International 2015).

However, this "most widely used indicator of corruption worldwide" (The Guardian 2013) has become the subject of increasing criticism itself. Most relevant for the present study is the critique that most indices do not measure the levels of actual corruption – which, admittedly, is a notoriously difficult endeavour – but merely the perceptions thereof (Hough 2016). These perceptions, in turn, are influenced by the increasing presence of corruption reporting in the media – both with regard to instances of corruption and anti-corruption efforts (Nguyen 2017). Even the creator of the CPI himself has raised concern about media influence on ratings (Lambsdorff 1999) and research by e.g. Montoya & Orcés (2014), Rizzica & Tonello (2015) and Pande & Olken (2012) has found positive evidence of this phenomenon.

This leads to the following conclusions: First, the omnipresence of corruption reporting in the media, not only in South Africa but on a global scale, is to a large extent driven by the "anti-corruption crusade" the World Bank and other Western organizations and governments have embarked on, based on the neoliberal ideology regarding "good governance" they continue to promote. Second, there is a growing body of evidence confirming the mutually reinforcing relationship between this increasing media coverage of corruption and the public perception of the prevalence of corruption. This suggests, once again, that corruption might not be what the social grants saga is all about. Instead, this – possibly misguided – media focus might merely be an example of what Chomsky has famously called the "ways in which you can keep the bewildered herd from paying attention to what's really going on" (Chomsky 2002:44).

3.2.3 The View of Corruption as an "African" or "Individual" Problem

When it comes to corruption in different local contexts, Africa has always been on top of the list of the most corrupt regions in the world. Further, there is a widespread belief that corruption is embedded in "African culture" since "no one came to teach Africans to be corrupt" (Poncian 2015). As LeVine (1993:273) puts it, "it is in the nature of things African, that there may even be 'a culture of political corruption' in which corruption is the normal stuff of politics." This view has become so prominent in international – and particularly Western – political circles that many share the view of Matthew Parris, a former British Tory MP, that "corruption is so widespread that African leaders no longer disappoint us; we no longer expect anything" (Szeftel 1998:223).

While some may dismiss these statements as overly dramatic, certain aspects of what is considered to be “corrupt” are indeed a vital part of many developing country cultures. In Asia, for example, traditions of mutual gift-giving and family solidarity constitute important cultural values and dominate not only the private but also the public sphere (Heidenheimer & Johnston 1993). In addition, the widespread lack of separation between the public and private sphere, commonly referred to as “neo-patrimonialism”,[12] is still widely considered to be “the core feature of politics in Africa” (Bratton & van de Walle 1997:62). This, in turn, is closely related to nepotism, which many see as being rooted in the African ethical theory of Ubuntu, African communalism, or family responsibilities and favours within extended kinship networks (Otaluka 2017:iii). Finally, Mauro (1995) points out that four of the main sources of corruption and rent-seeking are omnipresent in many African countries, namely trade restrictions and price controls, low public sector wages, resource-rich economies dominated by foreign companies, and ethnic and linguistic divisions within societies which encourage rulers and public servants to favour their own group (Szeftel 1998:225).

However, while there is evidence of a correlation between certain dimensions of culture – in most cases based on Hofstede’s model of cultural dimensions (Hofstede et al. 2010) – and corruption (see e.g. Otaluka 2017; Lee & Guven 2013; Akanji 2017; Murdoch 2009; Barr & Serra 2006) most of these studies acknowledge that corruption is only partly a cultural phenomenon. Further, in their review of the main experiments on corruption and culture, Banuri & Eckel (2012) conclude that the findings across all studies tended to be “puzzling” and “contradictory”, thus confirming a) the difficulty to establish a clear connection between the two concepts and b) the need to look beyond “culture” as an explanation for the high levels of corruption in Africa.

Other authors, such as Szeftel (1998), Little (1996), Doig (1996), and Oliver (1997), have pointed out that corruption is not merely an African, but rather a global phenomenon. Corruption scandals in Europe and America are increasingly common, in Asia, corruption “has hardly been out of the headlines either” (Szeftel 1998:222),

[12] The term “neo-patrimonialism” refers to a system of social hierarchy where individual rulers (usually the president or head of state) use state resources in order to foster their personal relationships and to secure the loyalty of clients in the general population (Szeftel 1998:235; Erdman & Engel 2006).

and similar examples could be given for Latin America and Eastern Europe, where petty corruption and high-level scandals have become prominent features of politics and society (Little 1996). In fact, Szeftel (1998:223) argues that the scale and magnitude of corruption in developed economies “far exceeds what is possible given Africa's meagre resources”. This view is shared by Sharma (2014), who notes that the forms of corruption within the seemingly robust structures of richer countries are much more sophisticated and profitable than the “highly visible” forms of corruption commonly observed in developing countries.

This acknowledgement of the global nature of corruption has led to a shift in the way corruption is conceptualized – at least in the academic world. Academic research increasingly points to the systemic nature of corruption (e.g. Johnston 2007; Root 1996; Rhodes 2007; Stefes 2008; Thompson 2013; Sanchez 2016), thus moving away from the earlier notion of corruption as a series of “isolated acts of misconduct with effects limited in time and scope” (Thompson 2013:3). In this context, Sanchez’ (2016) book *Criminal Capital: Violence, corruption and class in industrial India* makes a powerful contribution. It shows how violence and coercion were used to implement industrial and social reforms based on neoliberal ideology in a Tata plant in Jamshedpur, thus illustrating how deeply embedded corruption is in the state-corporate relationship. Similarly, deLeon (1993) argues that “corruption is an ingrained, systemic part of the […] political processes” and that “the study of corruption must take broader social and political settings into account.” In other words, in order to understand corruption, we must look beyond the episodic instances reported in the media and try to understand the context that allowed these practices to occur.

The reporting of the social grants saga, on the other hand, showed a strong tendency to frame corruption as a series of isolated acts committed by individuals to enrich themselves, for instance the bid committee members, those who tried to bribe them, potential BEE partners, Michael Hulley, and, most importantly, Minister Bathabile Dlamini. The media thus merely perpetuated its own out-dated view on corruption, implying that if we just “get rid of the ‘rotten apples’ who are ruining everything” (van Prooijen & van Lange 2016:277), the problem of corruption will be solved. This in in line with Park’s (2012:10-11) research on how corruption is framed by the media which found a predominance of “episodic” media reports which tend to “provide good pictures of an occurrence” but “are less likely to require reporters to bother to interpret an issue” and “evoke more individualistic attributions.” Hence, by conveying a certain framework of corruption through their way of reporting, the media played a crucial role in focusing the public debate on personalized corruption in the public sector instead of looking at other – potentially more relevant – issues that form part of the “bigger picture”.

One of these issues has its roots in the growing number of high-level corruption scandals involving the private sector, such as the 2015 FIFA scandal (BBC 2015), the recent wave of high-level corruption cases in Brazil (Romero 2016), the collapse of Enron in 2001 (The Economist 2002), or the “Panama Papers” that were leaked in 2016 (ICIJ 2016). These cases, as well as publications like Shaxson’s “Treasure Islands” (2012), illustrate the crucial role multinational corporations – especially those operating in the financial sector – play in today’s global corruption arena. And, as it frequently happens, the effects of these activities that benefit those already rich and powerful are most strongly felt among the poor, especially in Africa.

As Du Plessis (2016) puts it: “In a country like the United Kingdom, corruption may impact the fiscus without affecting the society’s overall coherence and success. In developing countries, corruption halts the flow of medicines and school books, enables state capture by organised crime, erodes the rule of law and contributes to conflict.” His statement vividly recalls various issues that have dominated the South African media over the past years: Drug stock-outs and hospital crises due to corruption and poor management (Cullinan 2006; Bateman 2013; SABC 2016), the Limpopo textbook delivery crisis in 2012 (Chisholm 2013; Nicolson 2012; Nkosi 2013), and most recently the release of the Public Protector’s “State of Capture” report in 2016 (The Public Protector 2016; Co-Pierre 2016).

However, the indirect effects caused by lost revenue by far outstrip the direct impacts of corruption outlined above. According to a joint report by the African Development Bank and Global Financial Integrity, Africa loses more than USD 50 billion per year to illicit financial outflows, 65% of which disappears in transactions done by multinational companies (Du Plessis 2016). Furthermore, Zucman (2014:139) estimates that USD 7.6 trillion – or 8% of the global financial wealth of households – was being held in tax havens at the end of 2013, which is still a relatively moderate figure compared to the Boston Consulting Group's estimate of USD 8.9 trillion or Henry's (2012) USD 32 trillion estimate. In comparison, even the lowest estimate is higher than the combined GDP of all Latin American and Caribbean countries in 2015 (World Bank 2015).

Considering the arguments presented above, the following can be concluded. First, despite the growing body of evidence that points to the contrary, the notion of corruption as an "African phenomenon" persists, largely perpetuated by the media. Second, journalists framed much of their reporting of the social grants case in an "episodic" manner, blaming corruption, malfeasance and incompetence on certain individuals. This reinforced the notion that "getting rid of the bad apples" would solve the problem and perpetuated the stereotype of Africa as a "sinkhole of corruption" (Balakrishna 2006). In contrast, other crucial issues, such as the increasing influence of multinational corporations, have mostly been limited to pointing out Net1's "immoral" business practices and the company's alleged involvement in the corruption surrounding the case. Finally, simply attributing corruption to "African culture" hides rather than illuminates its systemic character, which has to be understood in both its local context and in consideration of broader global trends and developments.

Considering this, one cannot help but ask if it might not be advisable to look beyond the question of whether or not bribes were paid or favours were given – in other words, whether or not there was corruption. Instead, it might be far more insightful to take a closer look at the "bigger picture" and the factors that allowed the social grants case to unfold the way it did, such as the role corporations like Net1 have started to play and the changing power relations between them and the nation states they operate in.

4 Beyond “Corruption and Incompetence” – The Crucial Role of Social Grants, Outsourcing, and South Africa’s Neoliberal Trajectory

The previous chapter concluded that, while corruption and incompetence are certainly an important part of the social grants story, the strong media focus on these two selected issues was influenced by professional constraints and pre-existing conceptions, which, in turn, shaped the public debate and kept the discussion at a rather superficial level. Hence, if corruption and incompetence are merely a façade masking much bigger issues, the question we should ask is not whether there was corruption or whether the Minister and her colleagues are incompetent. Instead, we should ask how a company like Net1 could become so powerful that it has the state bending over backwards to extend a contract that was declared invalid years ago, in spite of the numerous accusations of shady dealings and the concerns about the financial exploitation of grant recipients.

In order to answer this question, it is important to consider a number of issues that were not – or only superficially – covered by the media. Mostly, this relates to the dual importance of social grants as a lifeline for the poor and a political instrument, the context in which the outsourcing of the grant payment system took place, and the broader implications of the neoliberal reforms adopted by the ANC government. By explaining and illustrating these issues, the next two sections will attempt to provide this background information, thus “painting the bigger picture” of the social grants saga.

Due to the limited scope of this master’s thesis, the information and analysis provided in this chapter had to be restricted to the issues most relevant to the case, despite the fact that there are various other factors that would deserve to be mentioned. This is especially the case for section two, which tackles the highly complex topic of South Africa’s post-apartheid transformation which has been explored in numerous books and publications without even coming close to exhausting the available material and potential angles of analysis. The author acknowledges the need for a more comprehensive analysis – perhaps in the form of an in-depth follow-up study to this thesis – and will refer the reader to additional reading where necessary.

4.1 The Crucial Role of Social Grants

If one had to draw one main conclusion from the grant payment crisis in 2017, it would probably be that “the one thing we can't afford in this country is for the social grants not to be paid” (van Zyl 2017). Grants are not only “the government’s biggest poverty alleviation and redistribution intervention” (Roussouw 2017) and a “vital lifeline to the poor” (Thamm 2016b), but also “one of democratic South Africa’s flagship achievements” (Merten 2017) and thus of critical political importance to the ANC. The following two sections will take a closer look at this dual role of social grants, thus illustrating the extent of Net1’s influence and power as the sole provider of one of the most crucial public services.

4.1.1 Social Grants as a Lifeline for the Poor

South Africa’s social security system has often been described as “the largest social grant programme in Africa” (Devereux 2011:422) and the country has even been called “the largest welfare state in the developing world” (Goko 2013; Mail & Guardian 2010). At over 30% (StatsSA 2016), the share of individuals receiving government transfers in South Africa is almost three times as high as the developing country average of 12% and even beats the developed economy average of 21% (Demirgüc-Kunt et al. 2015:32). Further, the percentage of households that received one or multiple grants has increased from 29.9% in 2003 to 45.5% in 2015 (StatsSA 2016). As a result, South Africa has been “widely and deservedly praised” for its social protection system and is seen as a role model for other countries in the global South (Devereux 2010:3).

These impressive numbers are largely the result of the government’s massive extension of the grant system after the end of apartheid, which increased the number of grant recipients from 2.5 million in 1998 to over 17 million in 2017. By 2019, the number of beneficiaries is expected to reach 18.1 million (Leuvennink 2015; Dentlinger 2017c). This increase has been particularly pronounced in the past decade, during which the total number of beneficiaries increased almost four-fold

(CGAP 2011:8). Hence, in the absence of sufficient job creation and economic growth, social grants have become a lifeline for almost a third of South Africa's population (StatsSA 2015:7) and represent the government's most successful – and some might say only – response to the country's "triple challenge" of poverty, unemployment and inequality.[13]

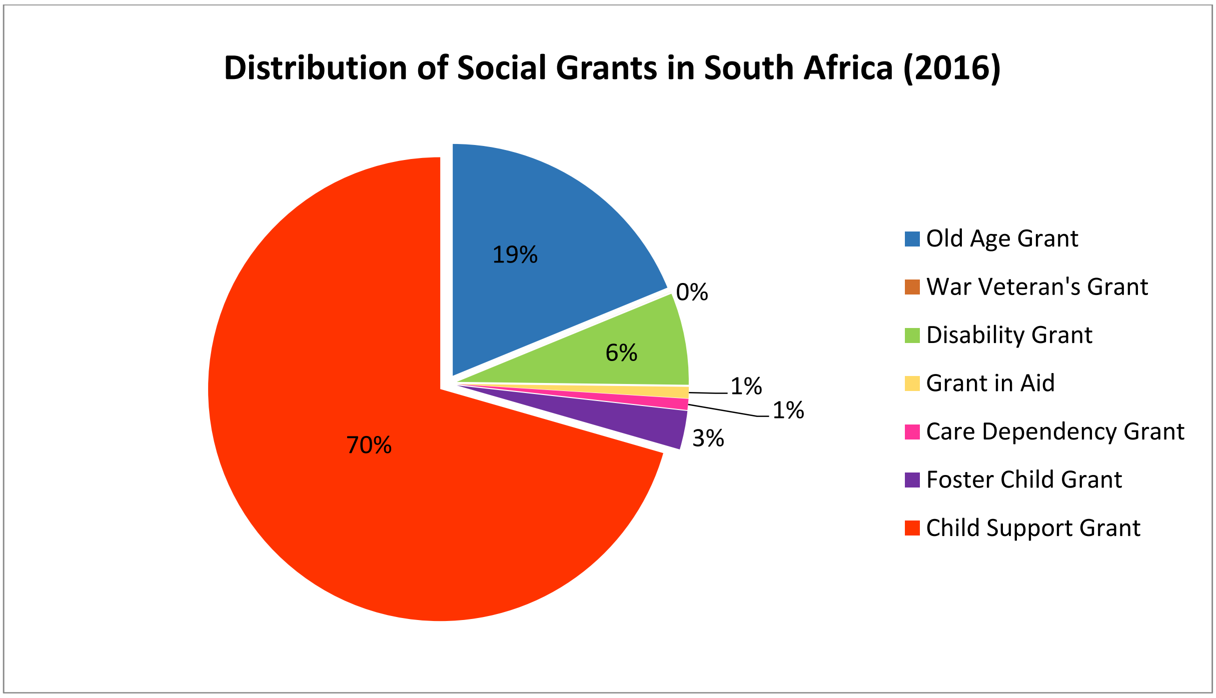

Figure 4: Distribution of Social Grants in South Africa (Source: SASSA 2016b).

As can be seen from Figure 4, the Child Support Grant (CSG) is by far the largest of the seven long-term grant programmes. With a monthly value of R350 per child (in 2016), it is paid to the caregivers of 11.9 million children (SASSA 2016), a coverage of approximately 58% (StatsSA 2015). The CSG is followed by the Old Age Grant (OAG) with 3.18 million recipients (SASSA 2016) and a monthly grant value of R1 510 (Ndenze 2016). With 1.09 million recipients, the Disability Grant (DG) is the third largest grant programme and accounts for approximately 6% of the total number of grants paid (SASSA 2016). The other grants constitute a relatively small share of the total social grant system and the War Veterans Grant is expected to be phased out soon, due to the declining number of recipients.

[13] For further reading", see: Phaahla (2015), Khumalo (2013), Bhorat et al. (2014), Gumede (2012), Moodley (2012), Ferguson (2007), BusinessTech (2015), Devereux (2010), or NPC (2013).

What stands out is that South Africa has no financial support programme for working-age, able-bodied adults to cover the 42-year gap between the CSG and the OAG (Neves et al. 2009:6). Similarly, there is no effective social insurance for the unemployed and for informal sector workers. Both the Unemployment Insurance Fund[14] and the Compensation Fund for Occupational Injuries and Disease[15] are aimed exclusively at formal-sector employees. With an official unemployment rate of 26.5%, an expanded unemployment rate to 35.6%, and a youth unemployment rate (age 14-34) of 37,1% (StatsSA 2017), the number of dependants "exceeds the number of social grant beneficiaries by a considerable margin" and grants frequently end up supporting entire households (Rossouw 2017). This phenomenon is particularly pronounced in rural areas where many households are effectively formed around the grant recipient (Woolard & Klasen 2004). Practical evidence from the Financial Diaries project[16] illustrates this: the study found that an OAG in rural Lugangeni supported an average of four household members (Financial Diaries 2014).

Figure 5 further emphasizes this trend and indicates that grants make up more than half of the monthly income of households in the bottom two quintiles.

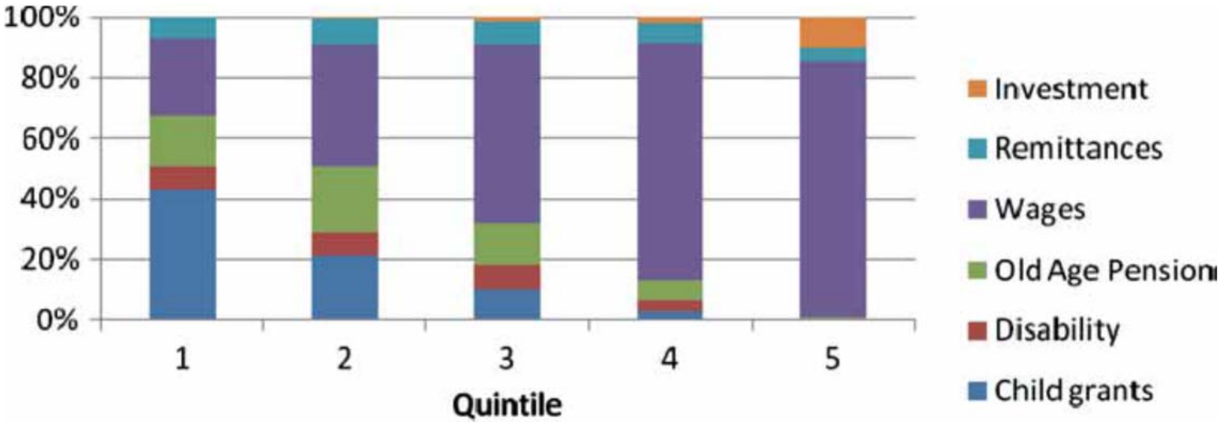

Figure 5: Sources of household income by quintile (Source: Woolard et al. 2011:368).

[14] For further reading on the UIF, see: Republic of South Africa (2003) or SARS (2015).

[15] For further reading on the COIDA, see: Woolard et al. (2011) or NPC (2013).

[16] The Financial Diaries project was developed by Bankable Frontier Associates (BFA) and uses financial diaries as a "unique way to obtain multi-dimensional qualitative and quantitative data on the lives of low-income households" (BFA 2017). BFA has conducted financial diaries studies in South Africa, India, Mozambique, Kenya, Mexico, Rwanda, Pakistan and Tanzania.

According to numerous studies,[17] South Africa’s social grants expansion seems to have been quite effective in terms of positive developmental impacts: These include contributions to food security, nutrition, and human capital development (Devereux 2010:5-6) and positive impacts in terms of education and school attendance. Further, grants subsidize the costs of job seeking, thus increasing both labour force participation and employment rates compared to households that do not receive a grant (CGAP 2011:9; Devereux 2011:416). Finally, grant recipients are more likely to have a high level of financial market activity, can access credit more easily and on more favourable terms, and display a higher propensity to save (Gutura & Tanga 2014:660-667).

Hence, both academia and the media agree that social grants have played a vital role in smoothing the worst effects of the country’s post-apartheid economic struggle, and most authors agree that, without grants, the level of poverty in the country would be much worse than it is today (Phaahla 2015). This affirms the role of the social grant system as a lifeline for the poor and explains why both the government and the ConCourt were adamant that an interruption of payments had to be avoided at all cost.

4.1.2 The Political Significance of Social Grants

While the information presented above already provides a powerful justification for the government’s strong interest in keeping the grant system running, concern for the poor was not the only reason behind the state’s insistence in avoiding a payment interruption at all cost.

Throughout South Africa’s recent history, social grants have been an important instrument used to achieve a variety of – in some cases questionable – political goals. In the early 20th century, social assistance was established and developed along racial lines, aimed at protecting the standard of living of the ruling white minority. In the 1920s and 1930s, grants were used predominantly as a means of providing poverty relief to the white working class and represented the state's response to the “poor white problem” (Visser 2004:2). Later, during the early years of

[17] For further reading on the debate about the effectiveness of grants, see: Ferguson (2013), Barchiesi (2007), Barrientos & Hulme (2009), Hall (2006), Surender et al. (2010), Kenworthy (1999), Neves et al. (2009) or Devereux (2011).

apartheid, social welfare was part of the government's mechanisms of separate development (Visser 2004:4) which led to the creation of a narrowly targeted social security system that privileged a "white welfare elite" while providing only rudimentary services and benefits for Blacks (Patel 2014:203).

This changed quite significantly in the late years of apartheid. Formerly a means of entrenching racial segregation, social grants were one of the few concessions made by the government from the 1960s onwards in order to keep the increasingly disgruntled and radical black majority in check (Patel 2014:203)[18]. This put South Africa in the peculiar situation of being a semi-industrial country with the trappings and financial commitments of a modern social welfare state while, at the same time, battling with the after-effects of the global economic slowdown and the increasing international hostility and sanctions towards the apartheid state (Visser 2004:1).

Since 1994, there have been dramatic achievements in terms of policy, legislation, the promotion of a rights-based approach to social assistance, the abolition of formal racial discrimination regarding access to social grants, and the creation of a nationally integrated welfare system (Patel 2016). Yet, the new government appears to have continued the tradition of using social grants as a political instrument and, considering the massive expansion of the grant system, at a much larger scale than ever before.

The 2016 voter sentiment on governance survey conducted by Good Governance Africa (GGA) found that 19.8% of voters were influenced in their voting decision by a reliance on income grants and pensions. The number was even higher among the unemployed, 40% of whom said that they "voted for their party of choice out of necessity and a reliance on social grants" (GGA 2016:6). Further, 24.1% of the respondents believed that the election results were due to voters' reliance on social grants (GGA 2016:10). According to the report, another 11% believed that intimidation and fear played a role (Du Plessis 2017), and Patel (2016) pointed out that "the discourse among politicians in the ruling party during the 2014 election

[18] Driven by the effects of the global stagnation in the 1970s, the apartheid government had to accept the need to include its black majority into the social protection system and significantly increased state pensions for Africans – especially those living in the homelands – during the 1970s and 1980s (Woolard et al. 2011:361). This was accompanied by campaigns to "win the hearts and minds" of the Black population, and a number of community development strategies were adopted in selected areas known as "oil spots" (Patel 2014:204).

campaign was that grant beneficiaries who voted for the opposition were betraying the hand that feeds them." She adds that beneficiaries were afraid they might lose their grants if they voted for an opposition party, which "has given rise to a view that social grants are a form of 'vote buying'" (Patel 2016). Similarly, SAIIA analyst Moeletsi Mbeki notes that "whether the ANC is corrupt or not, [rural voters] see it as the party that delivers […] welfare to them" and mentions multiple reports of threats by the ANC that voters would lose their social grants if they voted for the DA (AFP 2014).

Hence, the effects of the expansion of social grants, often described as the ANC's "flagship programme" (Makinana 2017), extend far beyond poverty alleviation and have had "far more pragmatic political effects" (Neves et al. 2009:28). And while this is not just a South African phenomenon – Barrientos (2004), for example, states that social welfare has reduced the potential for social unrest in Brazil – the extraordinarily high reliance on social grants compared to other countries suggests that, as Neves et al. (2009:28) put it, "South Africa's political, social and demographic landscape may look very different if it were not for social grants."

To conclude: it is precisely because of this dual role of social grants and their importance for both poverty alleviation and political stability that Net1's grip on the payment system has given the company such high political leverage and put the government under such exceptional pressure. It further explains the state's insistence in avoiding a payment interruption at all costs, not only because of the financial hardship this would cause for beneficiaries, but also because of the potentially disastrous political consequences.

4.2 Outsourcing Social Grants in the Context of South Africa's Post-Apartheid Transformation

Having illustrated the social and political significance of social grants and the extent to which its control of grant payments increased Net1's political weight, this section will look at the second factor that played a key role in Net1's rise to political and economic power. This is the outsourcing of a key social service to a private contractor.

The practice of outsourcing government services has its roots in neoliberal ideology and the implicit assumption that the private sector can deliver services more efficiently than its public equivalent (Starr 1988; van Slyke 2003:297; Girth et al. 2012:887). Hence, this section will take a step back from the case study and look at the international and local context that shaped the environment in which it took place with a special focus on the role of neoliberal reforms, particularly outsourcing. As pointed out above, the limited scope of this thesis allows only a brief overview of the most essential factors and developments and the reader will be referred to background literature for more in-depth information.

4.2.1 Neoliberalism and Privatization: The Global and Local Context

The 1970s saw the rise of the neoliberal ideology which brought with it the revival of 19th century "laissez-faire" economics and emphasized the value of free market competition (Smith 2014). The concept of a strong central "nanny state" state was declared a failure and was seen as the main cause of the global economic recession and the high levels of inefficiency in the public sector and the economy (Kosar 2006:4). Instead, neoliberal ideology promoted economic and financial liberalization, deregulation, privatization, fiscal austerity, reductions in public spending and a stronger role for the private sector (Williamson 2008) in order to foster economic growth, attain macroeconomic stability, increase efficiency, and reduce public sector borrowing requirements (Jerome 2004:2). Overall, neoliberal ideology is characterized by "a distinct shrinking of the state and a transfer of competence to the private sector" and a replacement of state competence with a capitalist, free market mode of production (Narsiah 2002:29). In addition, Ashman et al. (2011:174) note that the neoliberal trajectory has been closely linked to an increasing financialization[19] of the economy and that "finance has been a critical, even definitive, component and mechanism underpinning and perpetuating neoliberalism." This, in turn, went hand in hand with rising levels of personal debt, caused to a large part by credit-based consumption and the increasing availability of credit at all levels

[19] For further reading, see: Ashman et al (2011), Masie (2015), Isaacs (2014), Fine (2009), McKenzie (2013), Lapavitsas (2009), Bonizzi (2013), or Carnegie (2008).

of society (Cordeiro Santos et al. 2014), which has become a serious problem in South Africa since the end of apartheid.[20]

Promoted by international organizations such as the World Bank and the IMF as part of their structural adjustment programmes, neoliberal policies and the belief that the market “delivers benefits that could never be achieved by planning” (Monbiot 2016) soon dominated political and economic thinking. Neoliberalism has been described as “the most successful ideology in world history” (Anderson 2000:17). As one of the core pillars of the Washington Consensus[21] (Savas 1987), privatization[22] played a particularly important role in this process, especially in the form of outsourcing. The 1980s ushered in a veritable “era of privatization” and states increasingly gave up control over the state-owned assets that had once represented important symbols of national success. As a result, the responsibility for producing economic wealth for society was shifted from the state to private companies, entrepreneurs, and consumers (Momandi 2015).

After a period of relative isolation from the global community during apartheid,[23] the new South African government was confronted with the dual challenge of achieving social reform and addressing the injustices of the past, while simultaneously boosting economic growth and inserting itself into the global economy. Millions of black South Africans did not have access to basic services and were excluded from the educational and health care systems established predominantly for Whites (Maloka 2005) as well as from most spheres of political, economic and social life. In the words of Thabo Mbeki: “The South Africa of 1994 was populated by […] “two nations” - one White and privileged with a standard of living comparable to that of the industrialized countries, and the other Black and poor with a standard of living comparable to that of developing countries” (Maloka 2005). Moreover, the highly

[20] For further reading, see: Isaacs (2014), James (2014; 2015), FinMark Trust (2014; 2015), Bateman (2015), Erasmus (2015), and McKenzie (2013).

[21] For further reading, see: Williamson (1993; 2008), Gore (2000), and Stiglitz (2004).

[22] Broadly defined, privatization involves “changing from an arrangement with high government involvement to one with less” (Savas 1987:88) or, as Starr (1988) puts it, privatization refers to “all reductions in the regulatory and spending activity of the state”. Hence, privatization is associated with a devolution of power away from the state, i.e. the transfer of certain responsibilities to non-governmental entities. More specifically, privatization is often defined as the use of the private sector in the provision of a good or service that was formerly provided by the state (Starr 1988).

[23] For further reading, see: Lipton (1989), MacDonald (2006), Marx (2003) and Marks & Trapido (2014).

inefficient apartheid bureaucracy was in dire need of reforms and international sanctions and disinvestment had left South Africa's economy in shambles, with no or negative growth rates, growing unemployment, and double-figure inflation (Maloka 2005).

Despite its initial commitment to redistribution and equity and the socialist beliefs that underpinned that ANC liberation movement, the "Tripartite Alliance" government soon adopted neoliberal ideas. According to Visser (2004:10), "already in the early 1990s, the World Bank and the IMF had propagated a neo-liberal approach [and] the NP government published its Normative Economic Model (NEM) in March 1993, which was heavily influenced by the IMF's neo-liberal dogma." Or, as Qobo (2012:97) puts it: "To prove its credentials as a responsible international citizen, SA drew heavily on the major themes of the Washington Consensus." This ideological shift was reflected in the adoption of the Growth, Employment and Redistribution (GEAR)[24] initiative which replaced the government's earlier Reconstruction and Development Programme (RDP)[25] after only two years. "Growth through redistribution" was replaced by "redistribution through growth" (Visser 2004:9) and a trickle-down effect was expected to ensure shared growth and prosperity (Qobo 2012:105). GEAR also laid the foundations for the policy programmes that followed – the Accelerated and Shared Growth Initiative for South Africa (ASGISA),[26] the New Growth Path (NGP),[27] and the National Development Plan (NDP)[28] – which continued largely in the same neoliberal path. Hence, South Africa's political and economic environment became increasingly business-friendly, opening up extensive opportunities for private companies like Net1.

In addition to the general economic and financial liberalization of post-apartheid South Africa, privatization in all its different forms started to gain traction. The first privatization efforts can be traced back to the mid-1980s, when the apartheid state's

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[24] For further reading, see: Visser (2004), Moyo & Mamobolo (2014), Maloka (2005), Qobo (2012), Sebola & Nkuna (2014), and Segatti & Pons-Vignon (2013).

[25] For further reading, see: Moyo & Mamobolo (2014), Visser (2004), Sebola & Nkuna (2014), Maloka (2005), Kloppers & Pienaar (2014), and Nnadozie (2013).

[26] For further reading, see: Moyo & Mamobolo (2014), Qobo (2012), and SAHO (2014).

[27] For further reading, see: The Government of the Republic of South Africa (2010), Qobo (2012), van Tonder et al. (2011), and Segatti & Pons-Vignon (2013).

[28] For further reading, see: Morris (2013), Gumede (2012), NPC (2013), Odhiambo (2011), Greenwood & Hold (2010), Moyo & Mamobolo (2014), SACP (2013), and Cosatu (2013b).

massive apparatus of state-owned enterprises started to crumble and the influence of international donors and financial organizations – most of which were fervent advocates of privatization – gradually increased (Horwitz 2001:107). In addition to following the international trend towards privatization, a key reason for the government's interest in outsourcing was the desire to reconnect South Africa's "dual economy" and to promote Black Economic Empowerment by opening up government contracts to small and medium local enterprises (PARI 2014:16). Soon, this included not only the (partial) privatization of parastatals (Mahlaka 2015) but also the outsourcing of government functions and public services. From the mid-1990s, many supporting functions such as transport, cleaning, canteens and security were contracted out to private or semi-private service providers (van Niekerk et al. 1999:33) and soon this was extended to core functions of the state – such as the social grant system. From the very beginning, the payment of social grants was outsourced to a number of different service providers, among which Net1 soon rose to a dominant position and started to implement its biometric smart card-based system (see chapter two).

Agencification[29] was an equally popular concept and from the mid-1990s, South Africa experienced a veritable "agency boom" which saw the establishment of more than 250 agencies at different levels of government (Parliament of the RSA 2016). One of the most prominent examples is SASSA (PSC 2011:2) which was modelled closely after its Australian equivalent Centrelink (Reddy & Sokomani 2008:52-54) and took over the social grant system in 2004 (see chapter two).

The political commitment to privatization and outsourcing continued throughout the 1990s and 2000s and has resulted in the establishment of what has been termed a "contract state" (PARI 2014:9). As reported by the Public Affairs Research Institute (2014:9), "what was called 'state capacity' is now predicated upon the ability of the state to tap into and manage, through contractual relations, private sector capacities." The magnitude of this phenomenon is illustrated by the fact that, in

[29] Agencification is rooted in the separation of the spheres of policy making and policy implementation (Aisha & Muhammad 2010:3) and the use of private sector management methods to create a leaner and more efficient state apparatus. Essentially, agency theory centres on a relationship in which one actor (the principal) delegates work to another party (the agent), who performs that work in accordance with a set of defined specifications and standards. For further reading, see: Nchukwe & Adejuwon (2014), Aisha & Muhammad (2010), Christensen & Laegreid (2005), Pollitt et al (2004), Peters (2012), and Larbi (1999).

2012/13, 42% of the R876.6 billion budget of national, provincial and local government was allocated to procurement alone (PARI 2014:8). Procurement has thus become the single largest function of government departments and, while this “contract state” still requires a bureaucracy, the work of public officials now mainly involves policy-making and the co-ordination of private sector entities and is increasingly detached from the actual delivery of public goods and services (PARI 2014:43-51). This has transferred an enormous part of the responsibility for service delivery to the private sector, opened up unprecedented profit-making opportunities for government contractors, and increased the state’s dependence on its private service providers.

However, both in South Africa and in the rest of the world, the negative side-effects of neoliberal reforms have started to emerge and, as Stiglitz (2004) puts it: “If there is a consensus today about what strategies are most likely to promote [development], it is this: there is no consensus except that the Washington consensus did not provide the answer.” More recent debates have started to acknowledge the limitations of the market-centred neoliberal approach and emphasize the example of the Asian developmental states[30] or suggest a “post-Washington Consensus”.[31] Further, they increasingly recognize that “development has never been something that the rich bestowed on the poor but rather something the poor achieved for themselves” (Birdsall & Fukuyama 2011).

Similarly, there is an “increasing disenchantment with privatization” (Jerome 2004:2)[32] since the promised benefits of privatization have largely failed to manifest themselves (Girth et al. 2012:888; Goldsmith et al. 2014:6). Critics point especially to the fundamental conflict of interest between private companies trying to make profits and please their shareholders, governments who pursue political goals, and citizens who need reliable and affordable public services (van Niekerk et al. 1999:1). In the case of Net1, it was the grant recipients who found themselves on the losing end and who suffered the negative consequences of the power struggle between the state and its contractor. Consequently, it has been suggested that privatization may simply

[30] For further reading, see: Kwon (2005), Douglass (1994), Leftwich (1995), or White (1988).

[31] For further reading, see: Birdsall & Fukuyama (2011), Stiglitz (2004), or Lopes (2012).

[32] For further reading, see: Kosar (2006), van Niekerk et al. (1999), Girth et al. (2012), Schönteich (2004), van Slyke (2003), PARI (2014), Peters (2012), and Jensen & Stonecash (2005).

not be suitable for the delivery of core government services such as social grants (Peters 2012:262; Girth et al. 2012:888), due to the high risk of dependency on a contractor who might take advantage of its powerful position (Schönteich 2004:14; Jensen & Stonecash 2005:775, Pearlstein 2014) – the social grants saga being a case in point.

Summing up: through the government's adoption of neoliberal ideology and many of its reform strategies – including the outsourcing of government services – private companies in South Africa gradually increased both their economic power and their political clout. The firm belief in the superiority of the private sector, in combination with the aim of providing opportunities for local enterprises through state tenders, resulted in the creation of a "contract state", thus reducing the role of the state from the actual provision of public services to a mostly administrative function. In turn, private companies like Net1, who managed to win one of the lucrative government tenders, could exploit an unprecedented profit-making potential and simultaneously secure their position by eliminating their competitors and making themselves indispensable to the state. This, however, has come at a cost, and the power struggle between the state and the private sector has disproportionally affected the poor and vulnerable – i.e. the recipients of public services such as social welfare.

4.2.2 The Special Case of South Africa

The previous section gave an account of the overall trajectory of the neoliberal ideology, both globally and locally, and outlined how economic and financial liberalization, as well as privatization, contributed to Net1's increasingly powerful position vis-à-vis the government. However, although South Africa adopted a considerable number of neoliberal reforms and increasingly aligned its policies with neoliberal thinking, its case differs from that of many other countries in the developing world. This, in turn, has important implications for the analysis of the social grants saga and will thus be discussed in the remainder of this section.

Although it came as a surprise to many how quickly the ANC government "dropped the moral capital they acquired from the antiapartheid movement and readily acquiesced in the prevailing easy money regime of the world economy" (Mbeki 2009), Hart & Padayachee (2013) note that this was not much different from what happened in other developing countries at the time. In fact, the ANC "resembled postcolonial African governments who also sought to establish developmental states in the general interest of citizens during the post-war decades and then abandoned any pretence of serving their people in the neoliberal era" (Hart & Padayachee 2013:80).

It has been argued that the South African case is different, because of the pro-poor reforms and policies the democratic government implemented, which seem to be at odds with the neoliberal ideology. One example is the Broad-Based Black Economic Empowerment (B-BBEE) programme which aims to increase management representation, employment equity, skills development, preferential procurement, enterprise development and corporate social investment for Black South Africans.[33] Another example is the large number of state-owned enterprises, such as Eskom, Transnet, Prasa, Sanral, Denel, Telkom, or South African Airways (DPE 2014; BusinessTech 2016; GCIS 2017) which – partly due to the strong opposition of the unions – have resisted the numerous calls for their privatization (Mahlaka 2015; BusinessTech 2016; Mutiso 2016; Democratic Alliance 2014; Skade 2016). Lastly, there is the massive extension of social grants and the fact that "for all the neoliberal rhetoric, South Africa maintains a high level of public expenditure" (Hart & Padayachee 2013:61).

Yet, if we look at the effects of these programmes, as well as at some of the underlying concepts used to justify them, we note the following. The BEE programme, as well-intentioned as it might have been, has not achieved the racial and economic transformation it promised and critics argue that, while a few have benefitted excessively, the majority has still to see the effects of the expected "trickle-down" (Maloka 2005)[34]. The concept of "trickle-down economics", in turn, is itself a distinctly neoliberal concept (Martinez & Garcia 1996; Greenwood & Holt 2014; Andreou 2014) which has deepened existing inequalities (Stone 2016; Srivastava 2016) – as even the IMF, one of the main advocates of neoliberal reforms, has recognized (Ostry et al. 2016; Petroff 2015; Tencer 2015). Hence, despite its seemingly pro-poor character, the BEE programme is not only based on a

[33] For further reading, see: Ponte et al. (2007), Tangri & Southall (2008), Southall (2007), Iheduru (2004), or Williams (2005).

[34] For further reading, see: Gray (2006), Maloka (2005), Johnson (2004), or Sharma (2012).

neoliberal concept but has also failed to achieve the social transformation it claimed to promote.

Similarly, the extension of South Africa’s social grants programme does not necessarily represent a leftist element within an otherwise neoliberal environment. Instead, it can be seen as an example of Amartya Sen’s “capabilities approach”[35] which has influenced the social policies of many countries in both the developed and the developing world (Robeyns 2016). Centred on empowering and enabling people to break the cycle of poverty themselves, rather than being dependent on a paternalistic government, the effects of social protection can thus be described “in terms of the twin metaphors of safety net and springboard” (Holzmann & Jørgensen 2010). Sen’s approach is reflected in both the NGP and the NDP (Odhiambo 2011; Greenwood & Hold 2010) which has led Bond (2014; 2014b) to conclude that the ANC’s welfare policies are merely “tokenistic”. And while social grants are frequently portrayed as part of a “social contract” (Oosthuizen 2016) to address the injustices of South Africa’s unique history, Ferguson (2015) argues that grants have become a global mechanism to address the “chronic feature of contemporary capitalism” (Laterza 2015), and Neves et al. (2009:26) point out that increasing social protection “is frequently part of the political changes associated with market liberalisation.” Rather than being antithetical to neoliberal principles, social grants can thus be seen as a comparatively simple and effective measure to smooth over the worst effects of neoliberal policies and even, as de Haan (2013:1) puts it, as “part of economic policies [that] shape the conditions of enhancing markets and productivity.”

What does, however, set South Africa’s neoliberal experience apart from most other developing or emerging economies, is the way in which the ANC government adopted the concept. Contrary to most postcolonial African states, South Africa did not accept significant and prolonged funding from the IMF or the World Bank after its transition to democracy[36] (Hart & Padayachee 2013:71-72) and was thus not subject to their structural adjustment programmes which served to impose neoliberal reforms in most other African countries (Ferguson 2009:172). Instead, the government

[35] For further reading, see: Sen & Nussbaum (1993), Robeyns (2005), and Sen (1999).

[36] The country did, however, receive massive loans from the World Bank in the 1950s for key infrastructural projects such as dams, highways and harbours. This made South Africa “second only to Mobutu’s Zaire as an African recipient of such loans, which came to an end in 1967” (Hart & Padayachee 2013:71-72).

adopted its own set of neoliberal policies which, ironically, were almost identical to the major themes of the Washington Consensus. The reasons for this have been the subject of a heated debate, the main arguments of which are summarized below.

It has often been argued that, although the government did not accept any significant loan packages from the IFIs, the ANC had no choice but to adopt neoliberal policies. Murray (1997), Bakken (2014), and Sandbrook et al. (2007) argue that World Bank and IMF economists pressured the new ANC government into adopting their policies and left “little room to pursue an independent macroeconomic policy that is radically different from what the IMF advocates” (Bakken 2014:30). Throughout the transition period, “a deluge of high-profile studies and conferences funded by the World Bank and IMF promoted the neoliberal message” (Williams & Taylor 2000:27) and Mandela’s references to social transformation in his presidential address were dismissed as “antiquated Marxist gibberish” (Williams & Taylor 2000:35).

Further, Terreblanche (2002) points out that when the ANC came into power, most of South Africa’s existing or potential trading partners had already adopted the neoliberal ideology which led the domestic business sector to lobby for the same. Moreover, others have noted that “the business sector played an important role in facilitating and funding the negotiation process itself” and thus acted as a “force for continuity rather than change” (Williams & Taylor 2000:36). This was exacerbated by the prominent role of the Minerals-Energy Complex (MEC) and its related “white capital” industries and conglomerates. They had shaped the South African economy according to the principles of cheap labour and capital accumulation for centuries and were clearly not willing to give up their wealth and influence[37] (Fine & Rustomjeeh 1996; Ashman et al. 2011). These players “promoted [their] message, lavishly and ubiquitously, in books, multimedia presentations and newspapers” (Bakken 2014:3) and the new government was “swamped by this ideological tidal wave” created by “a well-funded array of pro-neoliberal groups” (Williams & Taylor 2000:26). This, once again, highlights the potential of the media to influence not only the public opinion but also political decisions which, in this case, was done by running “a string of hysterical articles warning about the ‘foolishness’ of redistributing

[37] For further reading, see: Sharife & Bond (2012), Freund (2010), Bell & Farrell (1997), Edwards (1997), or Michie & Padayachee (1997).

wealth from the massively privileged to the chronically disadvantaged" (Williams & Taylor 2000:25). Indeed, both Cornish-Jenkins (2015) and Williams & Taylor (2000) see the prevalence of neoliberalism in the international discourse as one of the main – and often underestimated – reasons for the ANC's adoption of a market-oriented economic approach.

Finally, Williams & Taylor (2000) and Sebola & Nkuna (2014) argue that the difficult financial situation the new government found itself in forced it to give in to the neoliberal pressures, unless they wanted to ruin their chances of obtaining the necessary funding for their ambitious social programmes. This predicament was caused by the combination of massive spending on defence and local industries in the 1980s, the NP's "indulgence in reckless spending and […] personal enrichment" between 1990 and 1994, the scramble for public funds by homeland bureaucrats, and endemic corruption (Williams & Taylor 2000:27). In December 1993, the Transitional Executive Committee accepted a USD 850 million IMF loan to ease the balance of payments difficulties (Sikhakhane 2016), which has frequently been described as the starting point of Mandela's "sell out" of the liberation struggle (Modisane 2014).

However, while acknowledging the difficulties the new government was confronted with, others have argued that the ANC had the unique opportunity to create a different economic system but deliberately chose not to do so. Therefore, they argue, the government cannot simply get away with blaming cases like the social grant saga on external forces but must assume responsibility for what is essentially a product of their own decisions and choices.

Firstly, as stated by e.g. Hart & Padayachee (2013), Michie & Padayachee (1997), and Williams & Taylor (2000), the ANC had failed to develop clear economic policies by the time they assumed power. Instead, they relied on "an emotional attachment to the principles of the 1955 Freedom Charter with its vague but prominent redistributionist slogans" (Williams & Taylor 2000:24) and on "a belief in state power and abstract socialist rhetoric" (Hart & Padayachee 2013:61). As a result, the new government was severely constrained in its ability to resist the "rush of neoliberal ideas" (Williams & Taylor 2000:30) proposed by Western governments and international organizations and was thus on the defensive, unable to propose a viable alternative model.

This left the ANC and its partners vulnerable to the combination of the “ideological onslaught from neoliberal intellectuals” (Williams & Taylor 2000:25) and the “project to ‘educate’ the ANC elite […] about the foolishness of non-neoliberal approaches” (Bond 1991:60). This “educational” sentiment is illustrated by an article in the Financial Mail which claimed that “the ANC is muddled and confused. It needs to be guided and educated – taught to face harsh economic reality and the need to modify the expectations of its cadres” (cited in: Munck 1994:208). Many of these cadres, however, did not seem to require much convincing, given the eagerness of the new government to create and cultivate relationships with local and international business, as well as with the IFIs: The World Bank enjoyed “considerable access to the ANC elite” (Padayachee 1997:30 in: Miche & Padayachee 1997) and, consequently, “big business, the IMF and the World Bank [became] increasingly influential in the top ranks of the ANC leadership” (von Holdt 1992:34). Further, Waldmeir (1997:256) notes that Mandela himself “constantly sought the views of international businessmen and bankers on South Africa’s future” and “cultivated close relationships with top local businessmen” such as Anglo American boss Harry Oppenheimer – whose son Nicholas later marvelled at how the ANC “matured into a government which understands and accepts the disciplines of the marketplace” in a “remarkably short time” (cited in: Taylor 2001:73).

Last but not least, Williams & Taylor (2000:36) point out that many ANC members – despite the party’s initially leftist stance – were quite supportive of the neoliberal model and were, in fact, “often more fanatically neoliberal than representatives of the IFIs themselves.” Hence, the “educational charm offensive” of the IFIs and the private sector not only filled the vacuum left by the ANC’s lack of a clear economic plan, but also enjoyed the support of prominent ANC politicians such as Trevor Manuel, Thabo Mbeki, and Tito Mboweni (Williams & Taylor 2000:36).

All in all, as Terreblanche (1999:10) concludes, “one can either blame it on the imperatives of the South African situation after decades of apartheid, or we can blame it as the outcome of an intense ideological ‘power struggle’ […] in which pressure groups on the right […] emerged as ideological conquerors.” Either way, the mere fact that this power struggle existed indicates that there were alternatives to the neoliberal path, such as a range of scenarios suggested by COSATU (Bakken 2014:3). Yet, neoliberalism was successfully portrayed and readily adopted as “the only game in town” and alternatives were discredited “before they even reached the negotiating table” (Williams & Taylor 2000:37). And while this is not to suggest that an alternative system would have offered a better solution or less collateral damage, it highlights that the neoliberal path was “but one imperfect option among many” (Williams & Taylor 2000:36) in a situation where “every economic outcome was possible” (Bond 2005:15).

So how does this relate to the social grants case and the attempt to explain how Net1 managed to assume such an exceptionally powerful position?

First, the findings presented in this chapter show that South Africa’s turn towards neoliberalism did not occur in a vacuum. It took place against the backdrop of the end of the Soviet era which, for many, confirmed the claim that “free” markets and neoliberal reforms were the only viable option for economic policy. Further, the ties between the ANC and those promoting a neoliberal agenda were already close when the party was elected in 1994, and the “charm offensive” by the IFIs and big business – both local and global – did the rest. Hence, instead of taking the opportunity to develop its own economic policy model, the new government “aspired to build a national economy based on an evolving relationship between the state, industry and finance” (Hart & Padayachee 2013:55). This, in turn, created a world-class business sector that operates according to the rules of first world capitalism while, simultaneously, keeping the millions at the bottom of the economic pyramid in “third world conditions” (Hart & Padayachee 2013:56) and creating one of the most unequal societies in the world (Barr 2017).

In combination with the extensive outsourcing of government services in what has been termed a “contract state”, this opened up almost unlimited opportunities for a financial company like Net1. By offering their services for the outsourcing of the ANC’s most important government programme, they addressed the serious service delivery problems, the need for a public sector reform, and the government’s rapid adoption of neoliberal principles. Net1 could thus not only find, but – via several tenders for the establishment of a new grant infrastructure – actively create its own niche market. It then continued to successively eliminate its competitors – be it with our without engaging in corruption – by banking on its unique biometrically-enabled technologies and its partnerships with other financial institutions.

This, however, is only one side of the coin. As mentioned above, South Africa was gradually adopting an “enabling” approach to social security and, upon realizing the systemic nature of the unemployment problem, the government emphasized the need to include low-income households into the mainstream economy and the formal financial sector. Once again, social grants were to play a decisive role in the process. By linking the rapidly growing social grants system with a national agenda for financial inclusion, both the government and Net1 had found the ideal way to reach out to the pockets – or rather bank accounts – of the poorest members of society – the government providing the grant money and Net1 making money off its recipients. And while the state might have acted out of genuine concern for the economically and financially excluded, having identified credit as a ladder between South Africa’s “two economies” in ASGISA, Net1’s intentions can hardly be seen as philanthropic.

Hence, in order to fully understand the factors that led to Net1’s unprecedented success, we also need to consider the company’s role in the government’s financial inclusion agenda, as well as the links between financial inclusion, social grants, and Net1’s business model in South Africa. This will be done in the following chapter, which will consider these issues using Prahalad’s “Bottom of the Pyramid” theory which builds on the presumption of a “triple win” scenario for governments, companies, and the people.

5 Financial Inclusion and the ‘Fortune at the Bottom of the Pyramid’

With a Gini Coefficient between 0.58 and 0.69 over the period 1993-2015 (World Bank 2017; Bhorat 2015), South Africa is one of the most unequal societies in the world; not only in terms of income distribution, but also with regard to economic opportunities and racial divides. Further, the apartheid regime reinforced and institutionalized the country’s system of “two economies” (Bond 2009), the origins of which date back to the early days of South Africa’s colonization. With the onset of democracy and the increasing adoption of neoliberal ideas, the new government identified credit as a “ladder” between these two economies and thus increased its efforts to give those previously excluded from the formal financial sector access to credit and other financial services. As illustrated in the previous section, this initiative went hand in hand with a liberalization of the economy at large and the financial sector in particular. As a result, financial companies not only gained progressively more influence and power, but were also tasked with the delicate mission of bringing financial inclusion to South Africa’s poor.

After having outlined South Africa’s general political and economic trajectory after 1994 in chapter four, this chapter looks at the characteristics and effects of the country’s financial inclusion agenda, as well as the role social grants played in this process. Further, it will introduce Prahalad’s “Bottom of the Pyramid” theory and point out the parallels between this concept and its rhetoric and Net1’s business model. This chapter will thus add the “last puzzle piece” to the inquiry into Net1’s rise to an extraordinarily powerful position, before concluding this thesis with a final analysis and outlook.

This chapter is structured as follows: section one outlines the characteristics and aims of financial inclusion, as well as the adoption of the concept by many players in the international community. Subsequently, section two gives an account of how the concept was implemented in South Africa, including the crucial role of social grants as an implementation mechanism. Based on this, section three introduces Prahalad’s theory of “The Fortune at the Bottom of the Pyramid” and points out its links with financial inclusion. It then illustrates the parallels between Prahalad’s theory and Net1's business model and points out how the company used financial inclusion rhetoric in marketing its products and services.

5.1 Financial Inclusion: Rationale and Characteristics

Throughout the previous chapters, one aspect of the lives of South Africa's poor has come up repeatedly: a large part of the population remains excluded from the mainstream economy and in particular from the formal financial sector. However, this phenomenon is not limited to South Africa. According to the World Bank, two billion people – or 38% of adults in the world – do not use formal financial services, and the share is even higher for those in the lowest income quintile, 77% of whom are excluded from the formal financial sector (Demirgüç-Kunt et al. 2015). In response, financial inclusion and "banking the unbanked" have become major buzzwords in the international development discourse. A recent study among bank regulators in 134 jurisdictions found that 67% of them now have a mandate to promote financial inclusion (World Bank 2014). Furthermore, 58 countries had formally committed to the Maya Declaration[38] as of 2016, thus adopting formal targets for financial inclusion (AFI 2016:3). But what exactly is meant by "financial inclusion" and what is the rationale behind the concept?

According to the Reserve Bank of India (2011), financial inclusion can be defined as "the process of ensuring access to appropriate financial products and services needed by vulnerable groups […] at an affordable cost in a fair and transparent manner by mainstream Institutional players." Similarly, the Centre for Financial Inclusion defines financial inclusion as "a state in which everyone […] has access to a full suite of quality financial services, provided at affordable prices, in a convenient manner, with respect and dignity" (BankSETA 2013:1). In other words, financial inclusion aims at expanding access to formal financial services to all parts of the population.

The concept has its roots in the microfinance movement that started in the 1970s and was largely driven by Nobel Peace Prize winner Muhammad Yunus. His

[38] "The Maya Declaration was launched in 2011 at the Global Policy Forum (GPF) in Riveria Maya, Mexico. […] It represents the world's first commitment platform which enables AFI member institutions to make concrete financial inclusion targets, implement in-country policy changes, and regularly share progress updates" (AFI 2017).

Grameen Bank, a community development bank in Bangladesh which offers microloans for the poor, soon became the “role model local financial institution for poverty reduction” and by the mid-2000s, the microcredit model was “the international development community’s most generously funded and supposedly most effective anti-poverty intervention” (Bateman 2014b:2). The concept has since been expanded to include a full suite of financial services – such as savings or money transfers – and has played a central role in the international debate on financial inclusion.

The level of financial inclusion is often measured as the percentage of the population that has a bank account and is thus “banked” (Fick 2007:13)[39]. Other, more comprehensive indicators measure financial inclusion as the proportion of individuals that have the *ability* to “engage in the financial system and develop a transactional profile that will ultimately assist in their ability to access credit and generate long-term wealth” (Mathebula 2014:2). This takes the full range of financial products and services into account and focuses on actual access to rather than the mere availability of financial products for the poor.

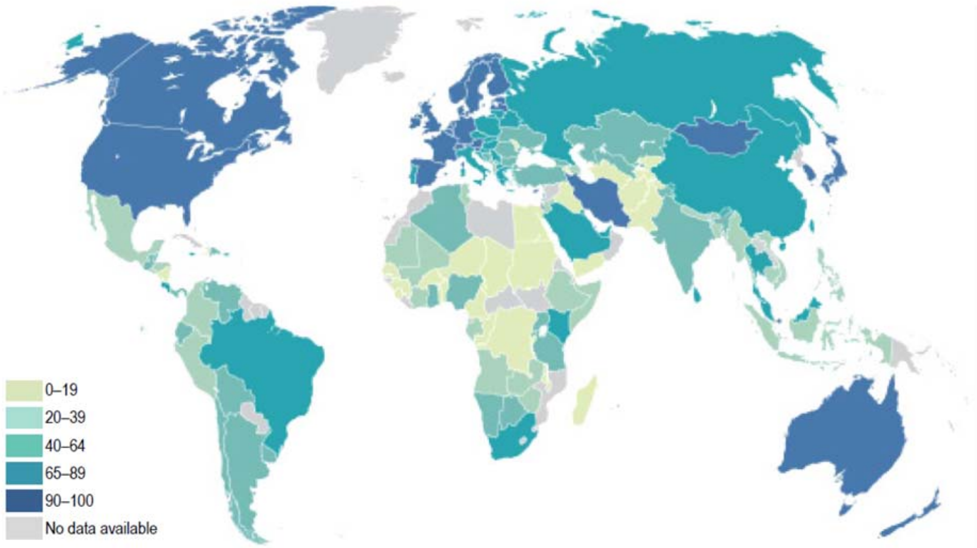
The rationale behind the concept is rooted in the argument that low-income households can be reliable bank customers (Collins & Morduch 2007:1) and that the “poverty penalty”[40] – which will be explored in more detail in the next section – is particularly high in the financial sector. Hence, “banking the unbanked” has the potential to alleviate poverty and reduce inequality while, at the same time, offering new business opportunities for private companies operating in the rapidly expanding financial industry. This notion is supported by a growing body of research which affirms that developing inclusive financial systems is an important component for economic and social progress (WCG 2014:19). As a result, financial inclusion was declared a “pillar of global development” at the 2009 G20 summit in Pittsburgh (BankSETA 2013:24) and almost 60 national policy-making and regulatory bodies

[39] This measure can be further divided into those who are „simply“ banked, i.e. have a bank account, a and those who are “functionally” banked and are actually making use of their account (Fick 2007:14).

[40] “A poverty penalty arises when the poor pay more than the non-poor to access goods and services. An example is the cost to access credit. Microfinance Institutions (MFIs) usually explain their high interest rates on the grounds of the high risk involved in microcredit, the high fixed cost associated with small loans and the high financial expenses borne by MFIs due to difficulties in deposit collection” (Gutiérrez-Nieto et al. 2016:1).

have signed the Maya Declaration, thus committing to the implementation of financial inclusion strategies (AFI 2016:1).

With the support of international organizations and NGOs, considerable progress in increasing the levels of financial inclusion has been made. According to a recent World Bank study, the share of adults with a bank account increased by 11% between 2011 and 2014, while the number of unbanked individuals fell from 2.5 to 2 billion worldwide (Demirgüc-Kunt et al. 2014:13). Especially in African countries where the traditional banking infrastructure is usually weak, this development was driven largely by mobile money technologies such as M-Pesa[41] in Kenya or companies like EcoCash in Zimbabwe.



Source: Global Findex database, World Bank

[6] Kenya has the highest share of adults with a mobile money account, at 58 percent, followed by Somalia, Tanzania and Uganda, with about 35 percent. In Southern Africa penetration of mobile money accounts is also relatively high, at 14 percent, but just 2 percent of adults reported having a mobile money account only.

Figure 6: Account penetration around the world in 2014 (Source: Mecagni et al. 2014:14).

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However, the gap between developed countries and the developing world remains, as illustrated by Figure 6: In Africa, only South Africa and Kenya have relatively high

[41] M-Pesa allows anyone who has access to a mobile phone to send and receive money, top-up airtime and make bill payments without needing a bank account. Today, M-Pesa has close to 19 million active users transacting an estimated Sh15 bn daily in Kenya alone (Ochieng 2016), and a further 6 million users in 10 other countries worldwide, including India, Tanzania, Lesotho, Mozambique and Albania (Vodafone 2016b).

levels of account penetration, which can be attributed to the success of M-Pesa in Kenya and the implementation of the new social grants system and the related bank accounts in South Africa.

Two aspects of financial inclusion that are particularly noteworthy in the context of this thesis are the role and recommendations of the World Bank. One of the most vocal advocates of neoliberal reforms, the Bank embraced the concept of financial inclusion which it considered “crucial to inclusive growth and to poverty reduction” since it “can boost job creation, raise income, reduce vulnerability and increase investments in human capital” (World Bank 2013b). Together with its investment branch, the International Finance Corporation (which just spent USD107 million on a 18% stake in Net1 (Mchunu 2016)), the Consultative Group to Assist the Poor, and the Alliance for Financial Inclusion, the Bank has become the main implementing partner for the G20 Global Partnership for Financial Inclusion (World Bank 2013b).

It also pushed for the use of social grant programmes as a more effective form of development aid and a means to promote financial inclusion as “governments are increasingly demanding assistance in innovative areas including Government-to-Person (G2P) payments” (World Bank 2013b). This went hand in hand with a series of debates among academics and activists about the most effective way to use international aid money, with many arguing that aid should be given to the poor directly instead of being tied up in inefficient government structures where the risk of it being lost to corruption was high (Torkelson 2017b). In addition, financial inclusion was increasingly seen as a means to drive the formalization of informal economic activities, not only in the financial sector but at all levels of the economy (Toxopeus & Lensink 2008; Farazi 2014; Peer et al. 2010; Ratan 2016). Consequently, the Bank developed a number of principles for “good” ways of paying social grants, closely related to the overall financial inclusion agenda (Torkelson 2017b):

1) Replace cash-based payments with an electronic payment system;
2) Introduce a biometric verification system and establish a national biometric database;
3) Outsource the payment functions to a private service provider;
4) Create financial incentives for the private service provider.

These recommendations not only bear a striking resemblance to the South African social grants saga, but the World Bank has repeatedly used the South African case as a model for other developing and emerging countries (Pickens et al. 2009; Gelb & Clark 2013; Hannig & Jensen 2010). Yet, the literature also warns that “the regular cash flow of grant recipients may […] make them an attractive target for lenders who may use irresponsible marketing techniques to lead to unsustainable indebtedness” (Torkelson 2017b) which, once again, vividly evokes the activities of Net1’s subsidiaries. This calls for a closer analysis of South Africa’s financial inclusion trajectory, as well as Net1’s role in it, which will be provided in the following section.

5.2 Financial Inclusion in South Africa and the Role of Social Grants

After having outlined the general characteristics of and the rationale behind financial inclusion, this section will look at the implementation of the concept in South Africa since the end of apartheid. A special focus will be placed on the role of social grants as an implementation mechanism and, consequently, the dual role of Net1 as payment provider for social grants and implementer of the state’s financial inclusion agenda.

5.2.1 Financial Inclusion in South Africa from 1994 to 2012

With its combination of a world-class financial sector and an extremely bottom-heavy economic pyramid, South Africa was no exception to the global adoption of financial inclusion. Especially the fact that “an unbanked individual [in South Africa] can expect to pay a premium of between 70% and 80% for making a payment […], while the premium for credit ranges from 94% to 100%” (Fick 2007:8) called for an urgent levelling of the financial playing field. These hefty poverty premiums were largely the result of South Africa’s racially divided economy which had also shaped its financial industry. The highly sophisticated formal banking sector which “compares favourably with [that] of industrialised countries” (BASA 2014:1) is dominated by the “Big Four” of South African banking, namely Standard Bank, ABSA, Nedbank and FNB. Between them, they control a market share of over 80% (Schoombee 2004:581) and have traditionally served the middle- and high-income sectors (Bateman 2015). Poor black South Africans, on the other hand, remained excluded from the formal financial sector during apartheid and had to rely entirely on informal sources of credit, as well as their extensive personal networks (Schulze 1997).

This led to the establishment of a flourishing informal financial sector which has remained highly relevant despite the government's efforts to formalize the industry (Collins & Morduch 2007:5-10). In fact, many analysts estimate that the size of the informal financial sector is larger than its formal counterpart in terms of outreach, as access to informal financial services is not restricted to certain socio-economic groups (Aryeetey 2008:11). Further, a recent World Bank report (World Bank 2013:20) found that most South Africans use a mix of formal and informal savings instruments, and James (2015:5) notes that "for people at either end of the spectrum, loans from commercial banks coexist with those that come from beyond the official financial sector."

Yet, the development of a comprehensive national strategy for financial inclusion only gained momentum after the burst of the micro-lending bubble in 2002. Prior to this, the focus had been mostly on financial liberalization which had allowed informal and semi-formal credit providers – many of them former public servants who had used their severance pay to set up micro-lending businesses (James 2015:68) – to operate in a largely unrestricted and unsupervised environment. Only after the collapse of Saambou and Unifer, two major players in the low-income lending sector, in 2002, did the government recognize the need for regulatory reform and consequently started to promote financial inclusion and responsible formal lending practices (Bond 2009:127). More specifically, it developed a micro insurance policy framework (National Treasury 2011:67), incorporated financial inclusion as one of the intended outcomes of the NDP (World Bank 2013:5), and released "A safer financial sector to serve South Africa better", a key policy document in South Africa's journey towards financial inclusion (BankSETA 2013:7, 25).

Other significant policy initiatives were the development and adoption of the Financial Sector Charter (FSC)[42] to promote financial inclusion in 2004, and its subsequent conversion to the Financial Sector Code in 2008. The key outcome of

[42] In essence, the FSC provided a framework for the implementation of BEE principles in the financial sector and represents a commitment to "actively promot[e] a […] 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" (BASA 2016b).

the FSC was the development of a basic low-cost bank account called the Mzansi account (World Bank 2013:25). Specifically designed to meet the access standards of the FSC (Fick 2007:1), the account was introduced in 2005 and offered by all of the “big four” banks in South Africa, as well as the Postbank. This marked the first time the big banks showed any substantial interest in tapping into the low-income market and the move initially seemed successful[43]. However, banks were quick to claim that the accounts were not sustainable due to high internal costs (CGAP 2011:12), and even government soon realized that merely opening bank accounts would not address the underlying problems of poverty and unemployment. The statement of a former Mzansi account owner illustrates this predicament: “I did once open a Mzansi account, but I don’t have money to put in it” (James 2014:13). Banks have since stopped advertising the accounts and do not keep statistics of Mzansi account holders any more (BankSETA 2013:62).

When the FSC expired in 2008, it was aligned with the provisions of the Broad-Based Black Economic Empowerment (B-BBEE) Act of 2003 and a Financial Sector Code was launched in July 2013 (BankSETA 2013:31). The fact that the provisions of the Code are binding for all reporting financial institutions was most likely one of the main reasons for the “Big Four” to start offering their own no-frills accounts for low-income customers. By linking the goals of the FSC to the broader BEE strategy, the government has thus integrated financial inclusion into its overall policy agenda for economic transformation and adopted the widely shared view that achieving financial inclusion is a crucial prerequisite for sustainable growth and development.

Another cornerstone of financial inclusion legislation was the National Credit Act of 2005 which provides the regulatory framework for South Africa’s formal credit market. While its primary purpose was to discourage reckless lending and to prevent over-indebtedness, it was also designed to facilitate access to credit for those previously excluded from the formal financial sector (van Heerden & Renke 2015:71, 77). However, recent research on the effects of the Act on credit provision and debt by e.g. Campbell (2007), Kelly-Louw (2009) and Schraten (2014), criticises the Act and claims that the extension of credit to consumers has taken preference over

[43] Take-up rates were substantial, and with 6 million new accounts and a 10% penetration rate within only four years (World Bank 2013:25) Mzansi accounts represented 15% of all bank accounts by 2010 (BankSETA 2013:10).

consumer protection and the financial health of low-income clients. Similarly, a report commissioned by the National Credit Regulator in 2012 states that “the current credit market framework is geared towards encouraging access to credit and there is an inherent likelihood that large numbers of consumers will have challenges in meeting their debt commitments” (NCR 2012) – which is precisely what has been happening over the past two decades.

By 2012 it had become clear that South Africa’s financial inclusion initiative thus far had failed to usher in a “new world” of prosperity and development (Bateman 2015:8) and that the “Big Four’s” lack of interest in serving the low-income market represented a serious obstacle to achieving true financial inclusion.

5.2.2 Implementing Financial Inclusion via Social Grants

As illustrated in the previous section, South Africa’s big banks had shown little interest in the low-income market, mostly due to the costs and risks associated with entering a market that was radically different from their existing client base. On the other hand, there was a growing demand for credit and other financial services among those previously excluded from the formal financial sector, and legislation increasingly emphasized access to credit, even at the expense of consumer protection measures. In order to bridge the gap between demand and supply, the government reverted – once again – to social grants as a way of addressing its problems. In addition to their dual role as a lifeline for the poor and a political instrument, grants were chosen as a vehicle for the implementation of South Africa’s financial inclusion strategy.

This section will examine this function by outlining the two-stage process of banking grant recipients that has been taking place since the late 1990s. A special focus will be placed on the joint efforts of SASSA and Net1 to extend the scope of financial inclusion beyond just bank accounts and to offer a full range of financial products and services to the poor. This analysis will add to the understanding of Net1’s status as an indispensable service provider to the government, and illustrate how the provision of additional financial services to grant recipients not only generated additional profits for Net1 but was also a means to implement the government’s financial inclusion targets. This, in turn, draws attention to the enabling – or even actively supportive – role of the state in the implementation of the company's business model.

Up until the early 2000s, most grants were paid exclusively in cash. South Africa's grant payment system thus reflected the country's high levels of financial exclusion and the lack of a financial infrastructure for the low-income market. This was not only costly, inefficient and impractical from an administrative point of view, but many grant recipients had to undertake long and expensive trips to collect their grants, queue for hours at pay points with no shelter from sun or rain, and face the danger of getting robbed when carrying large amounts of cash.[44]

In the late 1990s, the Department of Social Welfare started to encourage grant recipients to open bank accounts, following the overall liberalization of the financial sector. This, however, was not part of a targeted financial inclusion agenda but rather an effort to improve payment regularity and to address the financial and logistical difficulties related to cash payments (James 2014:13). Most banks were slow to develop accounts suitable for the needs of grant beneficiaries, with the notable exception of ABSA, whose subsidiary AllPay started to distribute grants in Gauteng and the Eastern Cape in 2000 (Napier 2010:54). ABSA introduced the debit card-based Sekulula account, which had been designed specifically for social grant recipients. In the same year, Postbank launched its "Paymaster to the Nation" project, making it possible for social grant recipients to open a Postbank bank account to receive their grant (Postbank 2016).

Yet, only with the introduction of the Mzansi account in 2005 did bank accounts for grant recipients and other low-income individuals become available on a large scale. However, due to the fragmented nature of the grant system and the lack of an integrated national strategy and payment infrastructure, grants remained largely cash-based until the awarding of the nationwide tender to CPS in 2012. In fact, only 20% of the approximately 12 million monthly grant payments were made directly into bank accounts in 2009, and 44% of grant recipients were still unbanked (FinMark Trust 2009:88). Over the next few years – building up to the award of the nationwide tender to CPS in 2012 – the support for a systematic strategy to bank all social grant

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[44] In addition, CGAP (2011:26) points to the moral dimension of cash payments, stating that "cash undermines dignity and cash reduces recipients to the status of children [who are] being treated like beggars waiting in a queue with their hands out."

recipients continued to grow within the DSD, SASSA and National Treasury. Yet, while this was in part motivated by the notion that financial inclusion would contribute positively to development, the main argument – especially from Treasury – was the potential for substantial cost reductions by switching to electronic transfers (CGAP 2011:4). At the same time, the big commercial banks started offering their own low-cost bank accounts, and by 2011 more than half of the 9 million grant recipients were receiving their benefits via bank transfers (CGAP 2011:5).

However, despite the increasing percentage of banked individuals, criticism of the shortcomings of the project did not take long to emerge. Several studies pointed out that simply increasing the number of banked individuals had not translated into higher levels of "true" financial inclusion. In other words, although poor South Africans had been given access to bank accounts, they were not using them for anything but to withdraw their grant. Uptake of other formal financial services as a direct result of being banked was almost non-existent,[45] particularly with regard to saving and investment. Credit, both formal and informal, on the other hand, was booming, but repayments were still often done in cash, even at large formal institutions like African Bank (Fin24 2014b).

This can be traced back to a number of underlying reasons. First, grant recipients were often unaware that their accounts could be used for purposes other than just withdrawing their grant. Second, many recipients were concerned that accumulating funds in the account would make them ineligible for future benefits. Confusion, anxiety, and limited levels of financial literacy were found to be further reasons for limited use (World Bank 2013:33). Consequently, the government had to recognize that merely increasing the number of banked individuals would not necessarily translate into higher levels of true financial inclusion. It was thus concluded that access to and usage of other financial services would have to increase as well in order to reap the expected benefits of financial inclusion.

South Africa's "big leap forward" in terms of financial inclusion through social grants came in 2012, when the nationwide introduction of SASSA-branded Grindrod Bank

[45] This has been described as a so-called "dump and pull" usage pattern and is, according to a CGAP study in four middle-income countries (Brazil, Colombia, Mexico, and South Africa) a common phenomenon. The study found that, while "recipients are willing, they may even prefer, to receive payments electronically […] this appears to be motivated primarily by convenience and cost rather than the opportunity to use other financial services" (CGAP 2011:6).

accounts put an end to the fragmented system of cash disbursements and electronic payments into a multitude of different accounts. While beneficiaries could still opt to have their grants paid into their existing account, uptake of the Grindrod accounts was immense, due to SASSA's considerable marketing efforts, its convenient link with the SASSA-branded smart card, and the fact that it was free for all grant beneficiaries. As a result, 82% of grant recipients were receiving their payments into an account in 2014 (Demirguc-Kunt et al. 2014:32), up from 23% in 2007 (CGAP 2011:12). Yet, the challenge of convincing grant recipients to make use of additional financial products and services via their bank accounts in order to achieve "true" financial inclusion remained.

This was pointed out by, among others, the World Bank who urged SASSA to "take advantage of advances in electronic payment systems to promote broader financial inclusion" (World Bank 2013:28) – which was exactly what Net1 and its subsidiaries did. After winning the tender, the Net1 group immediately started to offer a range of financial products and services to grant beneficiaries, ranging from microloans to advance airtime via its Umoya Manje scheme (see chapter two).

The South African case thus fulfils all the recommendations given by the World Bank and its financial inclusion partners, as outlined in the previous section. According to the tender specifications, "the overall intent is to shift from the current largely cash-based payment model to a more electronic-based payment model" (CGAP 2011:22). This was successfully achieved through the introduction of free bank accounts for grant beneficiaries, and payments are now made almost exclusively via electronic transfers (Melzer 2016). Further, by making biometric verification a mandatory element of the tender (see chapter two), SASSA established a national database of the personal details, fingerprints, and, in some cases, even voice samples of all its beneficiaries. This not only ensured payment of "the right social grant, to the right person, at the right time and place", as stated in SASSA's institutional slogan, but also assisted with the implementation of the fourth goal, namely the creation of financial incentives for the private financial service provider. As outlined in CGAP's business case for the providers of grant payments, "cross-selling more profitable services (such as credit or insurance) to a client" can compensate for the cost of not charging account fees and makes the provision of grant payments attractive to service providers (CGAP 2012:16). By offering these services through its subsidiaries while using the government tender to establish a complete database of its potential customers, Net1 could thus successfully overcome the obstacles faced by the big banks, namely the low profit margin per client and the resulting need for a large client base, as well as the difficulties related to the physical delivery of financial services to townships and rural areas.

Based on a mere literature review, it could not be established whether these outcomes had formed an integral part of SASSA's plans to reform the social grants system or if they had merely been an unintended consequence, the potentially devastating effects of which had been overlooked in the tender process. Answering this question would require the use of more interactive research methods and a thorough investigation into the tender deliberations, which would exceed the scope of this thesis. It is, however, clear that Net1 did not try to conceal its plans to leverage the SASSA tender, openly stating its intentions on its website and to its investors (see chapter two).

Either way, the outcome was the same. Net1 used the well-known principle of payroll deductions – for which its subsidiary FIHRST had already come under harsh criticism in 2013 (see chapter two) – to reap the financial benefits of South Africa's financial inclusion initiative. As stated by the World Bank (2013:34), the rapid growth of salary-based – and grant-based – lending in South Africa clearly demonstrates the nature of financial service provision in the country. Only because of the high percentage of banked adults with a regular stream of income – be it a salary or a grant – were companies like Net1 able to offer microloans and other financial services to the poor while still making profits in an almost risk-free fashion. And although their financial products were usually called "unsecured" or "without collateral", they were, in fact, heavily secured, since the companies had direct access to beneficiaries' bank accounts and could thus secure loan repayments against the monthly salary or grant payments (World Bank 2013:34) – and charge additional interest or service fees.

The results of this strategy have been illustrated in chapter two. Complaints about unauthorized deductions, predatory lending practices, and the use of beneficiaries' personal information for marketing purposes, as well as a government unable to come up with an alternative to Net1's payment model. Hence, despite having “accomplished one of the greatest feats of financial inclusion in the history of the region” and having “surpassed the National Development Plan’s target of 70% financial inclusion by 2013” (Carel 2014), the country appears to have failed to reap the benefits of true financial inclusion. Instead, it became an “attractive target for lenders who may use irresponsible marketing techniques to lead to unsustainable indebtedness” – just as the BFA’s 2006 Scoping Report (BFA 2006) had warned. This, in combination with the general proliferation of easily-accessible credit despite – or rather because of – the NCA, has resulted in high levels of unsustainable debt and over-indebtedness across all income brackets.[46]

Interestingly, South Africa chose a financial inclusion path that differed considerably from that of many other developing countries. Instead of merely giving the private sector more leeway to extend its range of products and services to the low-income segment – e.g. via mobile phone banking as it was done in Kenya – South Africa chose a top-down, government-led approach. This was partly in response to the fact that the country’s big banks had shown little interest in serving low-income customers and due to the existence of an extraordinarily large social grants system – two key conditions that set South Africa apart from its peers in the developing world.

Based on the literature, it is hard to establish whether this was the result of the government’s failure to recognize the potential negative consequences of its financial inclusion agenda, or if the tender was awarded to CPS with the clear expectation of bridging the gap between merely “banking the unbanked” and “true financial inclusion”. However, what the case of South Africa has certainly demonstrated is how a financial inclusion initiative, no matter how well-intentioned, can rapidly and powerfully backfire at the expense of the poor. And when this initiative is outsourced to a private company that pursues its own profit-seeking interests and which is also the payment provider of the very payments it then targets through its subsidiaries, the situation can easily get out of control.

[46] For further reading, see: Isaacs (2014), James (2014; 2015), Aryeetey (2008), FinMark Trust (2015), National Treasury (2014), Bateman (2015), Erasmus (2015), and McKenzie (2013).

5.3 Social Grants – The Fortune at the Bottom of the Pyramid?

As outlined in the previous section, South Africa's financial inclusion agenda, its reform of the social grants system, and Net1's provision of additional financial services to grant beneficiaries were closely interlinked and interdependent processes. They were expected to deliver developmental benefits for the poor, savings for the government, and additional profits and a new customer base for the private contractor. In essence, it was a "triple-win" argument which was so compelling that the potential dangers were either ignored or discarded. But what are the theoretical underpinnings behind the "business case for financial inclusion" made by the likes of the World Bank and implemented by Net1? And how does making money through financial inclusion tie in with the broader trend towards tapping into the low-income markets, especially from a business point of view?

This final section of chapter five will explore these questions by introducing Prahalad's "Fortune at the Bottom of the Pyramid" theory and its links with financial inclusion, and by illustrating the parallels between this concept and Net1's business model and practices. The aim of this section is to analyze and understand this theory which proved so compelling and tied in so well with the overall neoliberal ideology that concerns over its potential shortcomings went unheard. Further, it attempts to uncover the rationale behind Net1's business model and its frequent use of financial inclusion rhetoric, thus putting its modus operandi in a theoretical context. By exploring the business perspective of the case, this section will thus add the last "puzzle piece" to the analysis of the Net1 saga which has, so far, focused mostly on the historic, institutional and economic context of the case, as well as on the government's actions and the rationale behind them.

5.3.1 Prahalad and the 'Fortune at the Bottom of the Pyramid'

The concept of "The Fortune at the Bottom of the Pyramid" first emerged in 2002 in an article written by Prahalad and Hart. They argued that "the real source of market promise is not the wealthy few in the developing world, or even the emerging middle-income consumers: It is the billions of aspiring poor who are joining the market economy for the first time" (Prahalad & Hart 2002:2). They further state that by investing in these "bottom of the pyramid" ("BoP") markets, global corporations can not only make profits, but simultaneously lift billions of people out of poverty and reduce inequality (Prahalad & Hart 2002:3). The “poverty penalty”, which can amount to up to 25 times the price paid by the rich for the same goods and services (The Economist 2004:2), forms an important part of Prahalad’s argument. According to him, it stems from the fact that the poor operate predominantly in the informal economy, thus lacking access to affordable quality goods and services and suffering from the high costs imposed by local monopolies (Fick 2007:7-8). Prahalad challenges the notion that the poor cannot afford consumer goods, services, and financial instruments, and calls for the development of alternative markets and product lines, based on the needs and means of the poor.

Financial inclusion is central to his theory as the poverty penalty is particularly high in the financial sector. According to estimates, 90% of the poor are unbanked and thus without access to formal financial services (Berger & Nakata 2013:1199). This forces them to resort to informal moneylenders who charge excessive interest rates, thus driving their clients into a never-ending downward spiral of debt and dependency. According to Prahalad, this poverty penalty could be eliminated by encouraging formal businesses to enter the BoP market which would result in “improved competition, lower prices and increased consumer choice”, ultimately benefitting not only individuals and the communities but also service providers (Fick 2007:8-9).

Further, Prahalad argues that – contrary to popular belief – low-income households are very much willing to pay for new technologies and are “wide open for technological innovation” (Prahalad & Hart 2002:6). This is supported by Berger and Nakata (2013:1210), who note that “while it seems counterintuitive that impoverished communities may embrace technologies more quickly given deficits in education and infrastructure, their much faster rate of cell phone diffusion suggests significant human capacity and openness to innovation.” Mobile banking and biometric verification are thus not only cost-efficient and innovative, but are, in fact, particularly suitable for the low-income market. However, in order to tap into the low-income market successfully, businesses have to change their business models, practices and processes from a “bigger is better” ideal based on high gross margins, to a tailor-made, flexible approach, where profits are driven by high volumes, innovation and capital efficiency (Prahalad & Hart 2002:11).

In short, as Prahalad puts it, “if we stop thinking of the poor as victims or as a burden and start recognising them as […] value-conscious consumers, a whole new world of opportunity will open up” (The Economist 2004:1). His theory thus proposes a “triple-win situation”. The private sector can benefit from higher profits and access to new markets in a time of market saturation; the poor can benefit from the elimination of the poverty penalty which would leave more of their disposable income available for productive purposes, thus potentially lifting them out of poverty; and finally, governments can benefit from higher economic activity and growth, a decreasing dependence on state welfare by the poor, and higher tax income through the formalization of informal economic activity.

Prahalad’s theory was met with great enthusiasm by business leaders, economists, international organizations, and academics. Encouraged by his promise of a combination of profits, new markets and a clear conscience, many MNCs – e.g. Unilever and SC Johnson – adopted the BoP approach (Karnani 2009:1) which Bill Gates called “a blueprint for fighting poverty” (The Economist 2004:1). Universities and business schools set up specialized BoP centres, and both politicians and international organizations, such as the World Bank, the World Resources Institute, and the International Finance Corporation, embraced and promoted the concept, thus establishing the close links between financial service providers, governments, and the low-income segments of the population that characterize South Africa’s social grants saga.

The broad-based adoption of Prahalad’s theory, especially with regard to the financial sector, went hand in hand with the rise of the financial inclusion agenda and the microfinance boom of the 1970s and led to the adoption of financial inclusion as a global mechanism for poverty reduction and development, as outlined in the previous section.

5.3.2 Net1’s Business Model in the Context of Financial Inclusion and Prahalad’s Theory

After having outlined Prahalad’s theory, its rapid adoption by both the public and the private sector, as well as the links between the BoP approach and financial inclusion, this section will explore how these ideas are reflected in Net 1’s business model. Furthermore, it will illustrate Net1’s use of financial inclusion rhetoric to market its services to a government that had already embraced the concept but lacked the capacity to implement it. By doing this, this final section aims to analyze the social grants saga from a business point of view and show the links between the government's plans and Net1's capacity and willingness to implement them in a profitable manner.

In his book, Prahalad (2006:25-27) outlines 12 "Principles of Innovation" for BoP markets. Looking at Net 1's strategy and business model, evidence of at least nine of these principles can be found and will be outlined below:

1) Develop hybrid solutions of new technologies and existing infrastructures

Net1 used its innovative technologies to offer financial products and services to the poor, using the social grants infrastructure it had built via its previous tenders. This is in line with Prahalad's statement that managers must develop and invest in a tailor-made infrastructure for their products and markets (Prahalad & Hart 2002:12). Net1's infrastructural investment can be divided into two stages: First, it gradually implemented its biometric grant system at provincial level, and later consolidated and centralized it in the re-registration drive following the award of the nationwide SASSA tender in 2012. Hence, Net1 managed to combine new technologies with a specially designed infrastructure efficiently and effectively, using its strategic partnerships with several public and private entities, as well as state tender money to finance the establishment of its distribution channels.

2) Solutions must be scalable and easily adaptable to different BoP markets

The fact that Net 1's U.E.P.S. system is not tied to a particular physical infrastructure, as well as its language-independent biometric identification system, allow for implementation in different geographic and cultural contexts without having to alter its basic design. In addition, the non-physical nature of most of Net1's products makes it easy to scale them up. As a result, even rapid adoption rates do not pose a major threat to Net1's ability to provide its services to large numbers of clients across national, linguistic and cultural borders.

3) Products must be developed specifically for BoP markets

According to Prahalad, it is not enough to simply modify the design or price of existing "rich country products". In line with this theory, Net 1 developed its U.E.P.S. technology specifically to "enable the affordable delivery of financial products and services to the world's unbanked and under-banked populations" (US SEC 2011:4), thus stepping away from developed markets. In this process, the company analysed and considered the specific challenges and requirements of the market, such as the limited availability of technological, communication and banking infrastructure, unstable power supply, widespread financial illiteracy, low incomes, the lack of collateral for loans and credit, and the need for small, short-term financial products and services. Net1 thus clearly developed a range of products specifically adapted to the needs of its target market.

4) Process and infrastructure innovation is as critical as product innovation

Net1 makes no secret of the importance of the social grants infrastructure for the delivery of its financial services and products, thus recognizing its role as a critical success factor. In order to shape this delivery system according to its needs, Net1 invested heavily in the modernization of South Africa's social grants system and the related payment infrastructure, mostly backed by public funds in the form of tenders. This included the introduction of smart cards, biometric verification, special bank accounts, and an integrated network of service providers. Only with this new and innovative distribution infrastructure, as well as the related processes, was the company able to successfully market and sell its financial products and services to grant beneficiaries.

5) Consumer education on the usage of products and services is key

This area has not only been one of the main obstacles in the implementation of new technologies in BoP markets in general, but also one of Net 1's weaker points. When the company implemented the e-Zwitch system in Ghana, some of the main problems it faced were the lack of computing knowledge and skills among BoP users, who were deterred by the perceived inadequacy of the design of POS terminals and ATMs and the complex payment process (Boateng et al 2015:1). And while the technological aspects of South Africa's new grant payment system were fairly user-friendly, the company and its subsidiaries failed repeatedly to provide adequate consumer education on the financial products and services they were selling to their clients, many of whom were financially illiterate (Black Sash 2014). However, due to their difficult financial situation and the resulting need for credit, this did not keep customers from buying the company's products – on the contrary. Had they fully understood the terms, conditions and implications of Net1's repayment and deduction policies, they might have been more reluctant to agree to them, which, in turn, would have severely limited Net 1's profit-making opportunities. However, in terms of the mere functioning of its biometric grant payment services, Net1 did engage in extensive consumer education via its own and SASSA's staff at pay points.

6) Products must be adapted to hostile and adverse environments

One of the key features of Net 1's U.E.P.S. technology and the related product range, is its capacity to function even in the most rural and under-developed areas with little or no communication infrastructure. Transactions can be performed both online and offline, and settlements can be submitted to the central database on a batch basis (Net 1 2012a). Furthermore, by incorporating cellphone-based banking and transaction services into their product portfolio, Net 1 has successfully managed to circumvent the problem of a weak physical banking infrastructure in many developing countries. Its products and services are thus highly versatile in terms of the environments in which they can be used and are, in fact, specifically designed to fill the gaps in the traditional banking infrastructure.

7) Interfaces must be designed for a heterogeneous customer group

The biometric identification feature effectively addresses the high rates of illiteracy among the poor, as well as the widespread lack of formal identification documents or proof of residence among BoP individuals. Furthermore, it is suitable for both rural and urban clients and its universal and flexible technology can be easily adapted to the needs of specific customer groups, independent of cultural background, language, level of education, or lifestyle.

8) Physically accessing customers and markets at low cost is critical

Net1's strategy of first building up a critical mass of grant recipients using its smart cards and then selling them additional products based on this technology is a prime example of a successful and relatively low-cost market entry, especially considering that it was partly financed by tax money. Building this physical infrastructure allowed the company to cover the areas that were too remote or too sparsely populated to be of interest to the big banks. This allowed for easy access to and extensive geographic coverage of its target population while, simultaneously, keeping the costs to a minimum.

9) Innovations must allow for rapid evolution, easy integration of new features and functions must be possible

As mentioned above, the versatility of Net1's U.E.P.S. system allows for an almost unlimited number of ways in which the technology can be utilized, as well as the quick and easy integration of new elements and functions.

In addition to his basic principles, Prahalad also mentions a number of other factors he considers critical to the success of the BoP strategy and, yet again, the parallels between his recommendations and Net1's practices are striking.

First, and contrary to traditional investment strategies, Prahalad states that no firm can successfully enter the BoP market alone: "Multiple players must be involved, including local governmental authorities, nongovernmental organizations (NGOs), communities, financial institutions, and other companies" (Prahalad & Hart 2002:12). Net1's network of partners and subsidiaries represents a prime example of these forms of co-operation: government tenders and contracts with provincial governments and with SASSA, a large network of retail partners for the distribution of social grants (including many of South Africa's largest retailers such as Shoprite, Pick 'n Pay and Spar), its own banking infrastructure created by Grindrod Bank and MasterCard, and its own network of subsidiaries through which additional products and services were sold. In short, except for the NGO and community sectors, Net 1 established partnerships in all the areas recommended by Prahalad.

Second, Prahalad and Hart mention the BoP market's potential as an easily accessible and relatively low-cost "testing ground" for innovations that might, at a later stage, make their way up to the top of the pyramid. As the authors put it, “in 20 years, we may look back to see that [the BoP market] provided the early market pull for disruptive technologies that replaced unsustainable technologies in developed countries” (Prahalad & Hart 2002:19). While Net 1’s initial focus was certainly on developing and emerging economies, plans to eventually conquer the industrialized world have emerged in recent years and seem to have grown in unison with the problems and negative publicity related to the SASSA tender. These plans include, for example, the introduction of Net 1’s mobile payments technology to eradicate fraud in cardless transactions (Net 1 2014b:8), the launch of its VCPay and Pay in Private products in the USA (Net 1 2014b:17) and, more generally, its plans for “leveraging our new payment technologies to gain access to developed […] economies” (US SEC 2015:6). The re-launch and relocation of its ZAZOO subsidiary to the United Kingdom can be seen as another step towards Net 1’s planned expansion into the more developed markets.

Third, Prahalad describes the four intertwined elements of the commercial infrastructure of BoP markets: “Creating buying power, shaping aspirations, improving access, and tailoring local solutions” (Prahalad & Hart 2002:29). By providing a secure and up-to-date delivery platform for social grants, as well as loans and credit to increase the disposable income of grant beneficiaries, Net1 created increased – although unsustainable – buying power. By giving grant recipients access to the formal financial system they were previously excluded from, as well as promising an increased ability to meet the needs and wants of their families, Net1 also shaped the aspirations of its customers. And by providing them with tailor-made bank accounts, smart cards and an array of financial products and services, the company improved access and developed local solutions.

Finally, Net1’s CEO Serge Belamant has frequently used the rhetoric of both Prahalad’s approach and financial inclusion. Defending himself against accusations of immoral business practices, he called Net1’s business model “ethically defensible” and stated that “people are free of mind and you still have to allow them to do what they want with their grant money. If they want to spend money on airtime, they’re going to.” He further said that “from an ethical point of view, I would have a problem doing this if we weren’t the cheapest. But we’re giving them something they need, and we’re giving them something better and cheaper than they could get elsewhere”

(Crotty 2017b). Similarly, he stated in a 2016 interview: “We are changing the entire banking model and that’s the whole point […] In fact, we do not charge any bank fees. There is no account fee every month […] Now, that’s real, financial inclusion because it means there’s no barrier for a poorer person or an unbanked person to do this because he’s saying, ‘hang on, if I don’t use it I’m not paying anything, so what have I got to lose?’” (Hogg 2016). In line with the principles of financial inclusion, “Belamant has always claimed that grant beneficiaries should be entitled to access loans and ‘affordable financial services’” (Rose 2013) and he is adamant that “Net1 and CPS are fully committed to the principles of financial inclusion and firmly believe that all citizens should have access to affordable financial services […] We strongly disagree with the notion that it is somehow immoral to provide low-cost financial services to those citizens who need it the most” (Belamant 2017 (Jackie Cameron interview)).

In addition to making use of financial inclusion rhetoric to portray its products and services in a positive light, Net1 has also repeatedly emphasized its role as a mere service provider which took on the task to implement the government’s financial inclusion agenda. In a 2017 interview, he pointed out that “the South African Government has repeatedly expressed the urgent need […] to embrace financial inclusivity […] by providing financial services to the under-banked” and that the company was offering its services “in response to this call” (Belamant 2017 (in Jackie Cameron interview)). He further noted that this was “in line with […] the National Development Plan and the National Treasury Policy Document ‘A safer financial sector to serve South Africa better’” (Belamant 2017 (Cameron)).

Finally, looking back at the World Bank’s principles for the delivery of social grants as part of a financial inclusion strategy (see section one of this chapter), we can also see the parallels between them and the social grants saga at large. Replacing cash-based payments with an electronic payment system was part of both the government’s tender specifications and Net1’s business model. Moreover, the implementation of a biometric verification system was not only at the core of Net1’s payment technologies but was also embraced by the tender committee to the point that specifications were changed at the last hour to make this requirement mandatory. The outsourcing of the payment function to private service providers was initiated even before any other reforms of the system were realized and financial incentives for the payment provider existed in the dual form of tender money and the opportunity to sell additional financial services to grant recipients.

In conclusion, it can be said that Net 1's business model represents a prime example of Prahalad's BoP strategy which focuses particularly on the financial inclusion aspect. And while the company's activities have not resulted in employment creation, knowledge transfer or reducing resource intensity at a level worth mentioning – the remaining three of Prahalad's 12 principles – the same is true for most financial companies. In fact, jobless growth and a lack of productive investment have been some of the defining features of the recent expansion of the financial sector and the financialization of the economy in South Africa.

Interestingly, and contrary to what the sudden increase in media coverage in the 2010s might suggest, Net1's business activities are by no means a recent phenomenon, but date back to the late 1990s. Hence, the company was using the methods and strategies put forward by Prahalad long before he published "The Fortune at the Bottom of the Pyramid". In addition, the company made no secret of its plans to use the social grant infrastructure as a "market entry vehicle", or of its intentions to leverage the SASSA tender and to market its financial products and services specifically to grant recipients. Finally, by offering its services in accordance with the government's financial inclusion targets, by focusing on biometric verification as a distinctive feature over its competitors, and by making its operations profitable by selling additional financial products and services, Net1 successfully filled the market gap left by the big banks' lack of interest in the low-income market. The company succeeded thanks to its innovative technologies, its strategic recognition of a market opportunity, and its ability to enter into a relationship with the state that allowed it to make itself virtually indispensable and thus able to continue its operations despite the negative publicity and the scandal around the debit deductions.

It is striking that, despite Net1's relatively open communication of its intentions, neither the state nor the public recognized or acted upon the concerns raised by a few individuals (e.g. during the tender process). Even the World Bank's warnings of a possible exploitation of the poor went unheard. Hence, when the media finally picked up on the issue, the damage had already been done and the costs were borne by those at the bottom of the pyramid – the very people who were supposed to reap the benefits of financial inclusion. On the one hand, this could be seen as a manifestation of the historic, economic, political and structural challenges the new democratic South Africa was facing, as well as the “corruption and incompetence” argument perpetuated by the media. However, if one looks for parallels in other parts of the world, it becomes clear that the South African social grants saga is by no means a local or isolated case. Rather, it is a symptom of a much broader shift in the relationship between states, corporations and the people which, in different forms and to different extents, can be observed in all parts of the world. The next and final chapter will thus attempt to illustrate this phenomenon and to put forward the argument that the significance of the social grants saga as a reflection of the world we live in goes far beyond its geographic or contextual boundaries.

6 The Changing Relationship Between Corporations and Nation States

As outlined in chapter four, the neoliberal era led to a rolling back of state power in many parts of the world while, simultaneously, strengthening the role of private-sector actors. Yet, while terms such as “corporate power” (Herman 1981; Miller & Dinan 2008; Boggs 2001) or “MNC dominance” (Lavie & Fiegenbaum 2000; Turner et al. 2001; Miller 2009) are used with increasing frequency, they tend to be rather vague, and the concept of corporate power all too often remains blurry and unspecific. At the same time, the concept of corporate social responsibility (CSR) has emerged as a counterweight to ‘corporate power’, and corporations are venturing into areas that used to be the sole responsibility of the state, such as infrastructure development, poverty alleviation and social welfare. And while this was initially done only through outsourcing and other forms of state-controlled public-private co-operation, recent research shows that private companies increasingly extend their activities far beyond state contracts and charitable CSR activities. In fact, corporations have emerged as important political actors, and their role in a global system that still centres on nation states as the primary political actors has become the subject of fierce debates.

The following sections will attempt to shed some light on these issues, thus putting the Net1 case into its broader context and illustrating its significance as an indicator of the shifts in the distribution of political power. Given the central role of topics such as social welfare, poverty alleviation, and financial inclusion in the Net1 saga, a special focus will be placed on the involvement of corporations in social policy issues and the role of CSR as a “stepping stone” into the political arena. However, before progressing to this analysis, the next section will briefly outline the history and development of the state-corporation relationship in order to provide the necessary background information.

6.1 The Rise of MNCs and the Changing Relationship between States and Corporations

This section will outline the establishment and the global expansion of corporations since the end of the 19^{th} century, as well as the development of their relationship with national governments. This will provide the necessary background information for the subsequent analysis of the current power struggle between states and private companies, and the question which of these two actors is more suitable and better equipped to address pressing social issues such as poverty and inequality.

First of all, it is important to note that there has never been a clear separation between corporations and states. As Farooqi (1977:37) points out: “Historically, corporations were formed and allowed to perform some of the tasks of government.” As a prime example he mentions the East India Company “which conquered and ruled India, in the name of Great Britain for at least 200 years.” Roach (2007:7) adds that corporations in America were initially chartered as public, rather than private entities by individual states. In certain states, even their life-span was limited (e.g. to 20 years in Delaware) and “up until the Civil War, American corporations were fully accountable to the public to ensure that they acted in a manner that served the public good” (Roach 2007:7). This, however, changed during the following decades and in 1886 corporations were given legal rights similar to those of individuals and were “held accountable to the public only in the sense that they must operate within the confines of the law” (Roach 2007:9). Their power grew considerably when state laws limiting their size were circumvented by the formation of “trusts” in the United States, and when other national governments embarked on a “bureaucratic revolution” and “sponsored large corporations in a drive towards mass production” (Hart & Padayachee 2013:57).

This led to the establishment of what Hart (2009) calls a system of “national capitalism” which “dominated political and economic thinking for most of the 20th century”. According to Hart & Padayachee (2013:57), national capitalism is “the modern synthesis of nation-states and industrial capitalism, the institutional attempt to manage money, markets and accumulation through central bureaucracy for the benefit of a cultural community of national citizens.” It is thus closely linked to the rise of large corporations and “a new alliance between capitalists and the military landlord class” that came with it (Hart 2009).

Yet, while corporations grew in size and power during the last decades of the 19th century, the outbreak of World War I in 1914 was a “watershed” and created “an irreversible fissure in world history” (Hart & Padayachee 2013:65). It marked the beginning of a period of state-dominated ideological struggle and the market economy was “no longer seen as the autonomous force it was taken for before” (Hart & Padayachee 2013:65). Instead, states took control of production and distribution, mobilised large armies, and monopolized propaganda. Further, a growing populist movement against corporate power led to the passing of anti-trust laws in the United States and resulted in the break-up of several large corporations (Roach 2007:9). After the war, states turned inward to manage their domestic economies during the Great Depression (Hart & Padayachee 2013:57) and Keynesian economics started to dominate macroeconomic policies, justifying an “active government role in economic policy” (Roach 2007:9).

The outbreak of World War II in 1939 represented another crucial turning point. Not only did it tighten state control over the economy even further, but in the three decades following the war, the leading industrial countries “resolved to turn their backs on an unregulated market system driven by unaccountable and volatile financial forces” (Hart & Padayachee 2013:65). Instead, they focused on reconstruction, the development of public infrastructure and services, and the welfare of the impoverished masses and entered what Hobsbawn (1994) called the “golden age of capitalism”. During this period, corporations were kept in check by a strong labour union movement in the West (Roach 2007:9) and socialist rule in the East. Once again, states looked for “domestic rather than international solutions to economic problems” which actually strengthened the structures of national capitalism (Hart & Padayachee 2013:65).

During the post-war period, national governments started to take a strong interest in the welfare of their citizens - contrary to their earlier “laissez-faire” attitude – and various forms of social democracy emerged in central and northern Europe, and most notably in Germany (Sejersted 2011; Gombert et al. 2009). However, financed by the European Recovery Program (ERP) – better known as the Marshall Plan –, the creation of states that take responsibility for the material and social well-being of their citizens was also an important strategy to contain the "communist threat" during the Cold War (Office of the Historian 2017). In addition, US trade depended to a large extent on a "productive, prosperous Europe" (Llewellyn et al. 2017) and thus the US had a strong domestic interest in the continent's political, economic and social stability.

During this period, American corporations grew considerably in terms of both size and revenue and started to expand internationally by establishing foreign affiliates in order to take full advantage of the "post-war boom" (University of Groningen 2012; Patterson 1996; Roach 2007). This US-led corporate expansion met little competition from their counterparts in Europe or Japan which were "recuperating from the wounds of war" and thus "primarily focused inward" (Farooqi 1977:29). The achievement of national independence of many of the former colonies further consolidated the importance of national state power – and thus national capitalism – even though the close alliances between governments and corporations tended to be downplayed and "their interests were held to be intrinsically antagonistic under the conditions of the Cold War" (Hart & Padayachee 2013:66).

However, the tide shifted rather dramatically in the 1970s when the combination of high unemployment and high inflation unsettled the "Keynesian class compromise of national capitalism" (Hart & Padayachee 2013:72) which marked the beginning of the "neoliberal era". Conservative politicians – most prominently Ronald Reagan in the US and Margaret Thatcher in the UK – were elected "in the name of restoring 'sound money'" (Hart & Padayachee 2013:72) and the market was gradually given priority over the state. The growth of corporations was fostered by economic liberalization, deregulation and decreasing corporate tax rates (Roach 2007:9) and the de-pegging of the dollar from gold triggered a "free-for-all" in currency markets (Hart & Padayachee 2013:66). The dominance of free-market capitalism was finally secured with the break-up of the Soviet Union and the end of the Cold War, famously termed the "End of History" (Fukuyama 1992).

What followed was the "neoliberal era" described in chapter four and the global spread of the neoliberal ideology that "aligned major economic institutions, such as the World Bank and World Trade Organization, with the ideology of free trade and privatization" (Roach 2007:9). State power was pushed back in favour of market economies, and private companies took over more and more state functions through different forms of privatization (see chapter four).

At the same time, the liberalization of the financial sector, the end of the Bretton Woods system, and the increasing financialization of the global economy[47] that followed, gave rise to a new type of corporation which would soon become even more powerful than its predecessors. Financial corporations, investment firms and ICT-based financial services providers – such as Net1 – grew at startling rates to a point where, as Ashman et al. (2011:174) point out, "finance has been a critical, even definitive, component and mechanism underpinning and perpetuating neoliberalism" and "the nature of neoliberalism cannot be understood without an examination of […] financialization." Contrary to traditional MNCs that operated predominantly in extractive, productive, and retail industries, this new breed of corporations does not engage in productive and labour-intensive activities. Instead, financial corporations invest, speculate, and shift their financial assets across the globe, using arbitrage to take advantage of exchange rate fluctuations and differences in prices and interest rates, in order to multiply them.

As a result, stock markets expanded, the activities of banks became increasingly diverse, and new institutional investors such as mutual funds and sovereign wealth funds rose to prominence (Bonizzi 2013:90). The ratio of the financial sector and financial assets to GDP in the US increased from 4:1 in 1980 to 10:1 in 2007, which was mirrored by an increase at the global level from 1:5 to 4:5 (Ashman et al. 2011:175). With this, however, came "the subordination of real accumulation to fictitious capital – with the expansion of speculative assets at the expense of real investment" (Ashman et al. 2011:176) and with a growing focus on short-term speculative gains, real investment in productive sectors of the economy decreased

[47] Epstein (2005:1) describes financialization as "the increasing importance of financial markets, financial motives, financial institutions, and financial elites in the operation of the economy and its governing institutions, both at the national and international levels". Ashman et al (2011) and Masie (2015) add that the effects of financialization are not necessarily confined to the economic and political spheres and Ashman et al (2011:175) point out that the penetration of finance has extended into "ever more areas of economic and social reproduction". Similarly, Masie (2015) refers to financialization as "the insertion of finance into every aspect of socio-economic life" and Isaacs (2014) points to the "increased centrality of financial markets in all aspects of social, economic and political life, and the manner in which the interests of financial markets have been imposed."

and “speculative and predatory” behaviour among investors (Harvey 2005:161) became the norm.

In addition, the ICT revolution of the 1990s rapidly extended society, as well as the movement of money and information, beyond national boundaries (Hart 2012), both to the benefit of transnational (especially financial) corporations. As outlined in chapter four, these developments and paradigm shifts also manifested themselves in South Africa, despite – or perhaps because of – the country’s unique history. Corporations and politicians readily adopted the main elements of the neoliberal ideology, and financial and economic liberalization created fertile ground for the growth of corporations in post-apartheid South Africa. In this context, Net1 emerged as a prime example of this new breed of multinational corporations. Using new technologies to take advantage of financial sector liberalization and the newly-acquired “freedom to consume” among the black majority, the company established a “global financial empire” based on the perceived financial needs of the poor. Yet, the jobless nature of financial sector growth, both in South Africa and elsewhere, has further intensified the problems of unemployment and inequality (Harvey 2005:157), thus disguising human misery behind impressive industry growth rates.

In essence, the neoliberal period reversed the earlier notion of a strong state that actively controls the market, and the subsequent wave of globalization opened up an unprecedented range of opportunities for corporations. It further enabled them to operate beyond the restrictions of national borders, thus escaping the rule of national governments, and to use their ever-increasing mobility to take advantage of low-cost production sites, tax havens, and favourable legal and political systems. Hence, as Hart & Padayachee (2013:79) point out, the neoliberal period was the “antithesis” of national capitalism “not least in its reversion to a pre-industrial system of rents or to distribution over production as the main way of getting rich”, thus replacing the earlier social or moral contract with “the opportunism of ‘take what you can’”.

Hence, according to Hart, the era of national capitalism has reached its end. Other authors have expressed similar thoughts using different terminologies: Falk (2002), Kobrin (2001) and Santoro (2010), for example, speak of a “post-Westphalian[48]

[48] “The Westphalian order rests mainly on the steering capacity of the state authorities of sovereign countries with both a monopoly on the use of force on their territory and more or less homogeneous

order” which is characterized by “the loss of the regulatory power of state institutions due to ‘the fragmentation of authority, the increasing ambiguity of borders and jurisdictions; and the blurring of the lines between the public and the private sphere” (Kobrin 2009:305)[49]. Similarly, Habermas (2001) uses the term “post-national constellation” to address the decline of nation-state authority and emphasizes two aspects in particular: “The weakening of democratic control and the rule of law; and the growing heterogeneity of national cultures and the pluralism of values and lifestyles as further challenges for the democratic political order” (Scherer & Palazzo 2011:902). In this context, MNCs, especially those operating in the financial sector, have emerged as powerful new players whose decisions and actions directly affect the daily lives of people across the globe, irrespective of class, race, or nationality.

Yet, the notion of states as the main actors on the political, economic, and even the social playing field persists. It continues to “dominate popular and professional thinking about the economy” (Hart & Padayachee 2013:57) and is a key concept in many traditional theories of international relations and political studies (Hobson 2000; Thomson 1995; Walt 1998). At the same time, however, the neoliberal doctrines so readily adopted by most industrialized nations and many developing countries are increasingly being challenged, and calls to re-consider the relationship between states and non-state actors, especially corporations, abound.

6.2 Corporate Power

What the previous section clearly illustrates is the growing size, geographic reach, and material wealth of corporations, as well as their ability to operate beyond the restrictions of national borders. This, however, raises the question of the actual extent of corporate power and how to measure it. This section, which is divided into two sub-sections will thus explore these issues by presenting and comparing different approaches to measuring corporate power, especially with regard to its political dimension.

national cultures that lead to a stabilization of social roles and expectations within coherent communities” (Scherer & Palazzo 2011:902).

[49] See also: Doh (2005) and Palan (2003).

6.2.1 Measuring Corporate Power

Despite the common perception of corporations as increasingly powerful political and economic entities, assessing their actual power and influence is no simple task.

As pointed out above, the interest in “corporate power” and “MNC dominance” has spiked in recent years, and attempts to measure the strength and presence of these concepts have been numerous, with many authors attempting to assess MNC power by using statistics about their size, revenue, and monetary value. A study by Global Justice Now, for instance, ranked the world’s top 100 economic entities based on their income and found that 69 of them were not states but businesses – up from 63 in 2014 (Inman 2016). And although the top ranks were still occupied by countries (namely the US, China, Germany, Japan, France and the UK), they were closely followed by Walmart (10th), China’s electricity monopoly State Grid (14th), China National Petroleum (15th) and Chinese oil firm Sinopec Group (16th)[50]. Together, the ten largest corporations make more money than most countries in the world combined, and with USD285 trillion, the value of these entities is larger than that of the bottom 180 countries combined (Inman 2016). In addition, the total number of MNCs has increased considerably in recent years, particularly in developing nations. While there were only about 35,000 MNCs in 1990 (UNCTAD 1992), their total number had almost doubled in 2005, with developing countries experiencing a seven-fold increase during the same period (Roach 2007:3).

However, while these statistics certainly play an important role in assessing the *potential* influence of MNCs in both the economic and the non-economic sphere, assessing the *actual* extent of corporate power is not that simple. As Roach (2007:11) points out: “The most difficult problem in assessing the economic and political power of large corporations and determining whether this power is increasing is that a commonly accepted metric measuring corporate power does not exist” (Roach 2007:11). He further points out that corporate revenue is not equivalent to GDP since the latter is measured in terms of value added and thus represents a fundamentally different form of measurement (Roach 2007:5). Hence, “assessing the […] influence […] of MNCs on national political sovereignty requires translating

[50] Apple ranked 26th, following the 18th-placed Royal Dutch Shell, Exxon Mobil at 21, Volkswagen at 22 and Toyota at 23 (Inman 2016).

macro indicators into micro applications more directly relevant to nation states" (Kline 2006:126). Kline (2006:124) further notes that global sales figures are not automatically an indicator of MNC power within an individual nation state, as sales revenue and political power are not necessarily related.

Consequently, we need to look for different ways of assessing the (political) power of corporations. Roach (2007:14), for instance, suggests a focus on asset ownership and the resulting political leverage and found that "the assets owned by the world's 50 largest firms increased by 686% between 1983 and 2001". And while no reliable data on global state asset ownership exists, data from the US Bureau of Economic Analysis indicates "that total fixed non-residential assets in the United States increased by only 77% during this same period" (Roach 2007:14) which suggests a significant increase of corporate power compared to states[51]. Alternatively, Roach suggests using "the strength of countervailing forces seeking to limit the influence of corporations" as a measure of corporate power or, more specifically, using union membership as a proxy for the power of labour unions (Roach 2007:15). Given the progressive decline in union membership over the past decades (Farber & Krueger 1992; Böckerman & Uusitalo 2006; Disney 1990; Schnabel 2013; Charlwood 2013), this would lead to the conclusion that unions have become considerably weaker which would, in turn, indicate an increase in corporate power.

Yet, while most authors agree that MNCs wield significant power in some way, "precise measurement of this power remains elusive" (Roach 2007:28) and no comprehensive and universally accepted quantitative indicators have been developed. Hence, a qualitative approach to assessing corporate power seems more appropriate and will thus be pursued in the remainder of this section. Instead of focusing on statistics and quantitative data, it will illustrate how corporations have inserted themselves into virtually all areas of everyday life, and outline the political, economic and social consequences of this process.

[51] Interestingly, this paints a very different picture from the one we would obtain when looking at the development of global GDP and the revenues of the world's 50 largest firms for a similar period: While global GDP increased by a factor of 3.89 between 1983 and 2005, MNC revenues increased by a factor of 3.92, which would suggest that corporate power has only increased marginally relative to the state (Roach 2007:14).

6.2.2 A Qualitative Approach to Measuring Corporate Power

In addition to their impressive size and wealth, Roach (2007:1) points out that "large corporations have an impact on the lives of billions of people every day" and have thus become "an economic, political, environmental, and cultural force that is unavoidable in today's globalized world." Corporate policies on employment, working conditions and wages, for example, directly affect the lives of millions of people. Further, the products and services of MNCs are used by consumers all over the globe: in 2007, the brands owned by market giant Unilever alone were used by more than 150 million people on a daily basis (Roach 2007:1). Finally, corporations have not only built global distribution networks but have moved their production sites and other facilities to developing and emerging countries in Asia, Latin America and Africa, and even operate in "failed states" like Zimbabwe or under highly repressive governments such as in Iran or Myanmar (Scherer & Palazzo 2011:922). Hence, "unlike corporations at the end of the 19th century, modern corporations are global enterprises that impact the welfare of people from Wall Street to the poorest of developing countries" (Roach 2007:9).

Perhaps one of the biggest competitive advantages of MNCs in recent years lies in their almost unrestricted ability to transfer resources across national borders (Roach 2007:11). Closely linked to globalization at large, this international mobility allows them to establish and relocate their production sites according to their preferences, thus putting pressure on national governments – especially in developing countries which are largely dependent on FDI – to create or maintain favourable legal, political and economic systems[52] (Roach 2007; Kapfer 2006).

Further, as MNCs "locate the majority of their assets, employees, and sales outside their traditional home country and pursue strategic alliances […] linking MNCs based in different world regions" (Kline 2006:128), their national identities become increasingly blurred. Hence, contrary to the strong national identity they had prior to their global expansion, many MNCs have moved beyond the concept of national association. As Kline (2006:127) notes: "Traditional associations between corporate

[52] As the market for FDI became more and more competitive in the 1970s and 1980s, many states rapidly dismantled their trade barriers and other measures they had put in place to regulate investment activity and trade (Detomasi 2007:322), which resulted in a regulatory race to the bottom to the benefit of MNCs. Similarly, the alliances formed between MNCs and domestic political elites proved extremely useful in furthering and protecting the interests of big business (Haslam 2007:1181).

names and nationality become confused when a Brazilian-born executive of Renault leads Nissan to a successful recovery from near bankruptcy, IBM personal computers become products of China-based Lenovo, and British Petroleum adopts a non-national BP symbol before moving to a mission-based Beyond Petroleum designation" (Kline 2006:127).

This high degree of international mobility further allows MNCs to shift profits and financial assets across national borders in order to reduce their tax burden – not least thanks to their own lobbying efforts for the removal of capital controls (Detomasi 2007:323). In fact, many corporations actually pay negative taxes; in other words, they receive tax rebates despite making large profits (Roach 2007:17). In addition, they often obtain subsidies and tax breaks – referred to as "corporate welfare" – which, in the US alone, range from an estimated USD87 billion to over USD170 billion per year (Roach 2007:17). By offering low tax rates, countries such as Ireland and several Asian countries have attracted corporate production facilities in recent years, while other companies simply register in tax havens like Bermuda or the Cayman Islands, thus avoiding taxation altogether. As a result, corporate profits in these tax havens increased by 735% between 1983 and 1999 alone, compared to only 130% in other countries (Johnston 2002). The leaking of the "Panama Papers" in 2015 was another milestone in illustrating the magnitude of the financial flows to and from such tax havens (ICIJ 2017)[53].

MNCs have also obtained powerful concessions in many international trade agreements under which they can "challenge the regulations of democratic sovereign governments" (Roach 2007:28) and potentially even override national sovereignty (Roach 2007:18). NAFTA, for example, permits foreign investors to sue host governments (Ranald 2015; Worstall 2016; Stiglitz 2016) which has led to a total of 35 claims under NAFTA's chapter 11 provisions in the period 1995-2015 against Canada alone. Six of these claims were successful and cost the country USD170 million in damages, while Mexico lost five cases and paid out a total of USD204 million (Freeman 2015).

[53] Unsurprisingly, "the benefits of corporate tax avoidance accrue to a small portion of any society, while the loss of tax revenue means that the majority suffer from loss of services or higher taxes" (Roach 2007:26). Once again, the negative effects of this are particularly pronounced in developing countries where, in the words of Farooqi (1997:28), "MNCs have had, and are having their "seasons in the sun"."

This increasing influence at the political level is, to a large extent, a result of private companies using their resources and bargaining clout to lobby politicians, thus influencing domestic policy-making (Kapfer 2006:17). The United States are a particularly interesting case in point. According to the Center for Responsive Politics (CRP), USD2.6 billion were spent on federal lobbying in 2006, with actual numbers likely to be much higher since lobbing expenses are notoriously difficult to track. Moreover, the study found that there were about seven lobbyists, as well as expenditures of about USD5 million, for every member of Congress (Roach 2007:17). This has led to a situation where lobbyists and company representatives have obtained far more influence on policy-making than the general electorate who only get to cast their vote once every few years (Kapfer 2006:13). Lastly, large corporations – especially in the US – are generous funders of political campaigns, with more than half of the top 100 donors in the 2004 elections being corporations (Roach 2007:17).

Finally, as outlined in chapter four, private companies are increasingly taking over government functions and the delivery of public services, thus becoming political and not merely economic actors. As the case of Net1 has shown, some corporations have even become so indispensable to nation states that governments would rather extend invalid contracts, fight lengthy court battles and spend enormous sums of money, rather than face the social and political consequences of firing a private contractor.

All in all, it can be concluded that there is ample evidence of the rapidly growing influence of corporations at all levels of everyday life. Moreover, MNCs have started to transcend national borders and notions of national corporate identity and affect the lives of people all over the world, regardless of their social status, nationality or lifestyle. With their ability to relocate staff, production sites and financial assets rapidly across the globe, corporations are not only able to avoid taxation and restrictive legal and political systems, but can also put considerable pressure on host governments to create a hospitable business environment, and have further strengthened their position through favourable trade agreements.

However, all the above-mentioned examples point to a phenomenon which goes beyond the mere economic power of corporations. This is their increasing involvement in matters that used to be dealt with exclusively by governments. Through their decisions regarding production, employment, location and tax payments, by lobbying for favourable legislation and trade agreements, and by taking over core government functions via outsourcing, corporations have become much more than mere service providers. As a result, the lines between the public and the private sector have become blurred and the supremacy and sovereignty of states at the end of the era of national capitalism is being questioned. In fact, it might be precisely their ability to take over government functions, thus further eroding state power and establishing themselves as viable alternatives to national governments, that represents the real power of corporations.

6.3 Corporations as Political Actors

As far back as 1977, Farooqui (1977:38) argued that "it is not far-fetched to consider the MNC as a private government" and that corporations were already "a practical sovereign in many areas of decision making" even if "the formal authority may reside in the hands of the host government." According to him, the ability of corporations to "undercut the sovereignty of nations" was "a vivid illustration of their quasi-suzerain stature" (Farooqi 1977:28). Other authors, such as Scherer & Palazzo (2011:900), Scherer & Smid (2000), Aust (2005), or Kingsbury (2003), add that this is largely due to the absence of an effective global governance mechanism that can regulate corporations in the era of globalization as international law only regulates the relationship between states and thus "has little or no implications for the behaviour of private actors" (Scherer & Palazzo 2011:911). Consequently, Muchlinski (2007:81) argues that "a state centric approach is no longer adequate" for the regulation of MNCs and others call for new models of governance that explicitly include non-state actors (see e.g. Bernstein & Cashore 2007; Rosenau 2000; Héritier 2002) or even "governance without government" (see e.g. Rosenau & Czempiel 1992; Peters & Pierre 1998; Cutler et al. 1999; Hall & Bierstecker 2002; or Grande & Pauly 2005).

More conservative voices, however, uphold the notion of states as the only political actors, in line with the liberal and realist approaches that have traditionally dominated the study of International Relations. In these theories, private actors are not acknowledged as political subjects and "it is thus the exclusive task of the state to set the rules of the game" (Scherer & Palazzo 2011:916-917). And while they do not deny the increasing power of private companies, they refuse to see them as political actors or to consider the alternative forms of governance outlined above[54].

Kapfer, on the other hand, takes a less ideological and more pragmatic stance by pointing out that “while states still have power de jure in the international system, and within their own country, MNCs have power de facto both in the international system and in individual states” (Kapfer 2006:1). The refusal of local political actors to acknowledge their own demise can, according to Hart (2012), be explained partly by the need for self-preservation and partly by the fact that “nation states have been so successful in a relatively short time that it is hard for us to imagine society in any other way.”

A deeper analysis of these debates and a detailed analysis of possible new forms of governance would, however, go beyond the scope of this thesis[55]. Hence, this section will not elaborate further on these ideas but instead focus on a line of thought that is particularly relevant for our analysis of the Net1 case.

If we look back at chapter two and consider the social grants saga in the context of the changing relationship between states and corporations, the following observations stand out. First, the Net1 case can be seen as a prime example of the potential dangers associated with outsourcing, particularly with regard to government capacity for oversight and control (van Slyke 2003:296), transparency and fairness in the tender process (Schönteich 2004:14), the failure to consider and budget for transaction costs (Girth et al. 2012:889; OECD 1993), the adoption of privatization measures merely for politically symbolic reasons (Kosar 2006:3; Savas 1987), dependence on the service provider (Jensen & Stonecash 2005:775), diminished accountability (Schönteich 2004:14), and the insufficient protection of personal data (Pearlstein 2014).

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[54] Kline (2006:129), for example, argues that “MNC challenges to government sovereignty will generally fail” because “host governments can still expropriate offending foreign investors” and sees corporations merely as “economic levers”. They also raise the issue of legitimacy given that „unlike the political system, the private firm is not subject to immediate democratic control”, arguing that the legitimacy of the corporation is only derived from the legitimacy of the political system (Peters 2004). Finally, Roach (2007:26) states that “it still remains the task of governments to set the legal boundaries for corporate behaviour” and Kline (2006:132) asserts that “the global community gives no sign of providing legitimizing assent to any formal MNC political authority.”

[55] For further reading, see: Hope & Chikulo (2000), Kline (2006), Roach (2007), Scherer & Palazzo (2011), Auld et al. (2015), or Bernstein & Cashore (2007).

Second, it highlights the fundamental differences between private and public sector values and goals. As Larson (1997:131) puts it: “We all know from experience that public sector values differ from private sector ones […] But where once the two sectors were seen to be different, but equal, today there is no equality at all. The private sector is seen as leaner, meaner, more efficient, more focused, and more effective than the public sector. Businessmen think this. Politicians think it. The public believes it.” And whereas the aim of the public sector – at least in theory – is to contribute to the “public good”, private companies are mainly concerned with their bottom line – in other words, profits. Hence, there is an “inevitable conflict between the national interest [of the government] and the global interests of the multinational enterprise” (Haslam 2007:1167) which creates a situation where the interests of the people come second to those of private companies (Van Niekerk et al. 1999:1).

In response, MNCs claim that “they were never originally designed to make positive contributions to the development of the Third World” and that making profits is the main purpose of their existence (Farooqi 1977:42). And despite the intricate links that existed between governments and corporations when they were first established, this statement is not entirely wrong. Why, then, would we expect corporations to act in the interest of the people rather than their own if they have “no soul to damn, no body to kick”[56] and the primary objective of their existence is to “implement the dictates of their Prophet – Profit” (Farooqi 1977:42)? The answer can be found in corporations’ recent claims to “corporate citizenship” or even “corporate personhood”, and particularly in their demands grant “human rights” to legal entities, similar or equal to those of natural persons, which will be explored in the next section.

6.4 Corporate Personhood

In recent years, a number of rulings made by the US Supreme Court have sparked a heated debate about the legal status of corporations and the specific rights that come with it. While corporations increasingly try to claim human rights for themselves, stating that their status as legal persons should be seen as equal to that of natural persons, others – especially the otherwise rather fragmented political left –

[56] Quote attributed to Edward Thurlow, First Baron Thurlow (1731-1806), Lord Chancellor of Great Britain.

strongly oppose this view. As Barack Obama declared in 2012: “Corporations aren’t people. People are people” (Greenfield 2015).

The concept of “corporate personhood”, however, is by no means a recent phenomenon. Rather than being a modern creation aimed at affirming the superiority of private companies over humans, it is, in fact, the very foundation on which the growth and success of corporations was built. Greenfield (2015) has even expressed the view that “it is not an overstatement to say that corporate separateness has been one of the legal innovations most important to the development of national wealth.” He further points out that “corporate personhood simply expresses the idea that the corporation has a legal identity separate from […] those who contribute capital to it [and] that shareholders are not held liable for the debts of the corporation.” This separateness, in turn, was fundamental for the creation of capital markets and the growth and development of national economies (Greenfield 2015). Another benefit of legal personhood was that the life-span of a company was not tied to that of its managers or shareholders (Totenberg 2014), thus providing “a mechanism for society to make long-term, intergenerational investments that are not linked to government or a specific family” (Greenfield 2015). Finally, limited liability ensured that shareholders could not be sued in their personal capacity; hence investors only risked as much as they were willing to invest (Totenberg 2014).

Initially, the only right given to corporations – which, as outlined earlier in this chapter, were originally established to serve the public good as an extension of the state – was the right to have their contracts respected by the government. However, with the invention of the railroad and the increasing industrialization of the United States during the 19th century, the need for capital and investment rose and “only the corporate form offered limited liability, easy transferability of shares, and continued, perpetual existence” (Totenberg 2014). The Industrial Revolution this created a new generation of businessmen who “persuaded state legislators to grant them corporate charters under ever more favorable terms” (Stites 2003). The main turning point in the development of corporate personhood, however, was the adoption of the 14th Amendment after the Civil War in 1868 which granted former slaves full citizenship (Hart 2005). Stating that “no state shall [...] deprive any person of life, liberty, or property without due process of law, nor deny to any person [...] the equal protection of the laws” (Torres-Spelliscy 2014), it was used by corporate lawyers in the 1886

Supreme Court case *Santa Clara County v. Southern Pacific R. Co.*, to argue that the guarantee of equal protection should apply to both natural and legal persons, thus granting corporations the same basic constitutional rights as humans (Hart 2005; United States Supreme Court 1886). The case laid the legal foundations for corporate personhood and, as a result, "corporations steadily gained ways to weaken government restraints on their behavior—and on their growth" (Stites 2003).

In 1978, the Supreme Court ruling in the *First National Bank of Boston v. Bellotti* case granted corporations the right to spend funds on ballot initiatives in federal election campaigns for the first time (Torres-Spelliscy 2014). This was followed by the "Citizens United" ruling in 2010 which declared any limits on this kind of spending by corporations, NGOs, labour unions and other associations as unconstitutional, based on the fundamental right of freedom of expression[57]. This decision "reversed a century of legal understanding, unleashed a flood of campaign cash and created a crescendo of controversy that continues to build today" (Totenberg 2014). In short, it granted corporations a right that had previously been restricted to natural persons and granted private companies the right to express their political views through campaign funding, thus asserting their status as almost human-like entities. Finally, in the most recent case, Burwell v. Hobby Lobby Stores, Inc. (see Baine et al. 2014, Duignan 2014, Schwartz 2014), the Supreme Court ruled that closely held for-profit corporations can refuse to cover the costs of contraceptives for their female employees under the Affordable Care Act on religious grounds. By allowing a company – not a church or a religious NGO – to make a religious objection to a generally applicable law, this decision opened up an entirely new dimension of corporate personhood and expanded "the right of corporations to be treated like people" (Appelbaum 2014).

These rulings and their implications for the status and treatment of corporations, have attracted sharp criticism from human rights organizations and the political left, and various groupings have formed to oppose the "humanification" of corporations, such as Common Cause, Public Citizen, Free Speech for People, and MoveOn. They argue that "only People are People" and that "rights protected by the Constitution were intended for natural people" and many of them are pushing for a

[57] .For further reading on the "Citizens United" ruling and its impact, see: United States Supreme Court (2010), Levy (2015), Dunbar (2012), or Wiist (2011).

“People’s Rights Amendment” to the Constitution (Greenfield 2015). Their position is based on the argument that corporations do not have minds, souls, or consciences; hence, they are unable to have an opinion on something or believe in anything and if “left to themselves, they will behave as if profit is the only thing that matters” (Torres-Spelliscy 2014).

On the other side of the debate are those arguing for more corporate power through the extension of full constitutional and human rights to corporations – but their intentions and goals are far from unanimous. On the one hand, there are the corporations themselves and the – mostly conservative – politicians and NPOs that support them. On the other hand, however, there is a growing movement of intellectuals and more moderate politicians and academics who argue that “the attack on corporate personhood is a mistake” since “the best way to control corporate power [is] more corporate personhood, not less” (Greenfield 2015). Their argument rests on the assumption that only by making corporations “fully human” and by requiring them to “sign on to a more robust social contract” (Greenfield 2015) will it be possible to enforce the duties and responsibilities this status entails and to make corporations more democratic and accountable. In other words, they appeal to the responsibility that is intrinsically linked to power – be it economic or political power – and call for corporations to acknowledge and assume their economic, political, and social responsibilities.

6.5 Corporate Social Responsibility

The notion that “with great power comes great responsibility” has been a mantra throughout human history and has been expressed by French revolutionaries, political leaders such as Winston Churchill and Franklin D. Roosevelt, and popular movie characters alike. Realizing that “the MNC apathy for social equity may cause problems” (Farooqi 1977:42), NGOs and civil society, who used to focus their campaigns on governments only, have now started to target corporations to make them “more responsive to social and environmental concerns” (Scherer & Palazzo 2011:903) and in the context of the decreasing state power of the neoliberal era, corporate self-regulation through “soft law” seemed like a plausible solution (Mörth 2004; Shelton 2000).

The following two sub-sections will introduce the concept of Corporate Social Responsibility and illustrate how this initially purely economic concept has become increasingly politicized, to the point where corporations are now seen to have an explicit social and political mandate.

6.5.1 CSR: Definition, Rationale and Characteristics

CSR can be described as “business firms contributing in a positive way to society by going beyond a narrow focus on profit maximization” (McWilliams 2014:1). According to Watts & Holme (1999), CSR represents “a continuing commitment by an organization to behave ethically and contribute to economic development, while also improving the quality of life of its employees (and their families), the local community, and society at large” (Lindgreen & Swaen 2010:3). In other words, CSR expands the traditional notion of companies as purely profit-making entities and emphasizes their responsibilities to people, the environment, and society at large.

CSR is based on the belief that “as large business enterprises control vast resources they should be expected to contribute to the general welfare of society” (McWilliams 2014:1). Hence, the concept addresses concerns about the accountability of MNCs in the era of globalization, given that “they seem no longer to be subject to a single jurisdiction” and often operate in politically sensitive fields such as mining, pharmaceuticals, or energy (Cadbury 2006:6). According to Valor (2005:192), CSR originated with the publication of “Social Responsibilities of Businessmen” by Bowen in 1953. Initially focused on the behaviour of managers rather than entire corporations, CSR soon positioned itself as “a challenge to the neoclassical business model” (Valor 2005:193). It thus represents a clear contrast to Milton Friedman’s view that “there is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game”[58] (Friedman 1982:133).

The most influential approach that opposes Friedman’s view is based on Freeman’s stakeholder theory which he developed in 1984 (Mäkinen & Kourula 2012:662). Freeman argues that companies are not only accountable to their stockholders but to

[58] Friedman further argued that managers “should forget social programs in their professional roles” because they do not have a mandate “to function as politicians or civil servants” (Friedman 1970) and “lack the expertise, knowledge and resources to address social issues” (Mäkinen & Kourula 2012:661).

a variety of groups which are affected by their actions. These ‘stakeholders’ are “any individual or group that has an interest (or stake) in the actions of firms” (McWilliams 2014:1)[59]. Hence, business organizations must consider the – potentially conflicting – demands of these stakeholders and “translate the demands into CSR objectives and policies” (Lindgreen & Swaen 2010:2). The stakeholder approach thus “blurs the boundaries between the political, social and economic spheres of society and leaves political and social interests within the agenda of managers” (Mäkinen & Kourula 2012:662).

Initially, the main rationale behind the adoption of CSR policies and programmes was purely economic. As Bhattacharya and Sen (2004:9) put it: “Not only is doing good the right thing to do, but it also leads to doing better.” Similarly, management scholars such as Carroll (1979) argued that CSR contributes to a company’s long-term success and is thus in the best interests of both shareholders and stakeholders[60]. In short: “CSR programs offer a ‘win–win’ scenario for the organization and its community” (Lindgreen & Swaen 2010:3) and the economic approach “fits neatly into neo-liberal processes of globalization” (Mäkinen & Kourula 2012:665).

Today, CSR has become a “cult term” (Emmot 2002:4) which has “moved up the economic and political agenda internationally” (Cadbury 2006:5) and has become “almost universally sanctioned and promoted by all constituents in society” (Moure-Leite & Padgett 2011:533). This is paralleled by a similar increase in the expansion of corporate communication and reporting on CSR (Lindgreen & Swaen 2010:2): UK pension funds, for instance, “have to disclose their social, ethical and environmental policies in relation to investment, which in turn requires quoted companies to report on their activities in the social, ethical and environmental fields” (Cadbury 2006:5). In addition, over 5,000 companies have subscribed to the principles of the UN Global

[59] “Freeman’s original conception of stakeholder theory is a strategic management theory and does not address CSR directly, but CSR researchers later adopted it.” (Mäkinen & Kourula 2012:662).

[60] More specifically, the “business case” for CSR (Orlitzky et al. 2003; Vogel 2005; Scherer & Palazzo 2011) reasons that socially responsible companies can improve their reputation and create a competitive advantage that allows them to charge premium prices (McWilliams & Siegel 2011; Porter & Kramer 2006; Fombrun & Shanley 1990), that CSR improves consumer goodwill and positive employee attitudes (Brammer et al. 2007; Rupp et al. 2006; Valentine & Fleischman 2008), and that it helps to secure financing from socially conscious investors (McWilliams 2014:2).

Compact's[61] call "to engage in self-regulation in order to fill the regulatory vacuum that has emerged as a result of the process of globalization"[62] (Scherer & Palazzo 2011:900).

However, criticism of this purely "instrumental view" of CSR (Mäkinen & Kourula 2012:661) and calls for a revision of the concept started to emerge in the 1990s. In line with the decline of national capitalism, critics pointed out that the assumption of a separation of the private and public domains does not hold in the era of globalization (Scherer & Palazzo 2007; Mäkinen & Kourula 2012). Further, Scherer & Palazzo (2007) and Hanlon (2008) argue that the instrumental view typically "progresses without a political discussion on businesses' roles in a society" (Mäkinen & Kourula 2012:663), thus failing to acknowledge the growing interconnectedness between the political, economic and civil spheres of society. As a result, the notion of "corporate citizenship" – closely related to corporate personhood – emerged and the debate shifted to an increasingly politicized view of CSR which will be analysed in more detail in the next section.

6.5.2 Corporate Citizenship and a Politicized View on CSR

In the context of the growing power of corporations, the dismantling of national capitalism, and the need for new approaches to defining the roles of states, corporations, and notions of national sovereignty, the debates about CSR and its role in society have become more and more politicized. Scherer and Palazzo, two of the most dominant voices in this discussion, "strongly associate […] CSR with the globalist transition process" and refer to CSR as "the processes where business firms start to take over the traditional governmental tasks of political and social regulation and operate as new providers of citizenship rights and public goods" (Mäkinen & Kourula 2012:665).

This has several key implications: First, in line with the libertarian doctrine, this gives private companies an explicit social and political mandate and expects businesses

[61] "The UN Global Compact is a strategic policy initiative for businesses that are committed to aligning with ten universally accepted principles for human rights, labor, environment and anti-corruption" (GRI 2017).

[62] Similar initiatives include the Global Reporting Initiative (Etzion & Ferraro 2010; Willis 2003), the Forest Stewardship Council (Pattberg 2005; Schepers 2010), or the SA8000 standard (Gilbert & Rasche 2007).

“to join with, or ideally even supersede, governments in addressing social issues such as human rights, poverty, and environmental degradation” (McWilliams 2014:1). The politicized concept of CSR is thus based on the notion that governments often “lack the resources, the authority or the will” (McWilliams 2014:1) to address social issues and that businesses can do so more effectively and efficiently. However, while this position closely resembles the neoliberal assumption of market superiority and Freeman & Phillips’ (2002) “deep scepticism toward the state and its abilities to take care of the social background of businesses”, it also carries the relatively new notion of “extended corporate citizenship”[63] (Matten & Crane 2005). Closely related to Rawls’ (1971; 1996; 2001) theory on the division of moral labour and his conception of justice, corporate citizenship essentially allows firms to “act as governments” (Mäkinen & Kourula 2012:665) and, on the other hand, holds that “a corporation is an entity with status equivalent to a person” (Valor 2005:193), in line with the notion of corporate personhood described above.

It must be noted at this point that the term “corporate citizenship” is far from being a clearly defined concept: It carries a variety of different meanings depending on its context and is sometimes even used as a synonym for CSR (especially by Carroll 1998) or for corporate personhood. However, in the context of this thesis, the term will be used based on the political conceptualization of citizenship that centres on a set of civil, social, and political rights and responsibilities that is bestowed on all members of a certain political community (Hettne 2000; Faulks 2000; Marshall 1965).

On the one hand, corporate citizenship emphasizes the responsibility of corporations to respect the rights of other members of society, including those of the environment, thus relating to CSR. This has led to new pressures on MNCs for “socially responsible actions”, especially regarding contributions to social welfare in developing countries (Scherer & Palazzo 2008). It also acknowledges the existence of the potentially useful “problem-solving potential of non-state actors” (Wolf 2008:255) that can play a vital role in solving the challenges created by globalization and the demise of the state-centred system (Scherer & Palazzo 2011:906).

[63] For further reading, see: Matten & Crane (2005), Moon, Crane, & Matten (2005), Néron & Norman (2008a; 2008b), or Van Oosterhout (2008).

On the other hand, however, corporate citizenship legitimizes the assumption of political power by MNCs to an unprecedented extent in a global environment that lacks the necessary structures and institutions to provide a "legal and moral point of reference" for corporate actions (Scherer & Palazzo 2011:905). Hence, it puts the responsibility for providing and protecting citizens' fundamental rights in the hands of corporations without ensuring the existence of "public structures to take care of particular distributive patterns (of rights) between people or duties and obligations to maintain democratic political processes" (Mäkinen & Kourula 2012:666). As a result, corporations are not only increasingly seen as substitutes for national governments, but are also expected to regulate their own behaviour – given that they themselves are increasingly seen as citizens in their own right – in a way that contributes to social welfare rather than the profit expectations of their shareholders – without any form of effective supervision or enforcement.

6.6 The Net1 Case in the Context of CSR and Corporate Citizenship

After having outlined the shifts and developments in the relationship between states and corporations and the increasing involvement of private companies in the political and social arena, this last section will return to the case study. Against the backdrop of the developments described above, this section will attempt to situate the Net1 case in the context of the changing state-corporate relationship and assess its relevance as a local manifestation of these global shifts.

The main conclusions about the social grants saga that can be drawn from the concepts and developments presented in this chapter are as follows:

Founded in the late 1980s, Net1 is not one of the "traditional" MNCs, many of which have their origins in the early 20th century and started to expand internationally after World War II. Similarly, the company does not fit the description of many of today's MNCs whose business activities range across multiple economic sectors and stages of production. Rather, Net1 is a relatively young company which originated in a developing country – South Africa – and only entered the industrialized world at a later stage. With its highly sophisticated payment technologies and financial innovations, Net1 represents the "new generation" of financial corporations that emerged and expanded rapidly during the neoliberal era of the late 20th century, and derive their main competitive advantage from their ability to create, leverage, and capitalize on financial flows.

Further, the company has always pursued a niche market strategy and initially conducted their business only in developing and emerging economies, contrary to most traditional corporations who have only recently started to tap into those markets. Finally, instead of focusing on the high-income segment of the population, Net1 specifically designed its technologies for use in the low-income market, i.e. for those at the bottom of the pyramid. All these factors clearly differentiate Net1 from most established corporations and make it a prime example of Prahalad's promise of a "triple win" situation with a special focus on financial inclusion.

Its development and international expansion, however, mirrors that of the more traditional corporations. From the very beginning, Net1 relied heavily on a close relationship with the state since it depended on state tenders for the implementation of its payment systems and the related financial infrastructure. In fact, during its early years, the company's entire business model was heavily reliant on the government contracts for the delivery of social grants. This closely resembles the period that followed the establishment of corporations in the US at the end of the 19th century which, back then, were tightly controlled by the state.

At that stage, the marketing and selling of additional financial services, such as loans, airtime and insurance, was still a relatively minor business activity. However, once Net1 had established a country-wide financial infrastructure, its additional financial services and payment technologies became its "ticket to independence". With an established customer base of almost 17 million people – all of whom had been banked and were recorded in Net1's grant beneficiary database – the company became less and less dependent on the social grants contract. Consequently, it was able to expand the activities of its subsidiaries outside of the social grant system while the government proved too slow, powerless and inefficient to offer any meaningful resistance or to keep up with Net1's evolving tactics (the diversion of grant money to EasyPay accounts being a prime example).

Through its focus on low-income markets, its expertise in the disbursement of government payments such as social grants, its close relationship with the state, and its strong use of financial inclusion rhetoric, Net1 has positioned itself as a strong player in the provision of social services for national governments. The company did not merely take advantage of the “outsourcing boom” that came with the rise of the neoliberal ideology, but specifically built its business model on the growing privatization efforts of states. However, as soon as Net1 had successfully established its alternative revenue streams – i.e. selling additional financial services to grant beneficiaries – its dependence on the state rapidly diminished.

Having taken over one of the most crucial government services coupled with the task to implement a pro-poor intervention – financial inclusion – Net1 is also a prime example of the increasingly political role of corporations and their growing involvement in social issues. In fact, the post-1994 South African government declared from the very beginning that it did not have the necessary expertise and infrastructure to establish its own grant payment system, thus subscribing to the notion of private sector superiority. Most importantly, however, the state bought into Net1’s “win-win” rhetoric of bringing “true” financial inclusion to South Africa – a project that had, until then, failed because of the disinterest and resistance of the big banks. This, in turn, vividly illustrates the blurring of the lines between the political and the economic spheres, and the insinuation that companies are not only important political actors but can also address issues of human rights, development and poverty alleviation better than states.

But while corporations like Net1 increasingly act like substitute governments and assume more and more human-like characteristics, it is also becoming apparent that they are rarely interested in gaining political power and influence as a goal in itself. Rather, it represents a means to further their business interests and to increase their profit-making opportunities with little concern for the poor or their responsibilities towards them. Net1’s clear refusal to sacrifice profits for the sake of the financial well-being of grant beneficiaries indicates its unwillingness to engage in self-regulation and socially responsible behaviour. This, in turn, illustrates the limitations of CSR theory which, in a time where the balance of power has shifted in favour of corporations, appeals to the social conscience of legal entities. Corporations themselves, however, seem to have little concern for their responsibilities and social obligations towards “real” persons and are more interested in exploiting the new profit-making opportunities opened up by their achievement of personhood.

Using Scherer and Palazzo's theory of politicized CSR, the observations outlined above paint a rather gloomy picture. There is little doubt that the era of states as the uncontested main actors on the global playing field is nearing – or has already reached – its end. Hence, there is a clear need to look for new models of governance, both at the national and the international level, that address the challenges of globalization and the end of the state-centred international order. At the same time, there is ample evidence – although perhaps more qualitative than quantitative – for the growing power and influence of corporations at all levels of society and in all areas of our daily lives. In addition, the highly blurred lines between the political and the economic spheres and the increasing involvement of private companies in political and especially social issues have been widely recognized. However, if corporations truly were to become the new global leaders and if Net1's attitudes and behaviour are anything to go by, social goals such as poverty alleviation, the provision of free or affordable basic services such as education, health care, housing, and basic infrastructure, the reduction of inequality, and the promotion of social justice might end up being swept under the "profit carpet".

7 Conclusion and Outlook

This dissertation has shown that the way the social grants saga was portrayed by the media paints a powerful, but incomplete picture. By claiming that the case was all about ‘corruption’ and ‘incompetence’, media reports failed to look at the case as part of a bigger picture and focused much of their attention on the “bad apples” – particularly Minister Dlamini – thus implying that the root cause of the problem was at the individual, rather than the systemic level. However, if we take into account the broader, global context in which the social grants saga took place, and if we examine it against the backdrop of the changing relationship between states and corporations at the end of the era of national capitalism, the case takes on much deeper significance. It illustrates the potentially disastrous social effects that can result from corporations taking over more and more political and social functions in society while pursuing profit as their primary and ulterior motive.

Yet, this study does not by any means argue for greater state power or for the return to a system based on the concepts of nation states, national sovereignty, and national economies. Analysis of the current global developments and the increasing globalization of not only the economic sphere but of all aspects of society clearly shows that we have moved beyond this era. Further, the increasing power and influence of corporations at all levels of everyday life is not something that can easily be reversed, especially considering their tendency to acquire more and more characteristics of natural persons – at least at the legal level. Similarly, while their growing involvement in political and social affairs may not be recognized ‘de jure’ it certainly is a ‘de facto’ reality.

This has certain implications for the way we think about government, both at a national and an international level. On the one hand, we need to reconsider our conceptualization of governance and recognize corporations and other private for-profit entities as the powerful and influential players they have become. On the other hand, however, we need to develop global mechanisms of governance or global governmental authorities that have the authority and power to enforce global regulations in order to ensure that corporations keep their part of a new social contract. Due to the fact that the existing international organizations, such as the UN, the WTO, or the World Bank, all derive their legitimacy from nation states and that international law does not extend to corporations, these institutions cannot fulfil such a mandate.

Another important consideration returns to the initial argument about corruption. While this thesis argues that the true significance of the social grants saga does not lie in its function as a prime example of corruption and incompetence, this does not mean that these issues are irrelevant. The central question, however, is how we conceptualize corruption and how we assess its role. A common stance, as taken by the media in the Net1 case, is to look at corruption as a series of isolated acts of ‘bad’ or greedy individuals who bend or simply disregard the rules of an otherwise well-functioning system to their own advantage. Yet, while it is true that it is ultimately individuals who engage in the physical acts of corruption, it is often forgotten that these individuals act in their capacity as part of a system that gives them an identity detached from their actual bodies. Hart (2005:1) calls this “the Hit Man’s Dilemma”, pointing to the “tension between the impersonal conditions of social life and the persons who inevitably carry it out.” And, as Robertson (2006:8) puts it: “When things go wrong it’s somebody rather than the system that gets the blame.” In other words, by putting the blame on individuals and assuming that firing and replacing them will solve the problem, we fail to recognize the systemic nature of corruption and its structural embeddedness in a system that has proclaimed the fight against corruption as one of its central goals. As mentioned in chapter three, Sanchez (2016) gives a powerful example of this, and goes one step further by highlighting the violent nature of this phenomenon.

If we look at the most recent developments in the Net1 case, the parallels are striking. As the case continues to unravel, up to the time of writing this conclusion, the phenomenon of violence – or at least the threat of it – emerges as part of the shady dealings. A prime example of this involves SASSA’s new CEO Thokozani Magwaza, who resigned in mid-July 2017 after reportedly receiving death threats because he cancelled the multi-million rand work-streams set up by Minister Dlamini (Lindeque 2017; Khoza 2017b; Thamm 2017d) as explained in chapter three.

Further, if we look at the Net1 case in its early stages and consider the links with South Africa’s financial inclusion agenda, we can also see a certain form of coercion, even though it was not in the form of physical violence. Contrary to other financially inclusive products and services – such as the consumer-driven adoption of M-Pesa in large parts of East Africa – Net1's strategy can be characterized as a "top-down approach" to financial inclusion. The evidence collected by the Black Sash and the media shows that many of those affected by debit deductions for additional products and services had not consciously or willingly bought them. Instead, many grant recipients either did not understand the nature and conditions of the products Net1's subsidiaries were selling them, or signed up for the company's services out of fear of losing their grant and thus their financial lifeline.

This is not to say that the poor should not have access to affordable products and services and should not be seen as consumers. If anything, his recognition of the poor as consumers in their own right is perhaps the most important merit of Prahalad's argument. Although their individual purchasing power may be small, together, the poor form an important and powerful social group, and having to pay poverty penalties for basic goods and services on top of their already precarious financial situation can hardly be justified from a social development perspective. However, we must keep in mind that the ultimate goal of financial inclusion and other inclusive marketing initiatives is to empower the poor and to include them into society and the mainstream economy, thus working towards economic democracy. Yet, just like any other group of consumers, the poor must be able to make informed decisions instead of being tricked or coerced into purchasing what governments, manufacturers of products, or providers of services presume to be 'in their best interest'.

Implicitly (or even explicitly) pushing grant recipients to take out loans – which are then used for consumption instead of productive investment as intended by the initial microfinance movement (see chapter five) – can hardly be in the best interest of the poor. This is especially the case when this is done by a company which already holds considerable power over its future clients because it is directly responsible for the payment of what often represents their only source of income. The providers of products such as M-Pesa (see chapter five) or other mobile money innovations, on the other hand, create their competitive advantage by adapting their products to the needs of the poor instead of compelling their clients to make use of their services. Hence, unlike Net1's business model, these technologies, and the way in which they are offered, have the potential to revolutionize the financial sector and to truly benefit the poor.

This, in turn, brings us back to where every social policy and developmental intervention should start – to the people at the bottom of the pyramid. What is particularly striking about the social grants saga is the fact that the case highlights a power struggle between the state and its private contractor, while those most strongly affected by its consequences suffered in silence. Until the Black Sash, a local human rights organization, stepped up, grant beneficiaries had not only had few means of recourse against the deductions from their grant accounts but also no public voice to express their concerns and to alert the public to their dilemma. Only when the Black Sash started collecting and publishing case studies and other forms of evidence and using its political clout to advocate for the rights of grant recipients did the government take steps to protect their interests – although with limited success so far. This phenomenon is also reflected in academia where literature on the role and influence of NGOs and civil society organizations abounds[64], but generally fails to capture the large mass of individuals – especially those at the bottom of the pyramid – who are not directly represented by these groupings.

Hence, while NGOs and other civil society organizations are, without doubt, important players in the social and political arena, we must also recognize that they do not necessarily represent the entirety of those at the bottom of the pyramid. Moreover, we need to acknowledge not only the economic power of the poor, but also their potential for mobilization and self-organization against a system they perceive as unjust, especially in the age of instant access to information and means of communication, even in the most remote African village. Hence, if a system that is increasingly dominated by the interests of corporations continues to ignore the needs and demands of the poor, the idea of an 'African Spring' might not be far-fetched.

The fact that the poor increasingly express their views through their consumption decisions calls for greater attention to their economic behaviour, without restricting ourselves to traditional, normative and quantitative models of economics and policymaking. Put differently, in order to make a significant difference in the lives of

[64] See, for example: Scholte (2002), Castells (2008), Sparks (2010), Teegen et al. (2004) or Warkentin (2001).

the poor, a more human approach to political and economic thinking is needed. Perhaps, such a “Human Economy” (Hart et al. 2010) should be one of the key building blocks of a new global system which bases its goals on the needs of the people who constitute it and translates this into global structures and institutions that are capable of regulating both state and non-state players in a multidimensional, global society.

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Appendix 1

Content Analysis of Media Coverage

Corruption	Incompetence	Net1 deductions	Bathabile Dlamini	Source
				Anderson, B. (2008)
				Belamant, S. (2017)
				Bloomberg (2016)
				Bosveld Review (2017)
x		x		Carel, D. (2014)
		x	x	Child, K. (2017)
x				City Press (2011)
x		x		Cosatu (2013)
	x		x	Cowan, K. (2017)
		x		Crotty, A. (2014)
				Crotty, A. (2015)
x			x	Crotty, A. (2017b)
	x	x		Damba, N. (2016)
			x	de Vos, P. (2017)
x	x		x	De Vos, P. (2017b)
		x		de Wet, P. (2017)
x	x		x	Dentlinger, L. (2017)
x	x		x	Dentlinger, L. (2017b)
x	x			Department of Social Development (2009)
		x		Dlamini, B. (2014)
		x		Dlamini, B. (2016)
		x		Donnelly, L. (2017)
		x		Dzonzi, T. A. (2016)
x	x			Ensor, L. (2016)
				Ensor, L. (2017)
x	x			Ensor, L. (2017b)
x				Evans, S. (2014)
				Fin24 (2010)
				Goko, C. (2015)
		x		Gquirana, T. (2016)
		x		GroundUp (2015)
		x		GroundUp (2015b)
		x		GroundUp (2015c)
x		x		GroundUp (2015d)
		x		GroundUp (2016)
x		x		GroundUp (2017)
x	x			Harris, L. (2009)

Corruption	Incompetence	Net1 deductions	Bathabile Dlamini	Source
		x	x	Herman, P. (2017)
	x			Herman, P. (2017b)
	x		x	Herman, P. (2017c)
		x	x	Herman, P. (2017d)
x	x		x	Herman, P. (2017e)
x				Hogg, A. (2016)
		x		Jacobs, M. (2013)
		x		Khoza, A. (2017)
		x		Lee, S. (2016)
x				Mabuza, E. (2011)
x			x	Mabuza, E. (2017)
		x		Magwaza, N. (2014)
x	x			Mahlong, A. (2010)
x		x		Maragele, B. (2014)
		x		Maregele, B. (2017)
		x		Matshediso, M. (2016)
		x		Mbomvu, N. (2015)
x				Mchunu, S. (2016)
x	x			McKune, C. (2012a)
x				McKune, C. (2012b)
x		x		McKune, C. (2012c)
x	x			McKune, C. (2012d)
x				McKune, C. (2012e)
		x		McKune, C. (2013)
x		x		McKune, C. (2013b)
x	x		x	McKune, C. (2014)
x		x		McKune, C. (2017)
	x		x	McKune, C. (2017b)
x				McKune, C. (2017c)
				McKune, C. and S. Sole (2012)
				Menezies, J. (2009)
x			x	Merrington, Z. (2017)
x				Mkhwanazi, S. (2015)
		x		Moatshe, R. (2017)
				Mochiko, T. (2015)
				Monama, T. (2013)
x		x	x	Mungadze, S. (2015)
			x	Ndlozi, M. Q. (2015)
x			x	News24 (2017)
x	x		x	News24 (2017b)
	x	x		Ngoma, T. (2016)

Corruption	**Incompetence**	**Net1 deductions**	**Bathabile Dlamini**	**Source**
		x		Ngubeni, T. (2014)
	x			Nicolaides, G. (2017b)
	x	x	x	Nicolaides, G. (2017b)
				Oxford, A. (2014)
				Parliamentary Monitoring Group (2017)
	x	x	x	Pather, R. E. (2017)
		x		Paulus, E. (2013)
				Peters, F. (2016)
				Potts, R. (2012)
	x		x	Quintal, G. (2017)
x	x		x	Quintal, G. (2017b)
		x		Rees, M. (2013)
		x		Rees, M. (2013b)
		x		Rees, M. (2014)
		x		RNews (2014)
x		x		Rose, R. (2013)
x	x			Rossouw, J. (2017)
x		x		Seeking Alpha (2016)
x		x		Sefali, P. (2015)
x	x	x	x	Sole, S. and C. McKune (2017)
x				South African Press Association (2013a)
x		x		South African Press Association (2013)
x		x		Speckman, A. (2013)
x	x	x		Stanwix, B. (2015)
x	x	x		Steyn, L. (2014)
				Tarrant, H. (2009)
	x		x	Thamm, M. (2016)
x	x		x	Thamm, M. (2017)
	x		x	Thamm, M. (2017b)
	x		x	Thamm, M. (2017c)
		x		The Black Sash (2017d)
			x	The Citizen (2017)
x	x		x	The Citizen (2017b)
x			x	The Citizen (2017c)
x		x		Theobald, S. (2015)
x		x		Torkelson, E. (2017)
		x		Torkelson, E. (2017b)
x	x	x		Torkelson, E. (2017c)

Corruption	Incompetence	Net1 deductions	Bathabile Dlamini	Source
x		x		van Zyl, G. (2015)
x				Van Zyl, G. (2015b)
x	x			van Zyl, G. (2017)
	x	x		Wierzycka, M. (2017)
				Wierzycka, M. (2017b)
		x		Williams, A. (2014)
55	**36**	**57**	**31**	

Total number of sources: 122