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Responding to New Pressures: Ithala Limited's Changing Role in Serving the "Unbanked" and the Poor in KwaZulu-Natal

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Abstract

This study examines issues related to KwaZulu-Natal's "unbanked" and poor populations and details efforts by Ithala Limited, a government-backed development finance institution (DFI) acting as a subsidiary of the more broad-based Ithala Development Finance Corporation, to make financial products and services available to these constituencies. It is suggested that while Ithala Limited has been largely successful in providing savings accounts, home loans and business support finance to many of KwaZulu-Natal's "unbanked" and poor citizens, the organization is now facing political pressure to scale back its banking operations and allow poorer citizens to be served by more "market-friendly" commercial banks. Ithala Limited also faces growing competition from these commercial institutions, many of whom are developing financial products geared to low-income individuals and households.

The paper then goes on to examine how Ithala Limited should respond to these political and commercial pressures and it outlines possible steps the organization can take to remain a unique and important actor in serving the financial needs of KwaZulu-Natal's low-income populations in the future.

Keywords: Banking, Development Finance Institutions, Ithala Limited, Low-Income Populations.

List of Acronyms

ANC	African National Congress
ATM	Automated Teller Machine
BIC	Bantu Investment Corporation of South Africa Limited
CED	Corporation for Economic Development Limited
CEO	Chief Executive Officer
DBSA	Development Bank of Southern Africa
DFI	Development Finance Institution
EU	European Union
FOCCAS	Foundation for Credit and Community Assistance
GEAR	Growth Employment and Redistribution Strategy
GNU	Government of National Unity
IDC	Industrial Development Corporation Limited
IMF	International Monetary Fund
INC	Indian National Congress
ISI	Import Substitution Industrialization
IT	Information Technology
KDC	KwaZulu Development Corporation Limited
KFC	KwaZulu Finance and Investment Corporation Limited
LED	Local Economic Development
NGO	Non-Governmental Organization
NP	National Party
ODA	Overseas Direct Assistance
SADT	South African Development Trust
SAP	Structural Adjustment Program
SARB	South African Reserve Bank
UMU	Ugandan Microfinance Union

1 Introduction

In many developing countries, a pressing policy challenge has emerged over how to best provide financial products and services (i.e. savings accounts, debit cards, home loans, etc.) to those individuals and communities that are typically unable to access formal banking institutions. Whether simply the consequence of material poverty, geographic isolation or as the result of being perceived as "non-creditworthy", many of the world's low-income earners (particularly in rural areas) find themselves "unbanked" and without any recourse to the benefits of credit or secure deposit-taking facilities. For emerging middle-income nations like Brazil, India and South Africa, all of which are seeking to guarantee upward economic mobility for their poorest citizens, the presence of large numbers of "unbanked" people is particularly problematic. Indeed, for governments in these states, the viability of their attempts to encourage home ownership, household savings plans and the expansion of small business as avenues for "pro-poor growth" are brought into serious question when national banks are unable (or unwilling) to extend their financial assistance to impoverished constituencies.

Compounding these problems, however, is the fact that governments tend to establish institutional barriers which dissuade commercial banks from seeking to serve the "unbanked" and low-income markets in the first place. In most countries, finance ministers, treasury secretaries and reserve bank chairmen express regular concern about matters such as currency stability, investor confidence and related to these, the strength of national banking systems. In South Africa, these anxieties have encouraged the South African Reserve Bank (SARB) to introduce disciplined banking regulations (i.e. relatively tight lending standards) that guarantee fiscal and monetary stability but which also make it difficult for the country's "big four" banks (ABSA, First National Bank, Nedbank and Standard Bank) to adopt "unbanked" and poor individuals as clients. After all, how can the state encourage these banks to provide credit to low-income and "high risk" populations who often lack collateral if doing so may subject these institutions to the potential for mass sub-prime loan defaults and a subsequent "run" on bank assets? For the SARB in particular, such a situation is wholly untenable and the wider aims of preserving macroeconomic stability must be seen as more important than the developmental necessity of pursuing those poverty-reducing measures that could be introduced by serving communities like the "unbanked".

Due to the prevalence of this type of thinking in both South Africa and abroad, academics and policymakers have had to search for alternative methods of "banking the unbanked" and the poor that are able to provide essential products and services but which do not undermine the steadiness of commercial financing agencies or the wider economy. As has been documented in nations like Bangladesh and Bolivia, micro-finance organizations like the Grameen Bank and BancoSol provide one avenue for extending credit (albeit in very small amounts) to the poor who require it. In South Africa, however, an alternative financing agent has been found in the form of development finance institutions (DFIs). These bodies, which are government-controlled parastatals tasked with the responsibility of financing commercially "non-viable" (or at least unprofitable) development initiatives, can serve the "unbanked" and low-income markets while having the risks associated with doing so underwritten by guaranteed government funding and support. As such, their financing activities are disassociated from market mechanisms and any sub-prime lending activities they pursue will bear little weight on either banking system stability or wider economic health.

In South Africa, DFIs are responsible for an array of objectives and most are actually *not* concerned with banking issues. The Industrial Development Corporation (IDC), for example, is a well-known South African DFI that solely concerns itself with financing large-scale industrial and infrastructure projects. The country's provincial level agricultural banks, on the other hand, do provide some credit to farmers but only if it is used for specific purposes (i.e. to purchase farming inputs) and they do not offer deposit-taking facilities. Ultimately, it is KwaZulu-Natal's Ithala Development Finance Corporation and in particular, its banking subsidiary Ithala Limited (established as a separate entity with its own board of directors in 2001), which have arisen as the South African DFIs most intensely concerned with extending financial products and services to the "unbanked" and the poor. In fact, since its transition from the apartheid-era KwaZulu Finance and Investment Corporation (KFC) to "Ithala" (a process which spanned the period from 1996 to 1999), the Corporation and (now) Ithala Limited have provided savings accounts to over 500,000 previously "unbanked" individuals with a total value of deposits equaling R1.3 billion. In addition, Ithala Limited has contributed to making banking technologies – most notably its own automated teller machines (ATMs) and debit cards – more accessible to isolated rural and peri-urban populations. Finally, the organization is an active player in providing home loans and small business support funding to thousands of its formerly "unbanked" clients.

In sum, "Ithala" has shown itself to be capable of serving "unbanked" and poor constituencies that South Africa's commercial banks have been unable to assist due to their own business preferences and as the result of aforementioned SARB regulations. More to the point, the success that Ithala Limited in particular has enjoyed in providing KwaZulu-Natal's "unbanked" and poor with key development assistance (i.e. basic credit) would seem to bode well for maintaining the organization as a vital player in serving the still-large "unbanked" and low-income markets into the future. For Ithala Limited itself, recent efforts to apply for a formal banking license and entry into the National Payments System, would seem to reinforce its desire to remain a long-term player in continuing to assist these populations.

1.1 Research Problem

In spite of its enthusiasm for remaining an important agency in serving the "unbanked", however, Ithala Limited is now facing a changing political and economic climate that actually puts into question the long-term viability of its "banking" mandate. On one hand, political actors such as the KwaZulu Natal provincial government and the National Treasury, as well as state institutions like the SARB, are putting pressure on Ithala Limited to re consider the *extent* of its banking role and to avoid becoming a more "formalized" banking institution. For example, each of these players have discouraged Ithala Limited from pursuing a banking license or entry into the National Payments System, both of which may be necessary if the firm wants to begin raising the levels of capital needed to seriously expand its range of products and services.

For each of these institutions, the above-mentioned issue of macroeconomic stability looms large and the prospect of a parastatal body like Ithala Limited transforming itself from a mere DFI into a licensed "government-owned bank for the poor" raises serious questions about how perceptions of the wider banking industry will be affected by Ithala Limited's sub-prime financing choices. For instance, if Ithala Limited's provincial shareholders are unable to prevent a mass home loan repayment default amongst the organization's low-income clients, these bodies all worry that a "run" on Ithala Limited's government-owned assets would harm monetary stability, undermine investor confidence in South Africa's overall finance system and tarnish the reputations of institutions like the SARB and the National Treasury. Indeed, for these two agencies, the fact that Ithala Limited possesses such a high degree of covariant risk when compared to the "big four" commercial banks (i.e. its risk is not spread across a large number of different portfolios or client types), means that the chances of such a bank failure are comparatively high. What these worries mean for Ithala Limited, however, is that the political agencies in charge of its oversight do not appear to wish for it to gain the benefits of expanded capitalization, capacity and public recognition that becoming a licensed institution would provide.

At the same time, another pressure is being placed on Ithala Limited by the commercial banks themselves. As previously noted, the high-risk nature of the poor has typically led mainstream banks to avoid taking-on clients from this constituency. However, recent trends within the South African banking industry, such as the adoption of a Financial Services Charter (notably approved by the SARB) declaring an industry-wide objective of better-serving impoverished communities, and the launching of new products such as the Mzansi Account, have both sent signals that the "big four" banks are beginning to re-consider their previous aversion to serving low-income earners. This development may be occurring due to the fact that the "big four" banks have increasingly developed diversified portfolios and clients – i.e. they possess low amounts of covariant risk. As a result, both the banks and the SARB likely feel confident that any sub-prime defaults that occur amongst commercial bank clients will no longer be capable of doing irreparable damage to any one banking firm (as would be the case with Ithala Limited) or to the industry as a whole (as may have been the case in the past when South Africa's banks were less diversified).

What is most important, however, is that for Ithala Limited, which has long been the sole provider of financial products and services to KwaZulu-Natal's "unbanked" and poor, the advent of commercial bank interest in these populations raises questions about how (or even if) Ithala Limited's own initiatives can remain relevant to those who have utilized them in the past. If the commercial sector is beginning to find innovative and sustainable ways of serving the "unbanked" and the poor, the logic goes, why should a government-owned DFI seek to compete with private sector ingenuity?

It is the objective of this study, through a process of semi-structured interviews with relevant research participants, to qualitatively examine the potential impact that these political and commercial pressures will have on Ithala Limited's future as a "banking" institution for the "unbanked" and the poor in KwaZulu-Natal. Specifically, this dissertation seeks to pose two main questions. First, how should Ithala Limited respond to these pressures? For example, should the organization acquiesce to the wishes of its political overseers and refrain from trying to "formalize" (i.e. license) its banking mandate? Similarly, should Ithala Limited acknowledge the new efforts of South Africa's commercial banks in trying to serve the "unbanked" and the poor and desist from acting as a public competitor to private initiative? On the other hand, does Ithala Limited still have something unique to offer these groups that can justify its continued presence in assisting these markets and its efforts to press ahead with becoming a more mainstream banking body?

Second, regardless of the path that Ithala Limited chooses to follow, how should it articulate its future mandate and how should it shape its corporate priorities to ensure that this mandate allows it to remain an effective development agent? For instance, if Ithala Limited decides that it can best assist the "unbanked" and low-income populations by remaining "in the banking game", what must it do (i.e. in regards to product variation, technology improvement, etc.) to become a viable competitor to its larger and more well-capitalized commercial counterparts?

1.2 Central Thesis

Taking these two guiding questions into consideration, this study will argue that Ithala Limited possesses a number of qualities that continue to make it a valuable and necessary actor in assisting the "unbanked" and the poor in KwaZulu-Natal. As a result, this paper asserts that Ithala Limited must adopt a cautious but principled approach to dealing with the political and commercial pressures being placed upon it. Specifically, it will be proposed that while Ithala Limited does not have to pursue a "formalization" of its banking activities (i.e. through licensing), it should press ahead in trying to remain a strong institutional actor in "banking" the low-income market. Second, it will be argued that for Ithala Limited to succeed in this endeavour, it must pursue a three-pronged approach to organizational reform that includes: 1) some degree of privatization to attract new sources of capital and to ease political fears surrounding the existence of a "state owned bank for the poor", 2) an emphasis on improved technology utilization to reduce operating costs and expand product variation and 3) a greater willingness to develop the organization's "homegrown" research capacity in order to better understand the "unbanked" and the poor and to cope with changes in national banking trends.

1.3 Structure of the Study

The first chapter of this dissertation provides a review of the prevailing literature pertinent to this study. Specifically, this chapter will seek to localize the aims of this research within a wider body of scholarly work on matters related to development finance and banking services expansion. While the primary focus of this section rests with considering the extent to which DFIs can act as viable and useful "banking" institutions in South Africa, the literature review also offers a perspective on the types of pressures faced by DFIs in an international context. Specifically, case studies from India and Uganda are employed to determine whether or not the political and commercial pressures facing Ithala Limited are "institution-specific" or if they are prevalent in other time and space contexts.

The second chapter provides a detailed account of the research methodology used to obtain the qualitative data analyzed in this study. Particular attention is paid here to describing data collection and analysis techniques. While the choice of specific research procedures will be defended vigorously in this chapter, the potential shortcomings of the methodology chosen will also be presented.

This study's third chapter offers a descriptive overview detailing both the history and contemporary operations of South African DFIs, with a particular focus being given to outlining the evolution of the Ithala Development Finance Corporation and Ithala Limited. In particular, this section seeks to provide a basis for understanding: 1) how these two components of "Ithala" have emerged from apartheid-era origins to adopt their current "pro-poor" organizational structures and financing priorities, 2) what role Ithala Limited currently plays in assisting the "unbanked" and the poor in KwaZulu-Natal and 3) why Ithala Limited's mandate in serving the "unbanked" and the poor is so controversial and why, as a result, both political and commercial actors are applying different sets of pressures to convince Ithala Limited to re evaluate its future role in "banking" these populations.

The fourth chapter provides an overview of this study's research findings as obtained from a series of semi-structured interviews with research participants. The primary aim of this chapter is to highlight the pressing concerns, opinions and recommendations expressed by interviewees as they were queried about issues surrounding Ithala Limited's banking role, its corporate priorities and the ideal focus of its future mandate. At the same time, this section will also link participant responses with ideas raised in earlier chapters and will comment on the ways in which these ideas can be used as a basis for future research.

The fifth chapter offers further analytical insights into the research findings and puts forward and defends this study's central thesis. Due to the relatively small-scale of the research conducted for this analysis, it would be imprudent to suggest that this section offers a distinctive "plan of action" for Ithala Limited to follow in setting its future goals. However, this chapter does attempt to clearly define some of Ithala Limited's pending challenges and it tries to identify what these challenges represent vis-à-vis Ithala Limited's ability to respond to political and commercial pressures. Finally, this chapter provides a set of recommendations that may be of some benefit in assisting Ithala Limited to remain the key developmental agent it has been for KwaZulu-Natal's "unbanked" and low-income populations since 1994.

Finally, a concluding section provides a brief recap of this study's central arguments and findings. Furthermore, this conclusion will offer suggestions for areas of future research on matters related to Ithala Limited, DFIs and general matters of development finance in South Africa.

2 Literature Review

The purpose of this chapter is to offer a review of the prevailing literature relevant to this study and to identify the common themes that have been raised by those economists (and other social scientists) who have previously chosen to engage with such issues as DFI corporate mandates and the "banking" of low-income communities. In offering this review, this chapter will seek to draw upon both South African and international case studies in order to localize the aims of this analysis within a wider academic environment. Furthermore, this section will attempt to seize upon the ideas and insights of other researchers as a means to provide a basis for understanding the importance of this study's central questions and overarching thesis.

This chapter is divided into two sub-sections which both touch upon the central concerns of this dissertation. The first sub-section examines the South African literature surrounding DFIs (including Ithala Limited) and looks at the extent to which they are likely to be viable and useful entities in serving the "unbanked" over the long-term. A second sub-section considers state-DFI relations in a non-South African context and endeavours to understand the ways in which governments and financial institutions (i.e. Reserve Banks) in other countries (namely India and Uganda) approach those DFIs that provide financial products and services to the "unbanked" and the poor.

2.1 The Viability and Usefulness of DFIs in the South African Banking Sector

In many respects, the debate about the viability and usefulness of DFIs serving as "banking" institutions encompasses the ongoing dispute within economics between contemporary proponents of state-driven "Keynesianism" and advocates of market-driven "financial liberalization". For Keynes, Goldsmith and Taylor, the utilization of a controlled but expansionary fiscal and monetary policy regime could be used to drive growth and create employment. However, these economists believed this could be done only by introducing a set of parallel policy reforms which included the expansion of the "institutional finance sector", the enactment of usury laws, the guiding of reserve requirements and the toleration of relatively low banking deposit rates (Desai and Mellor 1993, 6). In other words, if the state is to inject more money into the economy, then financial institutions must exist that are willing to abide by government-imposed limitations (i.e. in regards to usury) which are designed to make money more readily accessible to those who most require it. Because profit-seeking commercial banks are often unwilling to abide by these types of reforms, parastatal DFIs naturally come to be seen in the "Keynesian" world as alternative financing agencies that can be relied upon, as instruments of the state, to adhere to expansionary government directives without complaint.

Alternatively, more neo-classical or even neo-liberal approaches to economic theory call for growth to be generated via a process of "financial liberalization" that is accompanied by such reforms as institutional privatization, adopting flexibility in reserve requirements, eliminating usury laws (though national laws tend to keep these in place in most countries), indexing interest rates to prevailing inflation rates and finally, raising both lending and deposit rates (Desai and Mellor 1993, 6). In this type of market-oriented economic environment, it is not surprising that the rationale for DFIs to act as purveyors of government-backed financial assistance comes to be seen in a negative light. Furthermore, since a "financial liberalization" ethos tends to suggest that the growth-based benefits of liberalization will eventually "trickle-down" to the poor, the *urgency* of finding ways to directly serve the "unbanked" becomes less politically important as a means to reduce poverty. Within both the South African and international literature, the divide between the "Keynesian" and "financial liberalization" camps tends to guide scholarly views on whether or not DFIs have any role to play in a country's banking sector or if they have the potential to benefit the "unbanked" and poor over a long-term period of time.

Armendariz de Aghion and Morduch, for example, argue that when it comes to South Africa and other developing countries that have large numbers of "unbanked" and poor citizens, DFIs play a necessary role in offering finance cheaply and without following the profit-guided "typical investment patterns" of large commercial banks (Armendariz de Aghion and Morduch 2005, 68). Stated differently, they perform a "Keynesian" role in making finance more accessible at inexpensive prices than would be possible under a solely market-driven framework. Notably, however, the fact that commercial banks are guided by a desire for high returns is not deemed by these writers to suggest that these institutions are inherently *hostile* to serving the "unbanked" and the poor. On the contrary, Armendariz de Aghion and Morduch believe that it is the foremost goal of commercial finance bodies to expand their client base and to act as "catch-all" bodies seeking to attract as many potential customers as possible, regardless of their socio-economic status (Armendariz de Aghion and Morduch 2005, 29). However, what *does* prevent commercial banks from serving the "unbanked" and poor, according to these analysts, is the existence of usury restrictions and the fact that these cannot be reconciled with the operating and transactional costs associated with serving "unbanked" and impoverished constituencies that are often geographically remote and thus expensive to assist (Armendariz de Aghion and Morduch 2005, 34-35).

For DFIs such as Ithala Limited, on the other hand, Mosley argues that these high costs are still in place but because these institutions are not formal banks, they are not subjected to the same usury restrictions as commercial entities. Alternatively, if DFIs *are* subjected to usury limits, the fiscal discrepancy which exists between having to charge low interest rates while dealing with high operating costs can be passed onto the state which controls the DFI rather than cutting deeply into the profits of a commercial enterprise (Mosley 1996, 71). The implication of this argument is that while most states (including South Africa) have introduced "Keynesian"-backed restrictions on interest rates, these will act as a constraining force in preventing commercial banking institutions from wanting to serve low-income or "unbanked" individuals (at least while the costs associated with assisting them remain high). This is not a surprising argument and the fact that South Africa's "big four" banks have (until recently) shown such reluctance to serve sub-prime borrowers may be a reflection of this perspective.

However, it is questionable when speaking of the present banking climate in South Africa, whether Armendariz de Aghion and Morduch's views on usury acting as a constraint on commercial bank interest in the "unbanked" and low-income markets is as valid as these scholars suggest. It is clear, for instance, that even while following a partly neo-liberal economic program like the Growth Employment and Redistribution Strategy (GEAR), South Africa is not going to do away with usury restrictions and raise the possibility of "unbanked" and low-income individuals being subjected to "predatory" lending patterns based around unsustainable and poverty-perpetuating high interest rates. Indeed, following this plan of action would likely accomplish little more than discouraging these constituencies from interacting with banking agencies altogether and the overall numbers of "unbanked" people in South Africa would almost certainly rise. However, in spite of the high likelihood of usury restrictions remaining a key feature of the South African banking industry in the future, the “big four” banks have all chosen to adopt a Financial Services Charter that expressly commits them to serving the “unbanked” and the poor in a comprehensive manner in the years to come. Furthermore, products such as the Mzansi Account are already being offered to low-income populations at relatively low costs, demonstrating that the country’s commercial banks may be willing to forego some degree of profit-maximization in favour of a developmental goal.

Demographic shifts such as urbanization (which is bringing previously inaccessible rural “unbanked” populations into cities where the “big four” banks can more easily and cheaply access them) may explain why a newfound commitment to the “unbanked” and poor seems to be emerging within the commercial banking sector. It seems equally prudent to suggest, however, that usury restrictions may not be acting as the insurmountable barrier to “market entry” vis-à-vis the “unbanked” and the poor as Armendariz de Aghion and Morduch are arguing. If this is true, then a central question of this study, querying how Ithala Limited should respond to the onset of private sector interest in serving the “unbanked”, seems highly relevant. After all, a strong justification for Ithala Limited’s continued presence in the “banking the unbanked” has to do with its supposed “fairness” in offering poorer populations loan products at interest rates that are not “predatory” and which can be repayed without causing undue hardship to low-income borrowers. However, if the private sector is willing to offer similar products at equally “fair” interest rates and is willing to accept “Keynesian” limitations such as absorbing less-than-desirable costs to make finance more readily accessible to the poor, then what justification remains for a parastatal DFI like Ithala Limited to maintain itself as a competitor to a willing private sector institution?

Armendariz de Aghion and Morduch make a more convincing argument justifying the continued presence of DFIs in the banking industry when it comes to their assertions surrounding “information adequacy”. Specifically, these scholars claim that the mere willingness of DFIs to engage with poor communities and communicate with “needy” individuals, gives these bodies an inherent advantage over commercial banks when it comes to understanding how to best serve the “unbanked” and the poor. DFIs, these authors state, are more likely than their commercial financing counterparts to incorporate into their business plans the results of studies examining the savings habits of low-income people and will expend more energy into trying to understand why the “unbanked” and poor require capital and how they will use it. In turn, this allows “banking” DFIs to tailor their products and services to the particularistic needs of these groups to an extent that commercial banks grappling with a more diverse client base cannot hope to match (Armendariz de Aghion and Morduch 2005, 77).

Moreover, by possessing sound information, Armendariz de Aghion and Morduch argue that DFIs are able to avoid the problems of “adverse selection” vis-à-vis financing the “unbanked” which commercial banks almost always face as the result of their inadequate information on the financial habits of this population. Indeed, Armendariz de Aghion and Morduch imply that when it comes to serving low-income and “unbanked” clients, information asymmetry typically guarantees that commercial institutions cannot differentiate which low-income clients are likely to be “high risk” and which may be “safe” when it comes to lending. As a result, these banks are likely to consider the "unbanked" and the poor to be a single high-risk constituency and they will resultantly be timid in extending finance in the amounts necessary to really assist these groups escape their high-levels of poverty (Armendariz de Aghion and Morduch 2005, 121).

DFIs, on the other hand, possess a superior research capacity to the private sector in understanding the "unbanked" and poor people they deal with on a day-to-day basis and this means that they will also enjoy superior judgment in regards to determining the risk-levels associated with different clients. Most important, such "intelligence" will allow DFIs to be more generous in providing finance in amounts that can truly have an impact in denting poverty (Armendariz de Aghion and Morduch 2005, 129).

The above thesis likely overstates the quality of information possessed by DFIs and underestimates the information gathering capabilities of commercial banking institutions. Indeed, according to Schoombee, South Africa's "big four" banks have begun to drastically improve the quality of their demographic research (Schoombee 2004, 25). However, the *potential* of DFIs to be superior repositories of sound information on the "unbanked" and the poor when compared to commercial banks is an argument that likely holds more weight than assertions surrounding issues of usury. As will be detailed later in this study, the organization that is now Ithala Limited began serving the "unbanked" and poor on a small-scale when it was still the KFC (through "stokvel" financing) and as a result, it has undoubtedly gained a great deal of experience in understanding the savings and spending habits of these populations and it likely does possess sound knowledge of how to lend to these constituencies in a prudent manner. Also, there can be little doubt that if an organization like Ithala Limited is willing to extend credit in more generous amounts than commercial institutions, as Armendariz de Aghion and Morduch suggest, then it clearly has a developmental advantage over private sector firms simply in terms of the *scale* of its potential impact.

The introduction to this dissertation posed the question of whether or not Ithala Limited had something to offer the "unbanked" that justified its potential resistance to those political and commercial pressures that may cause the organization to re-consider its "banking" mandate. Clearly, the potential to offer more useful forms of financial assistance on the basis of superior information would suggest that even if commercial banks are beginning to show an interest in serving the "unbanked", an organization like Ithala Limited can still have a vital role to play in maintaining a strong presence. At the same time, if a DFI like Ithala Limited *is* in possession of superior knowledge, then a new question arises as to whether the organization should maintain its presence as a *competitor* or *complementary agent* to the "big four" banks in the future.

In particular, if Ithala Limited continues to press ahead with its (so far unsuccessful) efforts to gain a banking license, will this institutionalize Ithala Limited as a competing body to the private sector and likely deny commercial institutions the possibility of accessing Ithala Limited's potential reserve of information? If so, does this not defeat the purposes of development in preventing multiple agencies from trying to serve an impoverished constituency? Alternatively, if Ithala Limited does not become licensed and remains a more complementary force in the banking industry (i.e. operating on a small-scale but sharing its information with commercial banks that it is not directly competing with), will the “unbanked” and poor be better served in the long-run?

Unfortunately, despite the claims of Armendariz de Aghion and Morduch, neither they nor other scholars seem to have directly examined the issue of DFI “research capacity”. For instance, Dymski’s study of South Africa’s low-income banking trends acknowledges that “non-bank financing bodies” may possess demographic information of a higher quality than what is held by the “big four” banks (Dymski 2003, 26). However, he does nothing to substantiate this claim and does not offer any insights into what the implications of a potential “information imbalance” between these types of institutions may mean in the future. As a result of this gap within the literature, it is difficult to actually assess if DFIs like Ithala Limited really enjoy the superior level of information on the “unbanked” and poor that these academics proclaim. It is an objective of this study, in its final analytical chapters, to return to this issue of “information adequacy” and to comment upon the responses this matter elicited amongst research participants (particularly those closely associated with Ithala Limited’s operations). In doing so, this dissertation hopes to fill a gap in knowledge and contribute some clarification to the prevailing literature.

When it comes to issues of financial sustainability, perspectives surrounding the viability of “banking” DFIs as long-term helpers of the “unbanked” tend to be dominated less by “Keynesians” such as Armendariz de Aghion and Morduch and more by proponents of “financial liberalization” and market-based solutions to assisting the “unbanked” and poor. For Desai and Mellor, for example, it may be true that DFIs undertake “non-traditional investments”. However, rather than being the pro-poor virtue identified by Armendariz de Aghion and Morduch, these writers believe that such investments are nothing more than market-distorting government interventions operating under the guise of poverty reduction (Desai and Mellor 1993, 6).

Further arguments that non-market-oriented DFIs are not sustainable as long-term banking institutions can be seen in the neo-liberal arguments of scholars such as Gonzalez-Vega, whose dated but still relevant descriptions of Latin American DFIs can be seen as representing the typical ethos of the “financial liberalization” approach. According to this author, DFIs (which he calls “state financing agents”) should be commended for their “pro-poor” endeavours. However, he goes on to claim that being “pro-poor” means that these institutions are not able to charge fees high enough to adequately reflect the “scarcity of capital” which characterizes financial markets in developing countries (Gonzalez-Vega 1976, 112). Besides harming the financial sustainability of DFIs themselves, charging low fees while accepting equally low returns (i.e. in regards to deposit rates) will, according to Gonzalez-Vega, keep DFIs from possessing the capital necessary to offer the quality and quantity of products that are necessary to really assist the “unbanked” and poor in the first place (Gonzalez-Vega 1976, 112-113). Gonzalez-Vega, in other words, is making a similar yet polarized argument to Armendariz de Aghion and Morduch’s claims regarding usury. While the latter authors suggest that commercial banks cannot charge interest rates high enough to provide adequate assistance to the “unbanked” and low-income markets, Gonzalez-Vega asserts that it is actually *DFIs* that have problems with cost structures.

Desai and Mellor make similar claims to Gonzalez-Vega in suggesting that DFIs do not charge high enough interest or transaction fees to cover the relatively high costs they face in serving a population that provides only low levels of deposits (Desai and Mellor 1993, 6-7). These are notable arguments and yet they seemingly ignore the fact that DFIs such as Ithala Limited are government-owned bodies and that any higher costs they may face are passed on to government actors and are not absorbed by the institution itself. As a result, it is puzzling why these scholars seem intent on offering cost-based comparisons between DFIs (which arguably have more maneuverability when it comes to dealing with expenses – i.e. they can simply request different levels of government funding) and commercial banks (which have to be somewhat more cost-conscious) as the issue of "cost" has different implications for each type of institution.

At the same time, there can be little doubt that cost-effectiveness is an important issue and one that is of direct importance to this study. After all, the second central question posed in the introduction to this dissertation asked how Ithala Limited (regardless of whether it pressed ahead with attempts to "formalize" its "banking" role or not) should shape its future corporate priorities to remain a relevant development tool. It is obvious that if Ithala Limited is to serve development by remaining "in the banking game", it likely has to be capable of competing (even on a small-scale) with better capitalized and larger commercial institutions seeking to "crowd in" on its traditional customer base. As such, ensuring that products and services are made available in a cost-effective way is going to be vital to Ithala Limited's future sustainability. This will particularly be the case if aforementioned political fears of Ithala Limited acting as a "government-owned bank for the poor" prove strong enough to encourage the organization to pursue some degree of privatization, thus denying it the security of being able to rely on government funding for select activities.

Once again, however, while both "Keynesian" and "financial liberalization"-oriented literature makes clear the importance and potential difficulties associated with costing structures, little exploration is given as to how this matter should be addressed by either DFIs or commercial banks. For example, the issue of "technology utilization" and the means by which financial institutions can take advantage of such technologies as "Smartcards" (for use in retail banking) to reduce ATM-associated costs, is not explored even within contemporary studies (for example see Hawkins 2004 - which examines current South African banking trends but does not comment on any link between new technologies and cost reduction). Consequently, as is the case with "research capacity", this study seeks to expand upon the literature by making reference to an under-examined issue (technology and costs) in order to further academic knowledge surrounding the viability of DFIs as "banking" agents.

Finally, a further "financial liberalization"-based argument against maintaining DFIs like Ithala Limited as long-term or formalized banking institutions is made by Penelope Hawkins in her examination of South Africa's banking system and its impact on macroeconomic stability. For Hawkins, DFIs are non-viable not because of costs, but because the SARB will always be nervous about the impact that a DFI like Ithala Limited will have on "general confidence in the country's money" (Hawkins 2004, 90). In particular, she maintains that allowing DFIs to enter the banking market solely to serve "developmental" purposes will lead to the potential for "unguarded vulnerability" and unchecked increases in monetary flows that act to undermine prudential and other regulations put in place by the SARB to ensure the stability of the overall banking industry (Hawkins 2004, 190-191). While Hawkins acknowledges that a DFI such as Ithala Limited does act on a very small-scale when compared to the "big four" banks, she also states that this fact is not enough to comfort the SARB. Instead, she suggests that a different type of information asymmetry exists – not between banking institutions and the "unbanked" but between the SARB and DFIs – and that a lack of "perfect information" held by the SARB on DFI lending activities will lead the former institution into resisting any attempts to formalize (i.e. license) Ithala Limited's banking activities in the future (Hawkins 2004, 90). Once again, this argument is not unexpected and as noted in the introduction to this study, the political pressures facing Ithala Limited's "banking" mandate are born largely out of the fears that institutions like the SARB hold vis-à-vis what DFI sub-prime lending will mean for monetary stability.

To some extent, however, arguments such those made by Hawkins (and by association the SARB) are based on illogical notions. If a DFI like Ithala Limited is controlled by government, then surely it should be easier (rather than harder) for the SARB to obtain "perfect information" on the organization's lending activities, assuming that these are detailed in government records. Regardless, it would appear that the SARB's true dispute with Ithala Limited likely lies more with the *nature* of its sub-prime activities rather than issues relating to "information". When it comes to this study's central question of how Ithala Limited should respond to political/institutional pressures, therefore, it seems necessary to question to what extent Ithala Limited can be accepted as any type of "banking" institution as long as it continues to maintain an explicit focus on the "unbanked" and low-income markets. This is a concern reinforced by the following sub-section's focus on non-South African DFIs and their relationships with state institutions such as Reserve Banks.

2.2 "Banking" DFIs and Political Pressures in an International Context – India and Uganda

In an international context, DFIs have largely undergone a period of organizational decline since the onset of the "neo-liberal" revolution of the 1980s and early 1990s. Indeed, Harper notes that before 1980, state financing agencies existed across most of the developing world and in the Soviet-influenced Eastern Bloc. However, he suggests that with the increased influence of the Bretton Woods institutions and their calls for countries to undertake structural adjustment programs (SAPs), popular economic discourse came to see DFIs as "cumbersome" and unnecessary bodies that did more to distribute government largesse and market-distorting subsidization than to encourage development (Harper 2002, 16). As such, the number of DFIs operating in an array of areas as diverse as industrial financing, property management and banking were privatized or (more often the case) closed down across Latin America, Africa and the former Soviet Union as a means to streamline national finance systems across the globe (Harper 2002, 23). However, in certain countries that maintained relatively "closed" economies during this period (i.e. India), faced international economic sanctions that inhibited the adoption of SAPs (i.e. South Africa before GEAR) or were embroiled in civil conflict (i.e. Uganda), DFIs were maintained and have never been subjected to the intense scrutiny that they were faced with elsewhere. This sub-section examines two of these countries whose DFIs perform some type of "banking" role – India and Uganda – and considers the types of political pressures they face vis-à-vis this mandate.

In Uganda, no DFI exists that possesses Ithala Limited's explicit focus on the "unbanked" or which provides finance on a comparable scale to Ithala Limited's home and small business-support loans. However, Barnes *et al.* identifies the Foundation for Credit and Community Assistance (FOCCAS) as being a Ugandan micro-finance organization that possesses many of the characteristics of a "banking" DFI in regards to the comparatively expansive range of financial products and services it offers (Barnes *et al.* 1999, 88). For example, FOCCAS' clients, most of whom are "unbanked", are given access to basic savings accounts and are even provided with home insurance schemes (Newsletter of the European Development Finance Institutions 2005, 1), thus providing some degree of financial security to a (mostly rural) population that, like the "unbanked" in KwaZulu-Natal, cannot count on commercial banking institutions to provide such services. More important for the purposes of this sub-section, however, is that Barnes *et al.* classify FOCCAS as enjoying a high degree of government support and as an institution which has recently undergone a transition that has seen it become "licensed" as a formal bank operating on a small-scale in select rural areas.

It should be noted that Uganda's rural finance and micro-finance organizations, unlike Ithala Limited, are all privately run (often as non-governmental organizations funded on the basis of donor assistance) and they typically operate independent of government when it comes to their financing choices. As noted by the European Union (EU), however, many of these institutions have banded together to form the Ugandan Microfinance Union (UMU), an administrative umbrella organization that seeks to coordinate the various activities of the country's small-financing bodies when it comes to setting broad development objectives – i.e. in regards to setting targets for lending to women) but which does so under some degree of government supervision (Newsletter of the European Development Finance Institutions 2005, 1-2). Specifically, the Ugandan government controls a minority of positions on the UMU's Board of Directors and uses this position to help determine funding needs, to monitor the success rate of various micro-finance initiatives and to ensure that the financing choices of the constituent agencies are not harming macroeconomic health (Newsletter of the European Development Finance Institutions 2005, 2).

What is most notable for the aims of this study, however, is that once a particular micro-financing organization is judged to have achieved a certain level of success vis-à-vis serving the "unbanked", such as reaching a government/UMU-determined "optimum client base", the UMU's government representatives may make a recommendation that these institutions be considered for formal accreditation and the granting of a banking license (Newsletter of the European Development Finance Institutions 2005, 4). According to Barnes *et al.* and the EU, this innovative "pathway to licensing" acts as a positive developmental initiative as it encourages organizations such as FOCCAS (a licensed member of the UMU) to "build capacity" and improve the quality of its operations as a means to reap the benefits of becoming "formalized". For example, through licensing, it is argued by Barnes *et al.* that FOCCAS has found itself more capable of engaging in "parallel commercial activities" (i.e. developing new insurance programs for middle-class borrowers) that bring the organization more capital and which allow it to expand its developmental role by ensuring the availability of more money to be spent by the organization in assisting the "unbanked" (Barnes *et al.* 1999, 92).

Also, Barnes *et al.* note that because FOCCAS has been able to use its position within the UMU to prove its "competence" to government, it has earned a high degree of trust from policymakers as an institution capable of providing finance to the poor without introducing Hawkins' "unchecked monetary flows" or taking any other actions which may impact negatively on the wider economy – though they also note that the scale of FOCCAS' operations make it unlikely to have much of an impact on monetary stability in the first place (Barnes *et al.* 1999, 95). As a result, it could be suggested that Hawkins' overall argument about "perfect information" is not without merit. In Uganda, it would seem, the ability of government to spend a period of time observing FOCCAS' operations (through the UMU) allowed it to collect enough "intelligence" on the organization's activities to be comfortable allowing it to formalize its position within the national banking sector. When it comes to Ithala Limited, however, South African policymakers *are* directly aware (and are shaping) the organizational practices of a parastatal DFI. As such, they already enjoy "perfect information" on its activities but still seem reluctant to consider following Uganda's lead in offering the organization a "formalization" of its banking mandate via licensing. Consequently, it seems necessary to consider issues beyond "information" when it comes to asking why Ithala Limited is currently faced with political pressures to not extend its banking role.

For example, while the Museveni government in Uganda has followed some degree of structural adjustment mandated by the World Bank and International Monetary Fund (IMF), the policies it has adopted do not call for the same level of discipline vis-à-vis privatization and monetary policy as is enshrined in South Africa's neo-liberal-influenced GEAR. As a result, the pressures facing Ithala Limited on problematic issues such as government "owning" a bank for the poor or the potential impact of its sub-prime lending activities on banking stability, should be expected to arise more intensely in South Africa than in a country like Uganda where these concerns are less paramount. Indeed, as Barnes et al. point out, enthusiasm for FOCCAS' licensing may have as much to do with a desire amongst government leaders to develop Uganda's underperforming and inaccessible banking sector – i.e. commercial banks and branches are seldom found outside Kampala – as much as for any real enthusiasm about FOCCAS itself (Barnes *et al.* 1999, 97).

The implication of this argument is that Uganda is less concerned than South Africa about issues of ownership and macroeconomic stability and is more worried about simply developing its banking sector. Accordingly, the types of political pressures confronting Ithala Limited are not yet areas of real concern in Uganda and organizations like FOCCAS are thus not facing these same challenges. Indeed, if they do face such challenges in the future, it may not be until after the Ugandan banking sector has been more fully developed to a level comparable with South Africa. When it comes to one of this dissertation's central questions regarding how Ithala Limited should respond to political pressures, however, the prevalence of these specific GEAR-induced concerns in South Africa make it difficult to see what "wiggle room"

Ithala Limited has to press its case for licensing. After all, if Hawkins and even Barnes *et al.* are correct in their suggestions that "information" is the key for establishing government-DFI trust, then it would presumably be possible for Ithala Limited to undertake initiatives in regards to data dissemination that could ease government and SARB fears about sub-prime lending. However, if opposition to Ithala Limited "formalizing" its banking mandate is based around notions of ideological preference and a belief that only private institutions should be formally offering financial products and services, then it becomes much harder for Ithala Limited to effectively respond to these pressures without first undergoing substantial organizational change – i.e. privatization.

Within the literature, the issue of banking industry de-regulation and even DFI privatization in South Africa has been well-considered. However, a study of the political pressures facing Ithala Limited and the organization's responses to them has the potential to offer new insights as to what extent overtly "pro-poor" bodies like DFIs can hope to maintain their traditional financing roles in environments characterized by "anti-*dirigiste*" policy preferences within government. The potential importance of organizational ownership and the divide between public and private can be reinforced by an examination of India and the political pressures facing that country's DFIs.

According to Ganesh-Kumar *et al.*, a country's decision to encourage its DFIs to play a developmental role through "banking" is directly related to whether or not it has adopted a "German-Japanese" style economic system that places the centrality of banking institutions at the heart of its financial structure or an "Anglo-Saxon" economic system that prioritizes the development of capital markets – i.e. stock markets (Ganesh-Kumar *et al.* 2002, 212). For those developing countries preferring the former style of economic organization, Ganesh-Kumar *et al.* along with Caprio and Demirguc-Kunt, argue that the "scarcity of long-term finance" that can be drawn-upon by mainstream commercial banks in poorer nations demands that state-supported DFIs emerge as "compensatory agents" to provide this much-needed finance to the lower and middle-class borrowers who commercial banks are unable to serve due to their own under-capitalization (Caprio and Demirguc-Kunt 1998, 174). In India, for instance, Caprio and Demirguc-Kunt suggest that commercial bank weaknesses (particularly in rural areas) combined with the Indian Reserve Bank's lack of political independence, have historically created a situation in which DFIs act as the primary overseers of rural credit provision and extend finance in values that, as Hawkins would say, greatly increase unchecked monetary flows (Caprio and Demirguc-Kunt 1998, 178).

Indeed, because Indian political elites have long accepted the notion that government should strongly influence (if not directly control) the country's Reserve Bank, rural agricultural DFIs like the National Bank for Agriculture and Rural Development, have been allowed to continually expand their operations with little regard for how their activities (i.e. large-scale farming subsidization) affect broader macroeconomic stability. This was done, according to Bell and Rousseau, to allow the state bureaucracy to gain leverage and control over the "commanding heights of the national economy", of which agriculture has traditionally been a vital component (Bell and Rousseau 2000, 3-4).

The fact that India prior to the late 1990s was a nation pursuing growth through a relatively "closed" economy (i.e. through the adoption of *dirigiste* policies such as import substitution industrialization – ISI), goes a long way to explaining the rationale behind the government using DFIs as a mainstream source of rural financing. However, it is questionable to what extent the scenario outlined above by Caprio and Demirguc-Kunt still exists in India. After all, while state-led development remains in vogue within many circles, India has arguably begun to move away from Ganesh-Kumar's "German-Japanese" system of economic organization and is now seeking to develop capital markets such as the Mumbai Stock Exchange.

This may explain why under the current "liberalizing" Indian National Congress (INC)-led government of Manmohan Singh, DFIs like the National Bank for Agriculture and Rural Development are coming under increased pressure to rein in their lending practices, adhere to more strict Reserve Bank monetary policy directives (though Bank independence remains in some doubt) and to be more cautious in their evaluations of subprime risk. Considering the fact that out of the 46,000 "financial bodies" currently operating in India's rural and peri-urban regions, only 35% are deemed to be in sound financial standing (Bell and Rousseau 2000, 5), it is not a surprise that a country now seeking to move away from *dirigisme* towards capital market development and export-led growth (similar to GEAR-oriented South Africa) would view the activities of DFIs in a more suspicious manner.

The political pressures confronting Indian DFIs such as the country's agricultural banks as a result of national policy shifts in favour of liberalization are not well-documented within the literature. Issues surrounding the ability of Indian DFIs to apply for banking licenses (or even if any have sought to do so), for example, remain nebulous and it is not clear if the state has passed any legislation or other directives identifying a political stance on DFI licensing in the first place. However, according to Wiseman, India's agricultural banks *have* begun to face political pressures on matters relating to who should be responsible for serving low-income and "unbanked" rural inhabitants. In particular, DFIs such as the National Bank for Agriculture and Rural Development are being encouraged by the state to avoid providing personal loans to low income households so that the country's commercial banks (which vary between state ownership and private control) can "step-in" and begin providing these types of products to rural constituencies instead (Wiseman 2003, 17). Wiseman suggests that like South Africa, India's commercial banking institutions have been reluctant to serve the "unbanked" in the past due to issues of perceived creditworthiness (and likely as the result of caste discrimination) but that this is beginning to change as India's strong economic growth creates a more "confident" banking sector willing to take on greater risks to serve a developmental purpose (Wiseman 2003, 19).

As is the case in South Africa, it would seem on the basis of Wiseman's account that the responsibility for serving the "unbanked" and the poor is being viewed by the Indian national government as something to be ideally accomplished by commercial institutions rather than DFIs. While the adoption of more market-driven economic policies such as GEAR was suggested as a reason for this belief in South Africa, it seems reasonable to put forward the notion that a similar rationale is at work in India. As the economy moves from a "closed" to more "open" framework, the pressures emanating from SAPs, global capital and other sources all conspire to pressure the Indian and South African states to move away from using parastatal finance institutions to serve a development goal and to instead adopt a preference for commercial banks to play this role, regardless of the questions that still exist regarding their capacity to be effective in doing so. As was noted earlier, DFIs were largely eliminated from the international scene in those regions which pursued neo-liberal policies in the 1980s and early 1990s. This was not the case in India or South Africa (prior to GEAR's adoption in 1996) due to these countries' lack of "openness" to the global economy and their consequent lack of exposure to the "Washington Consensus" and its demands for "free market-at-all-costs" economic policymaking. However, now that these states are more fully integrating with global markets, the pressures other nations have faced in regards to their DFIs have simply "caught-up" to India and South Africa and it is thus doubtful whether institutions like Ithala Limited can continue, as explicitly statist entities, to enjoy the same privileges in terms of their operational scope as was previously possible.

For the purposes of this dissertation and its central questions, the implication of this focus on private vs. parastatal is that any discussions surrounding Ithala Limited's future and how it should respond to political and commercial pressures must be willing to address issues of firm ownership. While it may the case that DFIs do possess superior information on the "unbanked" and can better absorb the higher costs associated with serving this constituency (due to costs being passed on to government), the growth of commercial banks in developing countries like South Africa along with the adoption of more market-oriented economic regimes, means that parastatal financing bodies may not be accepted as policy instruments over the long-term. In the case of Ithala Limited, the fact that this organization has been as successful as it has in serving the "unbanked" and the poor means that its absence from the South African finance sector would be unfortunate. To maintain its presence, however, Ithala Limited may have to acquiesce to the apparent dominance of market demands and pursue either partial or total privatization if it wishes to access a banking license and "formalize" its mandate.

While privatization would again raise fears within the SARB about the existence of a sub-prime-oriented bank, it would at least allay this institution's worries about government potentially *owning* such a bank. More important, however, is that the potential for privatization raises an important theme that has surprisingly gone under examined within the literature: how can development-focused DFIs remain "pro-poor" if called upon to take on commercial characteristics? It is difficult to imagine, for example, how a privatized Ithala Limited could maintain a specific focus on the "unbanked" and low-income markets if a need to be profitable enters more firmly into the organization's corporate priorities. At the same time, perhaps privatization would provide Ithala Limited the opportunity to "branch out" into new sectors (i.e. the black middle class), expand its range of products and services and use the returns on these to fund its initiatives for the poorer components of its client base. This study's final two chapters will consider the issue of privatization and whether it constitutes an effective strategy of response for Ithala Limited vis-à-vis the pressures it faces.

3 Research Methodology

The purpose of this chapter is to offer a detailed outline of the research methodology used in this study. This chapter is particularly concerned with justifying the research process utilized in this analysis and seeks to do so by drawing upon the methodological preferences employed by other scholars writing in the field of development finance.

This chapter is presented in two main sub-sections. First, the qualitative research techniques used to collect relevant data are described and given justification. Second, the means by which this data has been analyzed for presentation in the final two chapters of this study will be put forward. While the choice of research techniques adopted in these two sub-sections will be strongly defended, potential shortcomings of these methods are also given due consideration.

3.1 Data Collection Techniques

Before specifically addressing the types of data collection techniques used in this study, it is important to first draw attention to two particular characteristics of this dissertation's methodology. First, the research carried out for this analysis is *qualitative* in nature and is accordingly concerned with collecting descriptive data that can be used to "see the world through the eyes of research participants" (Nieuwenhuis 2007, 51). Stated differently, this analysis aims to be "idiographic" in that it sees research participants as each having a subjective and unique view of the matter being discussed (how Ithala Limited should respond to the political and commercial pressures it currently faces). Moreover, by considering these varying perspectives, the researcher is able to focus on the meanings of what respondents choose to divulge while also comparing the descriptive information given by one respondent with the information given by others as a means to arrive at a set of general conclusions. This stands in contrast to a more quantitative and "nomotheitic" line of enquiry, which would necessitate the development of statistically valid samples to be used by the researcher in drawing up sets of more objectively-based "laws" regarding particular phenomena.

An implication of choosing a qualitative rather than quantitative approach to research, however, is that while the latter emphasizes the importance of achieving "broadness" vis-à-vis data collection (i.e. surveying as large a sample size as possible through short questionnaires), a qualitative approach is more focused on the "depth" and "worth" of the data being considered. As such, qualitative studies are more interested in ensuring that the researcher spends enough time with each individual participant to be able to query participant views, gain clarification on certain participant ideas and even promote a sense of interest and enthusiasm amongst participants in the research they are partaking in (Nieuwenhuis 2007, 52-53). This study has chosen to adopt the values of this type of approach and sees greater value in gaining an *in-depth* understanding of the perspectives held by a select few interviewees. As a result, while only nine respondents were selected for participation in this study, a great deal of time (an average of between sixty and ninety minutes) was spent with each participant. Consequently, the "thoroughness" of the research conducted should be seen as compensating for the relatively small number of individuals who were actively approached to contribute to this study's research process.

When compared to similar studies in the field of development finance (particularly in South Africa), this study's qualitative tactics tend to be commonly adopted. For instance, both Gary Dymski and Stephen Daniels, in their respective analyses of DFIs and low-income banking trends, base many of their conclusions around the responses they gained from conducting detailed qualitative interviews with selected research subjects. In addition, both of these authors, in common with this study, conducted an average of nine to ten interviews to collect their relevant data (see Daniels 1998 and Dymski 2003). While quantitatively-oriented studies have been conducted in a few development finance-based papers, most notably in Penelope Hawkins' examination of the South African financial system after 1994 (in which she employs a linear regression, chi-square and other research methods), such studies tend to be in the minority and are often seen, in the words of Michael Stommhouse, to "miss the nuances" associated with "low-income banking trends" (Stommhouse 2006, 26). Qualitative studies, while imperfect, are viewed by Stommhouse as better able to "delve into the *why* of national banking matters" and are thus more useful for policy purposes (Stommhouse 2006, 28-29). This study concurs with Stommhouse's perspective and views the adoption of a qualitative approach as being more appropriate for this study's examination of Ithala Limited.

The second aspect of this dissertation's research methodology that is important to take into consideration is that when it comes to the overriding research design, this study is employing a "case study" perspective rather than a strategy oriented towards "ethnography", "action research" or "historical research" (though the latter will be used somewhat in the next section dealing with the history of South African DFIs). According to Nieuwenhuis, a "case study" (i.e. Ithala Limited) does not just deal with a particular issue/subject but seeks to understand how "various participants relate with each other" and how their interactions help them to "make meaning out of the phenomenon under study" (Nieuwenhuis 2007, 75). For the purposes of this analysis, this definition may be adopted to refer to how individuals in differing professional capacities (i.e. those within the KwaZulu-Natal provincial government, those associated with Ithala Limited, etc.) make sense of common problems (i.e. political and commercial pressures) and how their differing perspectives on these problems can be interpreted to make sense of Ithala Limited's possible options in its attempts to respond to them.

Unfortunately, while a "case study" is deemed an appropriate model of analysis for this study to pursue, any research design modeled on a "case study" approach has its drawbacks. In particular, because a "case study" is focused on a single issue (or in this dissertation's case, a single organization) and the specific characteristics surrounding that issue, this methodology does not lend itself well to generating what Archer et al. call "solid, generalizeable conclusions" (Archer et al. 1998, 64). For example, it is difficult to analyze the pressures facing Ithala Limited (and its responses to them) and then propose recommendations for other DFIs whose institutional pressures are entirely different. At the same time, given that the introduction to this dissertation made clear that the focus of this analysis revolves *specifically* around Ithala Limited's role as a "banking" institution, this potential drawback of the "case study" methodology is not considered to be of great concern. On the contrary, an intensely focused examination of the topic at hand would seem to offer benefits in regards to keeping this study disciplined, readable and more accessible to other scholars who may wish to make use of it for future research.

The method by which data was collected for this study was through a series of semi-structured interviews, with potential participants being approached as an outcome of both purposive and snowball sampling procedures. The majority of individuals approached to participate in the research for this paper were identified through the use of two separate sampling frames: 1) a personnel directory provided by the Ithala Development Finance Corporation and 2) a similar personnel directory maintained by the KwaZulu-Natal provincial government's Department of Economic Development. Using both of these sampling frames, a purposive sampling procedure was followed to select particular individuals to be contacted for relevant insights. For example, since this analysis is concerned with the future "banking" role of Ithala Limited, it made sense to directly approach those individuals who hold (or held in the past) some degree of influence vis-à-vis this organization's decision-making process (either with Ithala Limited itself or within the provincial government which oversees its operations).

As such, participants selected through purposive sampling included: 1) a representative from the Ithala Development Finance Corporation's Board of Directors, 2) the Corporation's Chief Executive Officer (CEO), 3) the Corporation's Chief Economist, 4) Ithala Limited's former Managing Director, 5) the former head of the KwaZulu-Natal government's Department of Economic Development and 6) the General Manager of the KwaZulu-Natal government's Gijima Local Economic Development (LED) Project who has worked with Ithala Limited on a number of "unbanked"-focused anti-poverty measures. At the same time, the names of three of the participants contacted for this study's research – a former CEO of the Ithala Development Finance Corporation and two low-income "customers" of Ithala Limited's banking services – were provided to the researcher by other respondents, thus allowing some degree of snowball sampling to be unexpectedly incorporated into the research procedure.

The interview process itself occurred in a "semi-structured" manner with all research participants. Specifically, while a set of pre-determined questions was provided by the researcher to all interview subjects in the hope of addressing a number of the central issues pertinent to this study, the researcher was also careful to note the responses these questions elicited and used these responses as a means to ask new questions, raise alternative issues and open new lines of enquiry. As Nieuwenhuis suggests, the use of semi-structured interviews in the research process can be problematic given that the researcher is providing subjects with enough "open-endedness" to raise "trivial aspects not related to the study" (Nieuwenhuis 2007, 87). However, this should still be seen as preferable to a "structured interview" approach which has the potential to miss many of the nuances, personal stories and subtle criticisms that a more "open-ended" discussion can provide. A semi-structured approach was also deemed by the researcher to be more appropriate than a fully "open-ended" interview style which more dangerously ran Nieuwenhuis' risk of failing to adequately address central issues and concerns. Once again, the fact that other writers such as Daniels have also subscribed to a semi-structured approach to interviewing research participants, reinforced the belief that this study was following an appropriate methodological model when placed in comparison with other relevant studies.

Finally, an issue related to data collection – data coding – should also be considered. At the request of all research participants, given their desires for personal privacy, a decision has been made by the researcher to not use the actual names of respondents in the final chapters of this report but rather to refer to each individual by their professional titles (for which permission was given by all respondents). In this regard, it will be more difficult for participants to have their contributions to this study used against them in the future, something that was a particular ethical concern of the researcher in undertaking this dissertation. From a research quality perspective, providing respondents with this degree of confidentiality also ensures a greater willingness on their part to divulge information and express new and innovative ideas that they may have refrained from sharing had such discretion not been utilized.

3.2 Data Analysis Techniques

When it comes to analyzing the data obtained from research participants, this study has chosen to pursue a "content analysis"-based methodology. While many alternative means of analysis could be adopted for a project of this study's scope, "content analysis" is specifically focused on looking at interview data from different analytical perspectives with a view to identifying the key "messages" (Nieuwenhuis 2007, 101) that are being imparted by participants to the researcher. By critically engaging with these "messages", "content analysis" assumes that the researcher will be in a position to more authoritatively identify and understand those issues that are most important to the focus of the overall study while also distinguishing those that are less worthy of intense consideration (Nieuwenhuis 2007, 101-102). Stated in a different manner, "content analysis" allows the researcher, through the use of written transcriptions of the interviews conducted, to compare and contrast the responses given by each participant to various questions (or even the same questions) and on a different level, to try and ask *why* some participants hold to certain beliefs on particular matters while other participants highlight alternative concerns, raise new issues or adhere to very different interpretations of the matters at hand (Archer et al. 1998, 74).

In this study, for example, it is of great importance when seeking to comprehend Ithala Limited's future "banking" role, to understand the differences in perspective that may exist between a Managing Director who is primarily concerned with ensuring the availability and quality of banking products versus a Chief Economist whose concerns rest with balancing the cost-effectiveness of various organizational priorities. While the general opinions of these two figures may be overwhelmingly similar, there may also be differences in outlook that arise on the basis of their differing professional positions, individual personalities or past experiences and which are prudent for the researcher to consider. "Content analysis", by focusing on the "messages" provided by these two individuals and by undertaking a "constant comparison" (Yaron 1992, 34) of the responses they provide to specific interview questions, offers a means to identify such differences, recognize important commonalities in opinion and to query why each individual believes what they do and what the implications of these beliefs may be for the ways in which Ithala Limited responds to prevailing pressures.

When it comes to the analysis of research findings provided later in this report, the importance of this study's use of "content analysis" lies with the fact that it ensures that the views of each respondent are interpreted while taking into consideration not just what respondents say but *why* they may say it and *why* they may concur/not concur with other research participants in different professional capacities. In addition, because "content analysis" is geared to understanding nuances and views the opinions presented in interviews as being subjective and "individual-specific" (Archer et al. 1998, 82), this report seeks to avoid broad generalizations (i.e. it does not present an "Ithala" position versus a "provincial government" or SARB position) but instead accepts that any opinions presented are likely to be "personal" in nature to participants and thus not appropriate to ascribe to a wider corporation or group of individuals.

Within the South African literature in the development finance field, a notable shortcoming exists in regards to research methodology related to data analysis. Specifically, few writers seek to explicitly outline their methodological preferences for analyzing qualitative data and instead present only a cursory explanation of how they obtained relevant information before presenting it as dependable evidence for their respective arguments (see Kajimo-Shakantu and Evans 2006). As such, it is difficult to judge the extent to which "content analysis" has been used in other studies when compared to such alternative methodologies. However, given the objectives of this study and the fact that it is dealing with institutions and political processes along with more conventional development-based issues (i.e. expanding access to banking for those with low-incomes), the emphasis that "content analysis" displays in seeking to understand why certain questions are answered in specific ways by different individuals is taken by this researcher to be the most appropriate methodological path available.

4 A History of DFIs in South Africa and the Evolution of "Ithala"

The objective of this chapter is to give a descriptive overview of the historical processes involved in the transformation of South African DFIs as they moved away from their apartheid-era origins to become the "developmental tools" they are today. Furthermore, this chapter will seek to trace the emergence of both the Ithala Development Finance Corporation and Ithala Limited as they evolved from their beginnings as the "Bantustan" financing body known as the KFC. In particular, by detailing the means by which the KFC underwent the corporate reform necessary to become "Ithala", this chapter attempts to put into perspective the importance of both the Corporation and Ithala Limited as highly successful DFIs in the national context. Finally, the recent history of Ithala Limited as it relates to the institution's role in serving the "unbanked" and the poor will be briefly detailed as will an explanation for why both state agencies (i.e. the SARB, the KwaZulu-Natal provincial government, etc.) and South Africa's commercial banks are coming to apply pressure on the organization to alter the nature of its "banking" mandate.

4.1 A History of Development Finance Institutions in South Africa, 1959-1994

For South Africa, the period following the end of World War Two was a time of substantial economic change. While the national economy was still oriented towards serving what Charles Feinstein calls the "sectional interests of white agriculture and mining" (Feinstein 2005, 143-144), it was also becoming characterized by the emergence of a strong manufacturing sector expanding on the back of large capital investments (typically made by mining conglomerates such as Anglo-American), entrepreneurial confidence and a plentiful supply of cheap "African" labour (Feinstein 2005, 174). For the country's privileged white minority, secondary sector growth was seen as a guarantor of future stability and something that would allow South Africa to become more internationally competitive within the recovering post-war global economy. However, for the proponents of Afrikaner nationalism and the National Party (NP) which espoused its ideals, a growth in urban-based manufacturing also posed a considerable challenge. Specifically, if growing factories were to rely on the unskilled work performed by black Africans for their production, then there would inevitably be a "rush" of black labourers (and their families) to cities such as Johannesburg in search of available employment and higher real wages (Feinstein 2005, 143).

Not surprisingly, such a prospect was unacceptable for a political organization advocating the "separate development"-based values of what would become the apartheid system. Consequently, after its electoral victory in 1948, the NP introduced a number of discriminatory pieces of legislation such as the Population Registration Act (1950), the Reservation of Separate Amenities Act (1953) and of course, the notorious Group Areas Act (1950). While overtly racist political laws were a defining feature of South Africa long before the formalization of apartheid, the passing of these bills provided a new intensity to the "racialization" of South African society (including the economy) (Horrell 1973, 6). Moreover, the NP successfully used this legislation to bring about the creation of the "homelands" (also known as "Bantustans"); isolated reserves located away from major urban (white) areas which, through their use as "dumping grounds" for millions of displaced Africans, soon became overpopulated and agriculturally exhausted (Feinstein 2005, 155).

For much of the 1950s, this financing tended to be sporadic and its distribution was conducted by the South African Bantu Trust, an organization created under the terms of the 1936 Bantu Trust and Land Act. Each year, the Trust was granted a set level of financing by parliament (by way of the Revenue and Loan votes within the Department of Bantu Administration and Development) to be spent on such projects as basic housing construction, the building of irrigation systems in "homeland" areas, etc. (Horrell 1973, 64). In 1959, however, parliament chose to pass the Bantu Investment Corporation Act in order to establish a fully-fledged corporate structure to be known as the Bantu Investment Corporation of South Africa Limited (BIC). The rationale behind BIC's creation, according to government records, was to replace the often haphazard parliamentary oversight of the Bantu Trust with an organization that would have its own Board of Directors and would thus be able to tackle pertinent financing issues more effectively on a day-to-day basis (Horrell 1973, 70). Belying this ostensibly noble objective, however, was the fact that the Board was to be appointed directly from within the NP ranks and was accordingly composed entirely of white representatives with little interest in promoting any type of meaningful "homeland" development.

Regardless, BIC did succeed in delivering some positive outcomes in the form of investing in industrial and commercial ventures and its personnel did provide "technical advice" to "homeland" leaders on such issues as infrastructure engineering (Horrell 1973, 71-72). At the same time, most of these investments were made to benefit the ruling NP government in Pretoria and as most "homeland" leaders were perceived as corrupt and autocratic, few likely had any real interest in facilitating development within their jurisdictions in the first place. Industrial investments, for instance, often took the form of BIC helping to establish factories on the periphery of "homeland" areas that could provide jobs for local African residents. However, the profits made from these enterprises were usually captured solely by white industrialists (or on a larger scale, by Afrikaner capital as a whole) and were seldom re-invested into providing any benefits for the "homelands" or their people (Beinart and Dubow 1995, 115). As South Africa's first true DFI, however, the value of BIC in enhancing the importance of development finance in national discourse should still be considered significant.

Indeed, arguably BIC's most important contribution to the long-term development of DFIs in South Africa lies with the fact that it provided the share capital used to establish and finance the growth of the "Bantustan" finance corporations that emerged out of the Bantu Homelands Development Corporations Act of 1965 (Horrell 1973, 73). Under this Act, a host of new DFIs were established, most notably the Xhosa Development Corporation (to serve Transkei and Ciskei) and agriculture-based institutions such as the Bophuthatswana AgriBank (Horrell 1973, 74). Over time, BIC also provided the capital needed to launch other "homeland"-specific DFIs such as the KwaZulu Development Corporation Limited (KDC), which did not become consolidated until 1978. The common theme amongst these "Bantustan" corporations lay with their shared mandates to provide "development assistance" within their designated areas and to "serve the interests of the 'homeland' authorities" (Beinart and Dubow 1995, 173).

In reality, each of these institutions was controlled by Pretoria and like BIC, had their Board of Directors directly selected by the NP government (Morrison 2000, 32). From an operational perspective, however, this new set of DFIs gradually took over the functions of BIC, leaving the latter institution (which was eventually re-named the Corporation for Economic Development Limited or CED in 1977) little more than a financier for these regionally-based organizations (i.e. "Bantustan" finance corporations were not allowed to raise funds on the open market and thus relied upon BIC/CED for loans on top of their share capital) (Morrison 2000, 36-37).

The types of projects financed by the "Bantustan" DFIs varied between organizations but they rarely deviated from the kinds of ventures that had been pursued by BIC. The Xhosa Development Corporation, the KDC and the "homeland" agricultural banks, for instance, all specialized in channeling subsidized credit to assist commercial farming, small industry growth, housing construction and road-building schemes within their respective areas (Morrison 2000, 40). Unfortunately, the widespread abuse of power employed by "homeland" leaders (expressed most clearly through the embezzlement of investment funds and other types of corruption) helped to ensure that despite the substantial sums often provided by these DFIs (i.e. capital investments in agricultural irrigation systems tended to involve millions of Rands), little in the way of discernable development was achieved (Beinart and Dubow 1995, 34). Moreover, the prevailing conditions within the "homelands", particularly the lack of agricultural viability they enjoyed due to poor soil fertility and overpopulation, meant that many of these DFI-backed initiatives were always of questionable value and were undoubtedly undertaken more "to make the apartheid regime and its sycophantic 'Bantustan' leaders appear humane" (Jakobsen 1999, 431) rather than out of any expectation or desire for positive change.

Throughout much of the 1970s, however, these regionally-oriented corporations remained the predominant providers of development finance to the country's impoverished African areas. While BIC/CED remained a major contributor of the operating capital needed to keep these DFIs solvent, its power was gradually reduced as the state introduced new "fiscal arms" such as the South African Development Trust (SADT) to take on a greater part in providing state finance and to play an oversight role vis-à-vis the daily operations of these institutions (Mager 1999, 67). This was particularly the case after the passing of the Self-Governing Territories Constitution Act of 1971, in which "Bantustan presidents" were given enhanced powers to make their own development decisions without necessarily having to seek consultation with the Department of Bantu Administration and Development. By operating more than one oversight organization (i.e. by having both BIC/CED and SADT) the NP deemed itself more capable of "keeping tabs" on the types of activities being bankrolled in the "homelands" while ensuring that funds were not being expropriated to fund political opposition (Mager 1999, 82).

In the context of long-term DFI development in South Africa, the existence and influence of the "Bantustan" finance corporations can ultimately be observed in two important ways. First, it was these institutions that would become the main focus of African National Congress (ANC) transformation efforts once democracy had been achieved and Nelson Mandela's government came to envision development finance as a tool to be specifically used in addressing poverty at the *regional* and *local* levels. Second, the KDC (which was itself renamed the KwaZulu Finance and Investment Corporation or KFC in 1984) took a number of tentative steps beginning in the mid-1980s to involve itself in the provision of what could be termed micro-financing to the so-called "unbanked" poor. In particular, the KDC made limited amounts of capital available to KwaZulu residents who were able to form themselves into informal group-based rotating savings and credit associations known as "Stokvels" (Schoombee 2000, 4). Once such groups had been established, individuals would be able to request small loans from KDC officials on a rotating basis for such needs as purchasing inexpensive farming inputs or to undertake housing improvements. The wider group, on the other hand, would provide a type of social collateral by placing collective pressure on loan recipients to repay what they borrowed so as not to damage the creditworthiness of the collective unit (Schoombee 2000, 4-5).

While this micro-financing was hardly a vital component of the KDC/KFC's portfolio and was often looked down upon by the state (which tended to fear that group associations would inherently possess political intentions), the

KDC/KFC's actions in this regard mark the beginning of a shift in perspective in which DFIs began to recognize the potential value of expanding their financial services to individuals (i.e. through the provision of private loans) rather than simply focusing on larger-scale and more capital-intensive activities (i.e. small industry financing). For the purposes of this study, these developments are also important as it is the KDC/KFC which would emerge to become the Ithala Development Finance Corporation (and Ithala Limited) after 1994. This initial interest in "stokvel financing" demonstrates that this particular DFI's interest in serving the "unbanked" and the poor did not simply emerge as a post-apartheid initiative but as something which appeared quite early in the organization's history. Indeed, based on these efforts, it could be argued that the KDC/KFC acted to help pioneer the notion of serving the "unbanked" within South Africa, thus giving the institution that is now Ithala Limited a high degree of "moral leverage" on any claims it has to remaining an important player in serving this market.

In the 1980s, a new economic outlook was coming to be adopted by the ruling NP. Whereas the period up until the late 1970s had been characterized by highly *dirigiste* economic policies (i.e. import-substitution industrialization), the growth and improved competitiveness of Afrikaner capital convinced the state to begin pursuing a "gradual liberalization of the South African financial system" by the turn of the decade (Habib and Padayachee 2000, 247). For South African DFIs, this new policy direction would invariably change the character of their operations. In particular, while the largely unprofitable nature of DFIs (particularly the agricultural banks) was tolerable under a system of generous state support for financial institutions, a process of liberalization required corporations to adopt what Andrie Schoombee calls the "financial systems approach to development finance" (Schoombee 2000, 10). Under this guiding philosophy, DFIs would have to strive for profitability or at the very least they would have to minimize their losses by assuming a more selective financing criterion (Schoombee 2000, 10-11). The establishment of the Development Bank of Southern Africa (DBSA) in 1983 was in large part an attempt to "rationalize" the operations of the "Bantustan" corporations so that they would follow this new approach rather than remain tools to be used by "homeland" leaders to undertake investments with little chance of optimal return (i.e. agriculture subsidization) (Hirsch 1986, 373). With the advent of the DBSA, the Corporation for Economic Development had its operations discontinued and a greater streamlining of responsibilities amongst national DFIs was put into place.

For example, BIC/CED often undertook conflictual and contradictory actions vis-à-vis its financing decisions. In many cases, the organization (even once its role had been reduced to a largely supervisory position) would seek to invest in its own agricultural projects while also providing the funding for the "Bantustan" corporations to undertake similar, if not parallel ventures (Hirsch 1986, 375). With the establishment of the DBSA, this poor usage of development finance was no longer the norm. Instead, the autonomy of the "Bantustan" corporations became even more clearly defined, with DFIs such as the KFC now having practically all control over finance decisions related to agriculture and industry (as well as the ability to raise their own capital on the open market) while the new DBSA would concern itself with large-scale financing (i.e. dealing with sums that were beyond the ability of the "Bantustan" institutions to independently raise), offering technical assistance, undertaking research and playing an oversight role in regards to ensuring sound management within the DFI sector (Hirsch 1986, 376).

The issue of "oversight" was particularly important, with the DBSA recommending that all "Bantustan" corporation projects (even if not directly funded by the DBSA) be subjected to its own "project cycle" evaluation procedure. Under this system, each investment plan underwent an initial appraisal, a process of stakeholder consultation and even a post-implementation evaluation study in order to ascertain whether the investment had achieved its stated objectives (Hirsch 1986, 376). For those DFIs that chose to buy into this process, it became more difficult for "homeland" leaders to embezzle funds and projects were planned with enough forethought to be much more effective in facilitating development than was previously the case (Jakobsen 1999, 473).

This is not to suggest that the improved use of development finance in any way succeeded in making the "homelands" economically viable or that it truly addressed the abject poverty that Africans living in "homeland" areas were subjected to. However, the fact that DFIs began to prove themselves as being capable of delivering some meaningful change (i.e. the agricultural banks began moving away from subsidization towards projects such as financing the construction of cooperative warehouses where farmers could store and have shared access to such inputs as fertilizers), likely played a role in explaining why DFIs were not abandoned after 1994 but were instead viewed by the ANC as being potentially useful entities to utilize in its own planned "war" against poverty and inequality. Notably, the DBSA did not exist solely to manage development finance as it related to serving the African population. On the contrary, a number of DFIs were also in existence to serve the interests of white capital but which also enjoyed a (loose) relationship with the DBSA. These DFIs included the IDC, which was established in 1940 and the South African Housing Trust (incorporated in 1973). While many of these organizations would be eliminated after 1994 due to being seen as "redundant" by the ANC, those that did survive (particularly the IDC), have come to play important roles in facilitating development within the "new" South Africa and they are therefore also worth mentioning.

By the late 1980s, with apartheid being gradually brought to a close by the government of F.W. de Klerk and the ANC being "unbanned" in 1990, a new political order was beginning to be established that would fundamentally change the roles that DFIs would play in aiding development. However, the prevailing situation in the period leading up to the creation of the Government of National Unity (GNU) remained distinguished by the continued importance of the "Bantustan" finance corporations (though they each enjoyed varying levels of capitalization) and the existence of a strong centralized body in the form of the DBSA, which acted to oversee the functioning the country's development finance system as a whole. The following section sets out the transformation process that DFIs were subjected to after the ANC's electoral victory in 1994 and it tracks the evolution of the KFC as it developed to become a new corporate body known as the Ithala Development Finance Corporation.

4.2 The Restructuring of DFIs after 1994 and the Emergence of the Ithala Development Finance Corporation

In the midst of South Africa's transition to democracy in 1994, the transformation of the country's development finance sector was never given a great deal of political priority. The new ANC-led government of Nelson Mandela was clearly mindful of its obligation to convert apartheid-era economic institutions into bodies reflecting South Africa's "new democratic dispensation". However, the potential for a renewed round of violence between the ANC and backers of the Inkatha Freedom Party (which had characterized much of the period from 1990-1994), made the GNU hesitant to deal directly with the issue of DFI restructuring; a matter which had quickly become seen by various political actors as encompassing debates surrounding national versus provincial rights (Daniels 1998, 72). Specifically, it was reasoned by organizations like "Inkatha" that the "Bantustan" finance corporations, as entities which had ostensibly served sub-national authorities (the "homeland" leaders) under apartheid, should naturally be transferred to the authority of the country's *new* sub-national bodies (the reconstituted provinces) (Daniels 1998, 74-75).

The national government, while generally in agreement with this argument, nonetheless felt that placing these corporations under provincial jurisdiction (particularly within "Inkatha"-led KwaZulu-Natal) would make any attempts to subject them to a process of "democratic institutional reform" exceedingly difficult. After all, the procedure would be prone to being exploited by "Inkatha" leaders who hoped to point to disagreements between themselves and Mandela's administration (i.e. over the topics of institutional restructuring and control over development finance administration) as a rationale to call for "loose federalism if not to boost the credibility of its secessionist demands for KwaZulu-Natal" (Daniels 1998, 81). While potentially overstated, this desire to avoid potentially acrimonious cleavages between national and provincial (i.e. "Inkatha") policymakers is cited by Stephen Daniels as the main reason why the new democratic government did not seek to speedily undertake a DFI-reform process throughout most of its first two years in power. Indeed, the fact that many institutions, most notably agricultural banks such as the Bophuthatswana AgriBank and the Agricultural Bank of the Transkei, initially retained the predominantly white Board of Directors they had possessed under apartheid, is offered by Daniels as proof that little political capital was invested into making development finance re-organization a priority in the early days of South Africa's nascent democracy (Daniels 1998, 84).

This negative viewpoint is reinforced by scholars such as Gerhard Coetzee and Douglas Graham, who concur with Daniels that little was done by the GNU to make DFI transformation a priority issue. Furthermore, they suggest that there was little motivation for political leaders at either level of government to desire DFI transformation due to the fact that while DFIs were the legacy of a discriminatory regime, they acted to at least "prop-up" faltering economic sectors like farming and food processing in what were now the ex-"homeland" areas (Coetzee and Graham 2002, 5). Given the fact that the ANC lacked a firm policy for reviving a struggling primary sector in the "Bantustan" regions after coming to power, the fact that even poorly functioning DFIs could act as financial "safety nets" for unproductive industries may have indeed made their transformation less than desirable.

At the same time, while Daniels, Coetzee and Graham all make strong arguments as to why DFI reform was not given greater impetus during the initial stages of ANC rule, their arguments tend to overstate the degree of political resistance found within the ruling party to addressing DFI-related issues. Also, these writers are inclined to overlook the more *indirect* steps that were being taken to restructure South African finance institutions as a whole during this period. These steps, while often haphazard and poorly coordinated, had a substantial impact on DFIs and they laid the groundwork for the institutional reforms which would eventually be adopted under the recommendations of the 1996 Strauss Commission.

For instance, the national government undertook considerable efforts in the period after 1994 to reduce the number of parastatal corporations operating within the country. Whereas approximately 150 of these institutions existed as of 1990, the period from 1994 to 1996 saw the number of parastatals decrease to less than half this figure (Coetzee and Graham 2002, 10). The ANC's desire to use quick privatization as a means to boost South Africa's "cash-strapped" treasury was likely the primary rationale for this "purge". More important, however, is that while DFIs themselves were not the *main* focus of this reduction process, notable non-"Bantustan" DFIs such as the Local Authorities Loan Fund were shut down while others, such as the IDC, were opened more fully to private shareholders (Murray 1999, 21). As a result of this process, the total number of state-owned DFIs is estimated to have been reduced by one-third (Murray 1999, 23-24), thus ensuring that when the guidelines for institutional reform were put into place in 1996, the number of corporations that had to be dealt with had been reduced to a more readily manageable number.

Also, attempts were made on the part of the provincial governments (largely at the behest of Pretoria) to streamline responsibility for the administration of the ex-"Bantustan" DFIs into their Ministries of Economic Affairs and away from their Ministries of Agriculture and Industry. In a broad sense, this was done to ensure that allocating development finance became the responsibility of MECs more concerned with prioritizing economic development *as a whole* rather than leaving its distribution in the hands of departments which were more likely to use available finance to pursue their own "pet projects" (i.e. renewed attempts on the part of Agriculture MECs to attempt poorly conceived subsidization efforts) (Coetzee and Graham 2002, 11).

Unfortunately, this process tended to occur in a chaotic manner across the country and it was more effectively accomplished in some provinces (i.e. ironically in KwaZulu-Natal) than in others (i.e. the North-West Province). To the extent that this "streamlining" occurred, however, its importance lay in the fact that it made any future national-provincial negotiations over DFI restructuring simpler to arrange, with most consultations now occurring between the national Ministry of Finance and its provincial equivalents rather than between wide-ranging sectors of the two levels of government (Musasike 2004, 6-7). Another consequence of this process, however, is that it marked the ascendancy of provincial economic affairs and finance ministries to the position of primary overseers of the regional finance corporations, thus relieving the DBSA of this responsibility. From this point on, the DBSA's main concerns have tended to rest with its own independent projects (most of which remain concentrated in the area of capital-intensive industrial development) (Musasike 2004, 7).

Regardless of these efforts, however, it was not until the convening of the 1996 Strauss Commission that substantive progress was truly made in transforming DFIs from "remnants of the apartheid state" into facilitators of the new government's development priorities (Coetzee and Graham 2002, 10). The Strauss Commission was initiated by Mandela with the primary aim of providing policy suggestions on how the state could enhance the provision of financial services to South Africa's extensive numbers of rural poor (though urban issues were not disregarded). In particular, it had been established by the Commission's research team that individuals living in poor rural communities had almost no access to banking products such as housing loans, farm-based credit (i.e. to purchase improved farming inputs) or transactional savings accounts (Coetzee and Graham 2002, 9-10).

The lack of these financial necessities, according to the Commission, acted as a considerable barrier to the ability of governments at the national, provincial and local levels to address the chronic levels of poverty which commonly afflicted rural regions. Above all, however, the Commission argued that since providing financial services to the "unbanked" in rural areas would inevitably entail high operating costs, considerable transport expenditures and would involve relatively few people actually utilizing available products (relative to the costs of providing them), it was almost out of the question to expect the country's commercial banks (i.e. ABSA, Standard Bank, etc.) to want to fill this void in service provision (Coetzee and Graham 2002, 10-11).

Instead, it would have to be state-owned DFIs, who would "naturally" accept lower returns on their investments than corporations owned by profit-seeking shareholders, who would have to take on the obligation of serving the "unbanked" constituency (Schoombee 2000, 3). For this to occur, however, the Commission stated in its final report that DFIs (particularly those with a rural focus such as the agricultural banks but also the KFC) would have to undergo considerable reform vis-à-vis the organization of their corporate management structures, their funding regimes and the means by which they were subjected to political oversight (Coetzee and Graham 2002, 10-11). In other words, the transformation process which had begun so slowly in the immediate post-1994 period had finally been provided with the unanimous political backing (the Commission included "Inkatha" members) it required to gain momentum. Even more important for the purposes of this study is that it was specifically the issue of extending financial services to the "unbanked" and poor which acted as the catalyst for the overall process of DFI reform to begin, thus reinforcing both the importance of this issue as well as the fact that DFIs were at the time seen as the primary agents by which to make this service-provision a reality.

The varying nature of the reform process as it occurred amongst different DFIs is too technical for the purposes of this study. Therefore, it is the transformation of the KFC into "Ithala" which will be taken as the primary focus. Contrary to the concerns expressed by Daniels over the ANC's fears of sparking provincial antagonisms, the transformation of the KFC proceeded with greater ease than was the case with any other DFI due to the strong consensus that political actors in KwaZulu-Natal were able to reach over the necessity of subjecting the institution to wholesale corporate reform. Coetzee and Graham, for instance, suggest that a “powerful guiding coalition” was established in the province (led by a popular Minister of Economic Affairs who enjoyed bi-partisan support) to ensure that self-imposed deadlines were met and that stakeholder meetings occurred on a consistent and transparent basis (Coetzee and Graham 2002, 15).

At the same time, the fact that the KFC had always enjoyed a relatively sound corporate governance structure relative to other DFIs (Coetzee and Graham 2002, 15-16) likely allowed the reform process to occur more speedily than would otherwise have been the case. Finally, the relatively small number of parastatal institutions that existed in KwaZulu-Natal as of 1996 (Coetzee and Graham 2002, 13), potentially gave the provincial government the ability to focus its attention squarely on the restructuring of the KFC rather than having the Department of Economic Affairs be burdened by the need to oversee the transformation of various corporations.

Whatever the underlying reasons, the restructuring of the KFC occurred from January 1996 to June 1999 with few reported setbacks. Indeed, during the first year of reform, the provincial government, members of the KFC Board of Directors (which by this time had become more racially diversified) and even community-based stakeholders such as NGOs undertook a process of reviewing the institution’s business practices, evaluating the types of products, investments and services it wished to offer, reconstituted its governing structure (i.e. by formalizing the authority of the MEC for Economic Affairs as the organization’s primary overseer) and began submitting planned policy documents to the provincial legislature for review (Coetzee and Graham 2002, 16). In 1997, stakeholder consultations were held on a more formal basis and various constituencies were invited to submit their own proposals to be included on organizational policy documents and more legislation was submitted for political review (including to the national Ministry of Finance). Finally, in 1998, a series of public hearings began to allow KFC members and members of the KwaZulu-Natal government to discuss shared concerns while in 1999, the Ithala Development Finance Act was promulgated, a new Board of Directors was appointed, shareholders were confirmed and a new Chairperson and Deputy Chairperson were named. By June of that year, the organization launched its new corporate identity as the Ithala Development Finance Corporation and it began its formal operations under a new mandate (Coetzee and Graham 2002, 16).

Compared to such DFIs as the Agricultural Bank of the North-West, which lacked a “powerful guiding coalition” due to political infighting between the provincial MECs for Agriculture and Economic Affairs and which was accused of “excluding stakeholder concerns” (Jakobsen 1999, 433) during its transformation process, the KFC’s conversion into “Ithala” was clearly conducted in a more “professional” manner. Most important for this study, however, is that the responsibility of serving the “unbanked” which the Strauss Commission had identified as being key to the reform process, remained a defining concern for KFC/”Ithala” leaders and was a common topic of conversation at stakeholder meetings (Coetzee and Graham 2002, 17).

As such, once “Ithala” emerged under its new identity in June 1999, one of its key operational platforms was to build on its initial interest in “Stokvel financing” and providing small personal loans and to more fully enter the banking market by offering a range of transactional products such as debit cards, ATM access and savings accounts. While other DFIs, such as the agricultural banks emphasized the provision of small personal loans in their own reconstituted business plans, only "Ithala" sought to explicitly act as an informal "bank for the poor" (Murray 1999, 25) and it would be this aspect of its operations that would provide arguably the main basis of "Ithala's" public recognition in the years to come.

The next section outlines the particular successes "Ithala" has achieved in serving the "unbanked" and poor since 1999 as well as the challenges the organization is facing vis-à-vis this particular mandate.

4.3 "Ithala" after Transformation: Successes, Challenges and New Pressures

In many respects, "Ithala" has emerged as South Africa's most successful DFI. While operating under the authority of the KwaZulu-Natal provincial government since 1994, "Ithala" has adopted a sound business model that emphasizes the need for the institution to be capable of raising its own capital rather than relying solely on provincial subsidization to conduct its operations (Coetzee and Graham 2002, 19). Undoubtedly, the ability of "Ithala" to take over and maintain the diverse investment portfolio and healthy level of capitalization that had already been enjoyed by its forerunner (the KFC), should be seen as playing some role in explaining the organization's present financial health. However, developments since 1994 have been impressive in their own right, with the subsidy flow from the KwaZulu-Natal government to "Ithala" decreasing from 17% of the institution's total capital investment in 1997 to only 8% of its total capital investment in 2000 (Coetzee and Graham 2002, 19).

Also, for every R1 of share capital that the provincial government provides, "Ithala" invests an estimated R5.48 of its own capital into the development projects it supports (Coetzee and Graham 2002, 19). Finally, "Ithala" consistently uses the funding it *does* receive from the province as a source of capital for further investment rather than as a source of finance for recurrent expenditures (Coetzee and Graham 2002, 19-20). Consequently, while scholars such as Gary Dymski argue that DFIs inevitably become "fiscal drags" on state finances (Dymski 2003, 24), this is clearly not the case with "Ithala".

Indeed, it is precisely "Ithala's" ability to remain solvent and facilitate development without "begging the provincial treasury" that sets it apart from South Africa's other DFIs, many of which have experienced severe financial problems since undergoing transformation. The Agricultural Bank of the North-West, for example, has reported annual losses every year since 1994 due to poor investment decisions, organizational corruption and a poor loan repayment record on the part of its clients (Nigrini and Schoombee 2003, 738). Moreover, the institution has difficulty raising share capital from its provincial government overseer due to the North-West Province's own impoverishment, thus suggesting a bleak outlook for this corporation's future ability to generate positive development outcomes. Also, while "Ithala's" client numbers have continually increased since 1996 in areas as diverse as agricultural assistance, small enterprise development and property investment, the client numbers of the country's other former "Bantustan" DFIs have either remained static or have decreased (Nigrini and Schoombee 2003, 740). This suggests that the current ANC-led government in Pretoria and its provincial counterparts would be well-served to undertake a thorough review of the effectiveness of the country's development finance providers and perhaps should even consider whether certain institutions should have their operations discontinued or their mandates revised. What is most important to note, however, is that despite the noticeably poor performance of so many existing DFIs, the only institution that is currently facing intense state scrutiny vis-à-vis its existing mandate is the largely successful "Ithala".

On one hand, this scrutiny should not come as a surprise. The primary responsibility of DFIs is to act as "intermediaries" between the "providers of capital" (i.e. financial markets, international donors, etc.) and the "users of capital" (i.e. those too poor to access financial services through conventional finance institutions such as commercial banks) in order to ensure that financial services are made more readily available to impoverished constituencies than would otherwise be the case (Musasike 2004, 4). While a failure to effectively play this "intermediary" role would inevitably bring about criticisms that DFIs are simply not effective, Coetzee and Graham argue that even if they are *successful* in making financial services accessible to the poor, DFIs will eventually be accused of "crowding out the private sector" by denying it the opportunity to try its hand in offering these same services (Coetzee and Graham 2002, 15). However, given that the Strauss Commission made clear that private sector institutions would be unlikely to want to play this role of a provider of financial products geared to the poor, the "crowding out" argument would seem to be illogical in the South African context. Then again, the fact that the country's "big four" banks (ABSA, First National Bank, Nedbank and Standard Bank) have all outlined a new willingness to serve the "unbanked" as part of an industry-wide Financial Services Charter, would appear to indicate that this sector's initial resistance to serving individuals it previously considered "non-creditworthy" is beginning to change.

If this is true, then the prized role that "Ithala" (first the Corporation and now Ithala Limited) has played as KwaZulu-Natal's *primary* provider of transactional banking products and services to the "unbanked" and the poor since before 1994 would appear to be under threat. Furthermore, the fact that the KwaZulu-Natal provincial government is showing a reluctance to see its own development finance institution continue to expand its provision of transactional banking products such as savings accounts (i.e. by denying its request for a banking license), would seem to give credence to the idea that it wishes to see Ithala Limited relinquish this part of its mandate to private sector providers. This may be an unfortunate development given that Ithala Limited has successfully provided basic services such as savings accounts to over 500,000 poor individuals within the province (worth a total value of deposits equaling R1.3 billion) (Ithala Annual Report 2006, 17).

In addition, the average account balance of "Ithala" clients is around R2,497 up from R648 in 1998 (Ithala Annual Report 2006, 17), a figure that may appear small but which also indicates that if institutions are available to serve them, the poor can be counted on to save money. As detailed previously, "Ithala's" interest in serving the "unbanked" began when the organization was still the KFC and was providing limited capital to "Stokvels". By 1994, the KFC remained the only DFI actively engaged in providing financial products such as small loans to private individuals, although its success in doing so began to spur other institutions such as the agricultural banks to begin providing their own (much more limited) loan products (Nigrini and Schoombee 2003, 739). As "Ithala", this institution has made serving the "unbanked" and the poor a central tenant of its business plan and it derives much of its popular legitimacy and community recognition around this facet of its operations.

Indeed, the Corporation's decision to create its own banking-specific subsidiary (Ithala Limited) in 2001 and to appoint an entirely separate Board of Directors to manage its day-to-day operations (though it remains 100% owned by the Ithala Development Finance Corporation itself) should be seen as a recognition of the institution's overall interest in maintaining its presence in serving the "unbanked" and poor markets. However, such occurrences as Ithala Limited's failure to be awarded a formal banking license or to gain access to the National Payments System, despite complying with most of the requirements outlined under the National Banks Act (with the exception of its available capital being below the Act's minimum threshold of R250 million), both point to the possibility that it is being intentionally excluded by the state from entering the banking sector as a fully-fledged (small) institutional competitor to the larger banking firms. Indeed, the before-mentioned problems of government "owning" a poor-focused bank as well as SARB worries over the potential for a sub-prime induced "run" on Ithala Limited assets, have both been presented to Ithala Limited as rationales behind this lack of political support.

At the same time, while the commercial banking sector has not made particular reference to wanting DFIs such as Ithala Limited to desist from offering banking products to their clients, the declarations they have made through such initiatives as the Financial Services Charter make clear that they deem themselves fully capable of taking on the mantle of serving the "unbanked" and the poor which the Strauss Commission at one time assumed they would be unwilling to pursue. As a result, Ithala Limited is now in a position where it must determine to what extent it can (and should) operate as a government-controlled banking institution that formally competes with the private sector in serving the "unbanked" and low-income markets.

5 Research Findings

The intent of this chapter is to highlight this study's research findings as obtained from a series of semi-structured interviews with research participants. In particular, this section is interested in establishing the prominent themes, opinions and recommendations imparted to the researcher by participants on matters relating to Ithala Limited's "banking" mandate, its organizational attributes and the means by which it should respond to prevailing political and commercial pressures. In addition, this chapter attempts to link the ideas raised by respondents to notions established in this study's earlier chapters. By doing so, it is hoped that this dissertation's research outcomes can be compared with conclusions drawn by past studies and that avenues for future research can be identified on the basis of notable common arguments.

This chapter incorporates three sub-sections. First, participant views relating to how Ithala Limited can respond to political/institutional pressures from institutions like the SARB, the National Treasury and the KwaZulu-Natal provincial government will be put forward and analyzed. Second, participant perspectives surrounding Ithala Limited's future role in serving the "unbanked" and low-income markets will be presented as will ideas as to how the organization can continue to serve these constituencies while coping with commercial pressures from the "big four" banks. Finally, a third sub section looks more broadly at respondent perceptions surrounding Ithala Limited's corporate operations (i.e. its research capacity) and expounds participant opinions as to how Ithala Limited can remain an important "development agent" regardless of any changes to its future "banking" mandate.

5.1 Perspectives on Ithala Limited's Potential Responses to Political Pressures

As established in the introductory section of this dissertation, political bodies and state institutions such as the SARB, the National Treasury and the KwaZulu-Natal provincial government all share a concern over Ithala Limited's "banking" mandate. Specifically, these agencies are wary of the potential consequences of the provincial government coming to "own" a licensed "bank for the poor" and are concerned that Ithala Limited's sub-prime lending activities could threaten South Africa's macroeconomic stability should the organization evolve from its current position as a mere DFI to become a licensed banking institution. Indeed, representatives from these bodies all question whether a fully-licensed Ithala Limited would be more prone to experiencing a "run" on its assets if its sub-prime lending activities were seen to be unsustainable and too risky for market mechanisms to accept. More to the point, while a *licensed* Ithala Limited may still be government-controlled and could have any high expenses absorbed by the state, any failed "high risk" lending choices it undertakes could no longer be merely dismissed as unsuccessful attempts to promote development (as is the case in a DFI). Instead, any failures to successfully manage risk would reflect on the national banking sector as a whole and this, in turn, could harm investor confidence in South Africa's financial sector and would tarnish the reputations of institutions like the National Treasury and the SARB who have prided themselves on ensuring fiscal and monetary stability since 1994.

As a consequence of such concerns, these state actors are all applying pressure on Ithala Limited to refrain from "formalizing" (i.e. licensing) its "banking" mandate. Earlier, this study posed the central question of how Ithala Limited should respond to this type of pressure. Particularly, should it acquiesce to the wishes of state institutions when it comes to issues of licensing/mandate "formalization" or should it try to press ahead with "formalization" regardless of these concerns and endeavour to become a fully-fledged small institutional competitor to the "big four" banks in serving the "unbanked" and low-income constituencies? The respondents selected to participate in this study's research offered a number of useful perspectives on this question, with notable differences in outlook being expressed by individuals depending on their professional positions (i.e. whether they were employed with Ithala Limited itself or with the KwaZulu-Natal government's Department of Economic Development which oversees its operations).

For example, a former head of the Department of Economic Development *(interview: November 22, 2007)* argues that both the provincial government and institutions like the SARB are justified in their opposition to Ithala Limited applying for a formal banking license and entry into the National Payments System. In particular, this participant notes that the Ithala Development Finance Corporation (of which Ithala Limited is a subsidiary) has made a number of questionable investment decisions that have required the province to offer financial “bail-outs” to prevent the Corporation from suffering heavy financial losses. While declining to identify the nature of these poor investment decisions and while acknowledging that Ithala Limited has maintained a generally positive track record in *its* financing choices, this participant believes that the activities of the Corporation act to legitimize government fears regarding the “banking” activities of Ithala Limited. If one organization has been faced with the need to be “rescued” by the state, then the prospect of its subsidiary requiring similar assistance and having its failings be reflected on the wider banking industry, is too dangerous for state actors like the SARB to see as “acceptable risk”.

Moreover, this former government representative argues that DFIs like Ithala Limited exist only to act as short-term “delivery agents” in providing financial services to the poor. They are not meant to act on an indefinite basis and are certainly not designed to become permanent fixtures of the national banking industry. For this participant, therefore, Ithala Limited should respond to the political pressures it faces by acquiescing to them while also recognizing that its position in “banking the unbanked” should ideally be passed on to willing commercial institutions. The prospect of Ithala Limited “formalizing” its mandate, in other words, is out of the question and goes against the rationale behind the provincial government creating Ithala Limited to act simply as a “stop-gap” measure in providing finance to impoverished populations.

Somewhat surprisingly, a former CEO of the Ithala Development Finance Corporation *(interview: November 26, 2007)* concurs with the above view that Ithala Limited should yield to political pressures vis-à-vis licensing and mandate “formalization”. However, rather than identifying “risk” as a rationale for this position, the former CEO identifies “cost” as being the main issue in play. Specifically, this respondent argues that while it is possible for Ithala Limited to be cost-effective in its operations while acting as a government-backed DFI, dealing with “cost complexity” will become too difficult for the organization should it become a licensed body. For instance, this participant notes that Ithala Limited’s ability to launch its own debit card has been financially sustainable mainly because it has been able to partner with ABSA and “piggyback” on ABSA’s position within the National Payments System. In other words, ABSA has been willing to take-on some of the expenses associated with Ithala Limited’s debit card provision as doing so has allowed it to assist a government-backed DFI in assisting the “unbanked” and the poor.

However, if Ithala Limited were to become a more “formal” bank and begin competing with ABSA, then this “piggybacking” partnership would be ended and it would be up to Ithala Limited’s government shareholders to absorb all of the costs associated with debit card provision and other technology-based expenses. These costs, according to the former CEO, can be considerable and he questions whether the government’s commitment to Ithala Limited would be maintained over the long-term if “cost burdens” became too great. On the other hand, even if Ithala Limited was aggressive in trying to reign in "product costs", this respondent believes that the only way Ithala Limited may be able to do so is by reducing both the quantity and sophistication of the products it offers.

While the former CEO notes the example of Durban's Al-Baraka Bank (which operates as a small-scale "Islamic banking" firm) to suggest that such an approach is credible from a business perspective, he also makes clear that for an organization like Ithala Limited that strives to operate on a "greater scale" (i.e. providing 500,000 savings accounts), sacrificing product variation to reduce costs is not likely to be deemed acceptable. For both Ithala Limited's cost-effectiveness and for the sake of its product quality, therefore, this participant believes that it is not in the organization's interests to become licensed and that the political pressures confronting Ithala Limited should be heeded more as the result of Ithala Limited's own interests rather than as a consequence of government fears surrounding firm ownership or monetary health.

For a former Managing Director of Ithala Limited *(interview: December 6, 2007)*, however, the political pressures emanating from the provincial government and the SARB are misguided even if they are understandable. It is true, this participant stresses, that issues of "risk" and "cost" should be considered by both political actors and Ithala Limited itself when deciding whether the firm should act as a "formalized" and expanded presence in the national banking sector. However, this respondent also states that these concerns should be balanced by these institutions coming to acknowledge what is best for developing the "financial instincts" of the "unbanked" and the poor in the first place. Regardless of their broadcasts to the contrary, this participant asserts, the "big four" banks are not developing "pro-poor" financial products on a scale large enough to benefit low-income earners in a comprehensive manner. The Mzansi Account, for example, is portrayed by this respondent as being too limited in its "reach" as it stands to benefit only urban dwellers who have ready access to a branch of one of the "big four" banks. For the "unbanked" living in rural areas, on the other hand, products such as the Mzansi Account are of little value simply because the commercial banks are still unwilling (unlike Ithala Limited) to *physically* expand to rural areas for reasons of high costs.

Returning to the issue of political pressures, this former Managing Director states that because the "big four" banks cannot guarantee a presence in locations where the "unbanked" require financial services, institutions like the SARB and Ithala Limited's provincial government overseers both have a "moral obligation" to continue supporting Ithala Limited's efforts to "bank" these constituencies. While acknowledging that aforementioned concerns relating to macroeconomic stability are difficult to address, this participant states that existing fears surrounding the notion of government "owning" a "bank for the poor" can be offset simply by pursuing some degree of privatization. In particular, this respondent envisions a scenario in which the provincial government maintains an important role as an "oversight shareholder" while allowing responsibility for financial management and investment decisions to be devolved to the private sector. This would then remove the provincial government as the financier of Ithala Limited's operations and would eliminate the government's liability as to any sub prime investment decisions the organization may make in assisting its clients.

Finally, this respondent, in common with the Ithala Development Finance Corporation's Chief Economist *(interview: October 19, 2007)*, states that through privatization and the advent of business-minded private shareholders, Ithala Limited could expand its range of products and services to the emerging black middle-class and in doing so reduce its degree of covariant risk. This, in turn, would make it much easier for Ithala Limited to rationalize its application for a formal banking license and entry into the National Payments System as it would no longer be trying to achieve these aims as a state-owned "poor-focused" finance institution. Instead, it would be a privately-owned and relatively diversified bank that could justifiably identify itself as a small-scale competitor to its "big four" counterparts. The role of government, in this type of scenario, would be to simply oversee Ithala Limited's activities and to make sure that the agency maintained a meaningful "pro-poor" outlook in its financing decisions.

While the views of the former Managing Director and the Chief Economist suggest that Ithala Limited should respond to political pressures by undertaking a high degree of organizational reform to ease government and institutional fears, a member of the Ithala Development Finance Corporation's Board of Directors *(interview: December 5, 2007)*, takes an alternative and more confrontational perspective. Specifically, this respondent suggests that while it is the case that political actors do not want to see Ithala Limited "formalize" (i.e. license) its "banking" mandate, they *do* want the organization to be capable of profitability in the future. This, the participant insists, is not possible within an explicitly "development-focused" body. However, profitability *is* a more realistic objective in a "formalized" and licensed institution that is capable of raising capital from a wider range of sources (i.e. capital markets) and which can offer a more expansive set of products and services to upwardly mobile clients if it were allowed to escape a solely "development-focused" mindset (i.e. if it were allowed to pursue some limited commercial activities on the side).

Notably, this Corporation Board Member differs from the former Managing Director and the Chief Economist when it comes to the issue of privatization. While this is not necessarily a bad idea, this respondent argues, he notes that previous attempts have actually been made to pursue a partial privatization of Ithala Limited. However, the KwaZulu-Natal provincial government, fearing a loss of the organization's "development focus" should it divest itself of responsibility for Ithala Limited's day-to-day operations, has shied away from pursuing any type of change vis-à-vis ownership structures. As a result, this participant expresses a belief that instead of organizational reform, what Ithala Limited should do is simply confront its government overseers and provide an ultimatum that forces the provincial government (and by association the SARB and the National Treasury) to choose which objective it feels is most important: 1) denying Ithala Limited the possibility of "formalizing" its "banking" mandate on the basis of "unfounded" fears surrounding monetary stability and a potential "run" on Ithala Limited assets or 2) acquiescing to Ithala Limited's desire for "formalization" and in doing so, potentially relieve itself of the need to fund large components of Ithala Limited's operations while also providing the organization with a greater opportunity to become profitable.

For this respondent, the fact that Ithala Limited has proven itself to be "competent" in its lending choices combined with the provincial government's desire to ease its own financial burdens, will eventually be enough to convince political actors that their fears surrounding the organization's sub-prime activities are not justifiable enough to deny Ithala Limited the benefits of accreditation.

What can be observed in the above participant responses is that when it comes to the question of how Ithala Limited can respond to political pressures, there is no consensus on what the organization's "optimal path" should be. On one hand, Ithala Limited could follow the advice of the former head of the Department of Economic Development and simply acquiesce to these pressures while acknowledging that issues of macroeconomic stability are indeed justifiable enough to keep the organization from playing a "formalized" banking role. On the other hand, Ithala Limited could accept the views of the Corporation's former CEO that its own financial and corporate interests are best-served by acknowledging political pressures and not pressing head with licensing attempts. Alternatively, Ithala Limited could move forward with its attempts to obtain a banking license and access to the National Payments System. If the organization were to heed the advice of Ithala Limited's former Managing Director or the Corporation's Chief Economist, then it may be wise for Ithala Limited to first undergo some degree of organizational reform (i.e. privatization) to make itself more politically acceptable as a mainstream finance institution. On the other hand, Ithala Limited could pursue the path advocated by a member of the Corporation's Board of Directors and use the state's own desire for the organization to become profitable as a means to aggressively advocate for mandate "formalization".

In some respects, it is not surprising that each of these research participants hold varying perspectives on the matters at hand. Using "content analysis" as a means to interpret the relevant data, for example, it is possible to identify the opinions of each respondent as varying depending largely on their respective "closeness" to political agencies. Specifically, the more intimate a relationship each participant has with the KwaZulu-Natal provincial government, the less willing they are to compromise on what they feel should be Ithala Limited's future priorities. The former head of the Department of Economic Development, for instance, is unequivocal about the need for Ithala Limited to "give-in" to prevailing pressures. The Corporation Board Member, who deals regularly with government officials and their demands, is equally firm on the need for Ithala Limited to resist such pressures and pursue licensing as expediently as possible. On the other hand, the former Managing Director and the Chief Economist, whose day-to-day activities are less intertwined with government overseers, are more committed to compromise (i.e. pursuing organizational reform) on these issues. This observation is notable if only to suggest that the *likelihood* of common ground being found on the matter of Ithala Limited's mandate "formalization" seems slim if those players most directly involved in negotiating the organization's future priorities hold such polarized points of view.

When it comes to the content of what respondents have imparted, a number of objections can be raised by prudent analysts. For example, the argument of the Corporation's former CEO that "cost" issues legitimize political pressures, may be ignoring the potential rise of factors that may act to reduce banking costs in the future. The rapid urbanization occurring in KwaZulu-Natal, for instance, means that increasing numbers of "unbanked" and poor individuals will soon be living in Durban and smaller urban centres like Pietermaritzburg and Richard's Bay. This fact may not reduce the "technology"-related costs the former CEO was discussing. However, by being able to provide banking products and services to individuals living in more concentrated areas, other costs (i.e. transport expenses related to transporting cash and maintenance personnel to isolated rural ATMs) can be reduced. Consequently, it is possible that Ithala Limited could manage cost issues without, as this participant believes, having to sacrifice product quality and quantity.

The following chapter will return to the issues discussed by these participants and will more fully grapple with the possible outcomes should Ithala Limited pursue the types of responses to political pressures that these respondents have recommended. Moreover, the next chapter will also set out this dissertation's own analytical stance on these matters. What is important to note in this sub-section, however, is that many of the topics raised by this study's participants have already been established in earlier chapters as being of importance. For example, the debate surrounding issues of privatization and firm ownership, raised in this paper's earlier discussion of Indian and Ugandan DFIs, has been re-visited by Ithala Limited's former Managing Director and the Corporation's Chief Economist. While these respondents have not framed the issue of privatization in anti-*dirigiste* "ideological" terms, as this study's literature review suggested should be the case, they have made clear that public ownership may act as a hurdle when it comes to Ithala Limited's ability to expand its operations through "formalization". Moreover, these participants (as well as the Corporation Board Member) take a position on Ithala Limited's future activities which suggests a preference on their part to undertake both developmental and limited commercial activities, the latter being used to provide the organization with enhanced capitalization.

In this regard, these respondents seem to be viewing Ithala Limited as being an organization that can follow in the footsteps of Uganda's FOCCAS in establishing a joint developmental-commercial identity in which the firm's "pro-poor" focus would not be compromised. However, the debate as to whether this type of identity is really attainable – whether for FOCCAS or for Ithala Limited – is a matter that remains questionable and it provides a potentially valuable avenue for future research that can be pursued by building on this study's contributions.

5.2 Perspectives on Ithala Limited's Potential Responses to Commercial Pressures

When it comes to the pressures Ithala Limited faces from South Africa's "big four" banks, it is important to note that there exists no *particular* or *direct* conflict between commercial financing institutions and Ithala Limited when it comes to who should serve the "unbanked" and the poor. Instead, there is simply an overriding perspective within the national banking industry that it is now in a better position to offer banking products and services to low-income constituencies in a cost-effective way, something that these institutions (and the Strauss Commission) claim was not possible in the immediate post-1994 period. Furthermore, the "big four" banks have diversified their portfolios to an extent that allows them to take-on poorer clients without having the risk of sub-prime lending (which would only constitute a small portion of these banks' activities anyway) pose a threat to their financial viability or to the health of the wider economy. Indeed, this "diversification" is likely the main reason why even the SARB has come forward and offered its support to the "pro-poor" Financial Services Charter recently drafted by the national banking sector. What these developments mean, however, is that popular opinion may come to suppose that if commercial banks are in a position to begin serving the "unbanked" and the poor in a comprehensive manner, then there is no need for a parastatal DFI like Ithala Limited to "overlap" their activities by continuing as a "banking" institution in the future.

For Ithala Limited itself, this raises a set of new pressures that must be effectively confronted if the organization wishes to maintain this aspect of its mandate. For instance, with the "big four" banks launching new initiatives geared to low-income clients (i.e. the Mzansi Account), are the products and services offered by Ithala Limited of a high enough quality or uniqueness to justify the firm's continued "banking" operations? Also, if private sector banks like ABSA and Standard Bank are capable of serving the poor effectively and with relatively little cost, then what justification remains for South African taxpayers to support the continued operations of a publicly-owned body in playing this role?

To some extent, the liveliest interactions with this study's research participants occurred over matters directly related to Ithala Limited's competencies and distinctiveness as a "banking" institution when compared to its "big four" counterparts. The Ithala Development Finance Corporation's Chief Economist, for example, forcefully argued that while the commercial banks may be willing to offer *finance* to the "unbanked" and the poor, they lack Ithala Limited's "development focus" and will thus not be willing to incur the costs associated with providing "technical assistance" to these constituencies to help them make optimal use of capital. For instance, the Chief Economist noted the example of Ithala Limited's business support finance and suggested that Ithala Limited staff regularly worked with grassroots recipients of these loans (i.e. in helping them devise business plans) to ensure that the capital they received was used properly and would be beneficial to their "self-empowerment". On the other hand, the "big four" banks were identified by this participant as lacking trained personnel used to interacting with "unbanked" and low-income populations. As a result, he deems it unlikely that these institutions would be capable of offering meaningful "technical assistance" to these groups even if they were willing to absorb the costs associated with such aid. The implication of this argument is that if "banking the unbanked" and the poor were left solely up to commercial institutions, the likelihood of finance being misused by those who most require it to pull themselves out of poverty, would be greatly increased.

Interestingly, however, the General Manager of the KwaZulu-Natal provincial government's Gijima LED program *(interview: November 16, 2007)*, who is actively engaged in trying to find new ways to make banking products and services more accessible to the poor, believes that commercial institutions can be made to provide superior "technical assistance" to low-income earners as long as they have adequate government support in doing so. In particular, this participant uses the example of the provincial government's Local Competitiveness Fund to outline a scenario in which the government either funds banks like ABSA to provide "technical support" programs (i.e. seminars on how to write business plans) or takes on this responsibility itself while using Fund capital to subsidize the commercial banks to provide sub-prime financing. In either case, this respondent makes clear that the need for a DFI like Ithala Limited to maintain its "banking" role and provide these benefits is highly questionable. It is better, he argues, to allow commercial institutions to take on the role of serving the "unbanked" and the poor while using "innovative methods of government support" (rather than a fully-fledged DFI) to assist initiatives targeted at these populations.

The debate as to what role Ithala Limited should play in an environment characterized by growing private sector interest vis-à-vis serving the "unbanked" and the poor proved to be of vital interest to this study's other research participants as well. The former head of the Department of Economic Development, for instance, reiterated his position that Ithala Limited's purpose was always to merely "open a path" for commercial firms to become more active in assisting low-income borrowers. Furthermore, this respondent suggested that even retailing firms such as Pick N'Pay and Vodacom, by offering their clients in-store debit cash withdrawals and "cell-phone banking", were becoming "developmental" themselves (many of their clients are low-income earners but possess cellular phones) and this brings into even more question how necessary it really is for a parastatal DFI like Ithala Limited to operate as a "banking" firm in the future. This was a view reinforced by two Ithala Limited borrowers *(interview: November 22, 2007 and December 1, 2007)*, who stated that while they were hesitant to stop banking with Ithala Limited due to the organization "introducing" them to such products as savings accounts, they felt that "cell-phone banking" offered a much more convenient way for poorer people living in peri-urban areas to "manage their money". As a result, these two respondents stated that if retailers linked with commercial firms in the future to make "cell-phone banking" an accessible reality, they would be willing to leave Ithala Limited and open savings accounts with ABSA or one of the other "big four" banks.

These perspectives all reinforce one of the questions posed in this dissertation's introduction: how do Ithala Limited's "banking" initiatives remain *relevant* in an environment characterized by increasing commercial bank interest in serving the "unbanked" and the poor? According to the Ithala Development Finance Corporation's CEO *(interview: December 6, 2007)*, this question can be answered by Ithala Limited simply broadening its range of products and services while seeking to grow its client base – i.e. to the black middle class and to upwardly mobile young people. Among the product ideas put forward by this respondent were "cell-phone banking", credit cards and auto insurance provided on more "favourable" terms to young people. Offering these initiatives, the Corporation's CEO asserts, would allow Ithala Limited to at least maintain its present client base, a constituency that he believes would be reluctant to abandon the organization in favour of the commercial firms due to the "familiarity" that Ithala Limited provides to its Zulu-speaking customers (i.e. Ithala Limited's staff, unlike those at the "big four" banks, predominantly speak Zulu as a first language).

It should be pointed out, however, that not all of this study's research participants were sold on the notion that Ithala Limited had to expand to be a successful "banking" institution. The Corporation's former CEO and now Chief Executive at Al-Baraka Bank, for instance, stresses that for "Tier II" banks to co-exist alongside the "big four" institutions, it is product and service *uniqueness* which is most important. Al-Baraka, for example, is successful according to its CEO due to the fact that it offers innovative products such as "Hajj savings accounts" and non-interest-accruing accounts that conform to Islamic religious principles. These, in turn, give Al-Baraka a unique product identity that the "big four" banks cannot replicate and ensures that Al-Baraka is able to maintain a small but consistent client base. According to this participant, if Ithala Limited were to offer its own "unique brand" centred on its developmental focus, it could be successful and should consider pressing ahead with attempts to obtain a banking license. Moreover, while this respondent notes that the commercial banks have competitive advantages in terms of capitalization and staff numbers that Ithala Limited could not hope to replicate, he also reports that Al-Baraka's own client numbers (and deposit amounts) have risen 25% over the past five years, thus demonstrating that it is possible for a small-scale bank to operate within the South African context.

The former Managing Director of Ithala Limited echoes these views but states that if Ithala Limited were to respond by commercial pressures by trying to become a small-scale banking competitor to the "big four" institutions, then the organization would have to be more prudent when it comes to ensuring the "adequacy and security of capital". In other words, whether Ithala Limited entered the banking market as a privately or publicly-owned body, it would have to establish an "impeccable" corporate governance structure and it would have to develop effective partnerships with business interests to secure alternative capital sources. While supporting the notion of Ithala Limited emerging as a privately run "bank for the poor", the former Managing Director acknowledges that establishing business partnerships will be more difficult for a bank focused exclusively on "pro-poor" initiatives.

Finally, the Corporation's Chief Economist, while agreeing with the former Managing Director's sentiments, states that it is also important for a smaller-scale institution like Ithala Limited to be able to ensure a willingness amongst shareholders (whether private or public) to devote a high proportion of spending to cover staffing costs. If innovative and creative individuals are brought into a smaller banking institution, this participant says, then "innovation" and "creativity" are more likely to emerge as organizational principles in the long-run and Ithala Limited has a better chance of being successful. However, this respondent also cautions that because small-scale institutions cannot offer the same salary packages offered by the "big four" banks, hiring and maintaining talented staff may be incredibly difficult. If this is the case, the Chief Economist states, then perhaps Ithala Limited's only option over the long-run is to respond to commercial pressures by acknowledging the efforts of these banks to serve the poor and subsequently relinquishing its own "banking" mandate to these bodies. In this type of scenario, this participant believes, Ithala Limited's best option for the future may be to offer its services as a research and information "repository" for commercial firms when it comes to assisting these banks better serve KwaZulu-Natal's "unbanked" and poor populations.

As in the previous sub-section, a number of questions can be raised as to the value of some of these participant responses. For example, it is well-documented that the "big four" banks provide "technical support" to their mainstream (i.e. prime) clients. As such, there is little reason to believe, as the Corporation's Chief Economist does, that these commercial institutions would not be willing to extend this same support to any "unbanked" or poor clients they take on. However, the *quality* of such services may be an issue and something for which Ithala Limited does enjoy a comparative advantage. Also, while the General Manager of the Gijima LED program touts the benefits of the provincial government's Local Competitiveness Fund, many of the characteristics surrounding this initiative (i.e. its emphasis on potentially subsidizing the commercial banks to provide sub-prime lending) seem to incorporate government taking on a greater role for itself in serving the "unbanked" and the poor rather than government divesting itself of this responsibility (which is what it seemingly wanted to be doing by pressuring Ithala Limited not to press ahead with mandate "formalization").

When it comes to this dissertation's first central question of how Ithala Limited should respond to commercial pressures, however, participant responses still prove to be useful. In regards to whether or not Ithala Limited still has initiatives that are unique enough to justify the organization maintaining its presence in the banking sector, for instance, it may be suggested that quality "technical assistance" is one area where Ithala Limited remains an important actor. As Armendariz de Aghion and Morduch argued, one of the main benefits of having DFIs act as "banking" agents is that they routinely engage with the "unbanked" and the poor and are thus capable of knowing what these constituencies require in terms of both capital and education in order to succeed. The views of the Corporation's Chief Economist would seem to reinforce the importance of "information" and the idea that a parastatal DFI like Ithala Limited may prove better equipped in this area than commercial institutions. At the same time, the mere fact that Ithala Limited possesses information adequate enough to launch effective "technical assistance" plans does not mean that the firm has to become a formal small-scale bank to put this information to good use. Ithala Limited could, as the Chief Economist notes, respond to pressures from the commercial banking sector by relinquishing its "banking" mandate to commercial institutions. In this situation, Ithala Limited would not seek to compete with commercial firms but could use its "information adequacy" to assist the "big four" banks improve their own knowledge of these impoverished populations.

In a more general sense, however, it would appear that Ithala Limited *does not* currently possess the types of unique products (i.e. in a technological sense) that would appeal to clients if the organization began competing with its commercial counterparts. As noted by the former head of the Department of Economic Development and two of Ithala Limited's borrowers, new banking technologies such as "cell-phone banking" are becoming increasingly important to low-income constituencies as a convenient way to manage their finances. When it comes to the question of whether or not Ithala Limited should seek to compete with private sector ingenuity, this fact is particularly important. After all, if commercial institutions are putting efforts into developing "cell-phone" or retail banking as a means to assist the poor, and if Ithala Limited is unable or unwilling to make attempts to provide these same services, then what rationale continues to exist for government to support an agency whose "banking" technologies are inferior and not able to provide low-income earners with they types of financial management tools they want to acquire?

Finally, participant responses seem to indicate two important issues when it comes to Ithala Limited's overall ability to operate as a competitive banking institution. First, as the CEO of Al-Baraka noted, it *is* possible for smaller-scale "Tier II" banks to be active and successful in the South African banking industry provided that they can develop a competitive product base. Second, for "Tier II" institutions to thrive, they must also ensure sound corporate governance and embark on focused attempts to hire skilled personnel. These latter points, raised by both Ithala Limited's former Managing Director and the Corporation's Chief Economist, once again bring into question the issue of firm ownership. As can be identified through the state-firm cleavages this dissertation has raised when it comes to Ithala Limited's relationships with the KwaZulu-Natal provincial government and the SARB, it will be difficult for Ithala Limited to establish a stable corporate governance structure while its Board of Directors and the firm's government overseers remain deadlocked over what exactly it is that Ithala Limited should be doing vis-à-vis "banking" in the future. Moreover, because public sector pay in South Africa is on average considerably lower than what can be obtained by workers in the private sector, it is difficult to see how a parastatal DFI could ever offer the employment incentives to staff that can be provided by better-capitalized and arguably more innovative commercial firms.

The subject of privatization, first raised in this study's literature review, is worth keeping in mind as a potential means of addressing both of these matters (if Ithala Limited does choose to forge ahead with attempts to become a competitive bank). In the following chapter, these topics will be addressed once again and this paper will take a more decisive stance as to how Ithala Limited should respond to the commercial pressures it currently faces.

5.3 Perspectives on Ithala Limited's Business Practices and Overall Operations

The second central question posed in the introduction to this study asked how Ithala Limited should articulate its future mandate and shape its corporate priorities in order to remain an effective development agent (regardless of whether it presses ahead with its "banking" mandate or not). The responses given by research participants on matters related to Ithala Limited's business practices and overall operations provide a means to address this question. In particular, respondents raised issues surrounding two main themes, both of which will be briefly discussed in this sub-section: 1) the importance of "homegrown research" and product innovation and 2) matters related to organizational oversight.

Of considerable importance to many research participants was the issue of Ithala Limited's research capacity. Specifically, while respondents commonly adopted a view which suggested that Ithala Limited possessed sound "information" on the "unbanked" and the poor, many individuals also asserted that Ithala Limited's ability to use such information to improve the firm's business practices remained inadequate. The former head of the KwaZulu-Natal provincial government's Department of Economic Development, for example, claims that Ithala Limited has to be better at "capturing and analyzing previous lessons" and it has to be able to undertake independent assessments of its own strengths and weaknesses if it is to be successful (in any form) in the future. Using the issue of "technology utilization" as an example, this respondent states that Ithala Limited lacks the "homegrown" research capacity it needs in order to track technological developments within the national banking industry and as a consequence, it is extremely slow in seizing upon these developments for the benefit of its own client base. This perspective is reinforced by the participant from the Corporation's Board of Directors, who acknowledges that Ithala Limited was "caught off-guard" when it came to such technological advances as "retail banking" and that the firm's own research foundation is "not sophisticated enough" to undertake the market studies needed to understand wider banking consumer trends.

If Ithala Limited were to maintain itself as a small-scale banking institution in the future, this issue of inadequate "research capacity" would clearly prove to be problematic. Indeed, an inability to understand technological advances and how to disseminate new technologies to the "unbanked" and low-income constituencies that may want to make use of them would leave Ithala Limited in a position where it could only provide a "static" set of products to its customers. In other words, without developing a sound "homegrown" research capacity (around both technologies and other matters), Ithala Limited will be unable to pursue product variation and it would easily be "out-competed" by commercial firms seeking to target the "unbanked" and low-income markets themselves. This perspective is reiterated by one of Ithala Limited's borrowers, who notes that even as he became "slightly richer", he found that he wanted products (i.e. credit cards, comprehensive auto insurance) that Ithala Limited did not provide, thus acting as an incentive for him to shift to one of the "big four" banks.

Returning to the matter of how Ithala Limited should articulate its future mandate and shape its corporate priorities, these participant views offer one apparent course of action. Namely, the organization should develop a mandate that is explicitly focused on innovation (i.e. in regards to product variation, technology and research quality) and which prioritizes developing "capacity" in such areas as research personnel as well as product design and marketing. While these initiatives would undeniably be most useful were Ithala Limited to become a licensed small-scale bank, improving research capacity would be equally vital if the organization took one of the recommendations of the Corporation's Chief Economist and made itself into an "information repository" for commercial institutions. The following chapter revisits these themes and takes a more forceful and argumentative stance on the importance of these ideas as they relate to Ithala Limited remaining a useful "development tool" for the "unbanked" and the poor in KwaZulu-Natal.

A second major theme put forward by this study's research participants has to do with corporate oversight and the means by which being answerable to government (rather than private shareholders) acts to stymie "private sector-style innovation". Both the former Managing Director of Ithala Limited and the Corporation Board Member, for instance, make clear that the provincial government is inherently "more conservative" than the private sector when it comes to the types and scale of banking products they are willing to make available to the "unbanked" and the poor. Ithala Limited, in the words of these respondents, cannot offer the same product "perks" to its clients as the "big four" banks (even if it *did* have the research capacity to develop such products) simply because Ithala Limited's government backers have no "profit motivation" to "go the extra mile" vis-à-vis product and service delivery. Both of these participants returned to the idea of privatization and suggested that while such an outcome was unlikely (i.e. it remains difficult to convince potential private shareholders of the financial value of "pro-poor" financing agencies), it would ideally allow Ithala Limited to be guided by interests that demanded more "aggressive" efforts to serve low-income earners "with imagination".

In addition to organizational creativity, the Corporation's Chief Economist states that operating as a parastatal DFI acts to limit the potential sources of finance that Ithala Limited can draw upon to fund an expansion of its activities. While this respondent notes that Ithala Limited is able to access finance cheaply through both government subsidies and by mobilizing savings from the public (i.e. through its savings accounts), the fact that it operates under government authority and oversight means that it is unable to access such funding avenues as overseas direct assistance (ODA) or other types of international financing support targeted to the private sector in developing countries. Consequently, this participant raises doubts about the extent to which Ithala Limited can really hope to "grow" as a "banking" institution while remaining solely under government stewardship. It is better, he suggests, for Ithala Limited to pursue some type of joint private public ownership structure that sees government relinquish some degree of its day-to-day control of the organization in favour of private sector partners who could more easily market the firm to potential funding donors.

When it comes to discussing Ithala Limited's future mandate and corporate priorities, these participant perspectives provide further policy paths for the firm to consider following in the future. In particular, a review of firm ownership appears to be of considerable importance for many of this study's research participants. As such, it seems prudent to suggest that one of Ithala Limited's key corporate priorities should be to undertake an internal evaluation to determine what benefits are accrued to the organization under its current ownership structure and if the advantages that could be obtained by the firm through some degree of privatization are worthwhile enough to consider. After all, if Ithala Limited is to remain a relevant developmental body (as a formal banking institution or not), it should be led by parties who have a vested interest (even if motivated by profit) in seeing the firm expand its functions and access needed financial support. Whether these parties remain connected to the provincial government or are found primarily in the South African business sector will remain a key issue of consideration for Ithala Limited in the future and should act as a source of further research for concerned analysts.

The following chapter will once again return to the matters raised by these participants and their views will be incorporated into this study's central arguments regarding Ithala Limited's future "banking" role.

6 Responding to New Pressures: Ithala Limited's Future Role as a "Banking" Institution

The purpose of this final chapter is to put forward and defend this study's central thesis relating to how Ithala Limited could respond to the prevailing pressures it faces vis-à-vis its "banking" mandate. In addition, this section will identify a number of the pending challenges facing Ithala Limited and will offer a set of recommendations as to how the organization can confront these challenges in the future in order to remain a valuable development agency for KwaZulu-Natal's "unbanked" and poor.

It will be argued in this chapter that in spite of opposition from state institutions as to its sub-prime financing choices, and regardless of the "big four" banks coming to develop their own approaches to serving low-income constituencies, Ithala Limited still possesses a number of unique attributes that justify its continuation as a "banking" agency in the future. In particular, it will be suggested that while Ithala Limited must be willing to compromise on particular matters (i.e. licensing), it should resist the political and commercial pressures it currently faces to limit its "banking" activities and should instead try to find new and innovative ways of establishing a niche for itself within the South African banking sector. However, for Ithala Limited to pursue this path, this chapter suggests that the firm may want to shape its corporate priorities to include: 1) some degree of privatization, 2) enhancing the organization's technological awareness and utilization and 3) developing a stronger "homegrown" research capacity.

6.1 How can Ithala Limited Respond to Prevailing Political and Commercial Pressures?

It is the position of this study that Ithala Limited possesses a number of unique qualities that justify the organization resisting political and commercial pressures to limit its "banking" activities. Arguably the firm's most important attribute, and one commented upon by numerous research participants, is Ithala Limited's *accessibility*. In a geographic sense, for example, Ithala Limited remains the only South African "banking" institution that maintains both branches and ATMs in KwaZulu-Natal's more isolated rural areas. As such, its savings accounts and loan products are usually the only types of financial services that "unbanked" and poor individuals in these locations can rely upon for economic security. While it is certainly the case that the "big four" banks are developing increasingly sophisticated products such as the Mzansi Account to serve low-income constituencies, these products are, in reality, of little value to rural dwellers. For instance, the Mzansi Account, as commented upon by Ithala Limited's former Managing Director, lacks "reach" due to the fact that it can only be utilized by those individuals who have access to a branch of one of the commercial banks. In rural areas, such branches are either non-existent or require a great deal of travel to access, thus making this particular product of questionable value to non-urban populations. By contrast, Ithala Limited began building its own "rural infrastructure" when it was still the apartheid-era KFC and its savings accounts (and other products) are more likely to continue benefiting rural people as a result.

Similarly, while innovative technologies such as retail and "cell-phone" banking are becoming increasingly common and have been identified by low-income earners as being convenient methods to manage their finances, even these services remain presently confined to urban and peri-urban areas. To utilize retail banking, for example, individuals have to be able to access stores such as Pick N'Pay which are often no more accessible to rural people than commercial bank branches. Finally, while "cell-phone banking" offers a potentially invaluable way for more isolated rural populations to conduct their banking activities in the future, a lack of telecommunications infrastructure in many remote parts of KwaZulu-Natal makes even this initiative of limited value to many of the province's "unbanked" and poor constituencies.

While respondents such as the former head of the Department of Economic Development argue that demographic trends such as urbanization are making Ithala Limited's "rural-focus" less important while also allowing the "big four" banks to begin serving poorer citizens with more ease (and less cost) than was previously possible, this is not an adequate reason to pressure Ithala Limited into foregoing or scaling-back its "banking" mandate. On the contrary, if the purpose of "banking the unbanked" and the poor is to provide a means for impoverished people to escape poverty (i.e. by providing them with access to credit), then it is clear that rural regions, where KwaZulu-Natal's poorest populations reside, cannot be neglected. In this sense, the strength of Ithala Limited's rather exclusive rural "connectedness" provides one unique attribute that justifies the organization resisting pressures to alter the nature of its "banking" activities. Moreover, while it may be the case that Ithala Limited could eventually become a mere research "repository" for commercial firms, the fact that these latter institutions have yet to expand into rural areas means that there is still a direct importance attached to Ithala Limited maintaining itself as an explicitly product-oriented "banking" firm (whether licensed or not).

In addition to geography, Ithala Limited also enjoys a high degree of *cultural accessibility* that justifies its continued presence in the "banking" market. As noted in the previous chapter by the CEO of the Ithala Development Finance Corporation, Ithala Limited's "Zuluness" acts as an important source of organizational identity and the availability of Zulu-speaking staff often acts as a "trust-building" measure that will convince "unbanked" and poor people that it is worth their time to investigate Ithala Limited's products and services. However, "cultural accessibility" is also important when it comes to the matter of "technical assistance" that was raised by the Corporation's Chief Economist in the previous chapter. In particular, an awareness of Zulu culture amongst Ithala Limited staff leads to a greater likelihood that when assistance is provided to individuals vis-à-vis how to use their finance effectively, it will be provided in a more participatory manner and with greater sensitivity for the culture-specific concerns that borrowers may have.

By contrast, even if the provincial government uses its Local Competitiveness Fund to finance the commercial banks to provide similar "technical assistance" programs, the Corporation's Chief Economist has already made clear that these institutions tend to lack staff members who are capable of effectively interacting with "unbanked" and poor populations. While the "big four" banks may remedy this situation in the future through a change in their hiring practices, the current situation within the national banking industry suggests that these private firms are less able than Ithala Limited to take-on an overtly "pro-poor" focus. As a result, while Ithala Limited's "technical assistance" programs are likely to incorporate some degree of "participatory learning" (i.e. where the poor can communicate their concerns to Ithala Limited staff and have those concerns be used to determine the *types* of assistance that will be provided), assistance provided by the "big four" banks is more likely to be provided in a top-down manner that is less driven by borrower participation. This, in turn, increases the likelihood that finance will be used in such a way that does not deliver optimal "pro-poor" results for the borrowers themselves.

Finally, an issue raised by Armendariz de Aghion and Morduch relating to the connection between "information" and "capital lending levels" should also be considered when trying to establish Ithala Limited's unique qualities as a "banking" institution. These authors argue that because commercial banks lack sound "information" on the "unbanked", they will come to see low-income populations as constituting a single "risky" demographic. As a consequence, these scholars assert, commercial firms will be unwilling to extend capital to this constituency in levels adequate enough to help individuals escape from dire poverty. In South Africa, it is currently unclear as to the extent to which Armendariz de Aghion and Morduch's sentiment is true. However, given that the world economy is currently facing a sustained "credit crunch" born largely out of sub-prime lending defaults, it seems prudent to suggest that South Africa's "big four" banks (like financial institutions elsewhere) may indeed become more "conservative" in the future and will see the poor as being a single "risky" group for whom lending will have to be limited if not altogether curtailed.

If this proves to be the case, then it is clear that Ithala Limited possesses another important attribute that justifies its resistance to commercial pressures. Namely, the organization "trusts" its clients and has a long enough track-record in dealing with low-income populations (going back as far as the KFC's "Stokvel" financing) to guarantee that this "trust" will not be mitigated by large-scale events such as a shaky world economy that for other institutions, would create a disincentive to serve the "unbanked" and the poor altogether. As a result, the continued presence of a DFI like Ithala Limited in the South African banking sector acts to ensure that impoverished groups have access to finance in amounts that are likely to be meaningful in delivering a "pro-poor" impact. This presence also guarantees that finance will be available *consistently* and that its distribution is unlikely to be determined on the basis of external trends (i.e. global market slowdowns).

When it came to the topic of South Africa's "big four" banks taking on a greater interest in serving KwaZulu-Natal's "unbanked" and poor, this dissertation posed such questions as: 1) what possible *justification* exists for a parastatal DFI to maintain itself as a possible competitor to willing private sector firms? and 2) are Ithala Limited's products and services actually of a high enough quality and uniqueness to justify the organization pressing ahead with its "banking" mandate? Based on the above arguments, these two questions can be answered in Ithala Limited's favour. Ithala Limited's geographic and cultural "accessibility" gives this DFI an advantage when it comes to serving rural Zulu populations that the "big four" banks have yet to show any signs of being able to replicate.

Indeed, the ready availability of Ithala Limited's products and services in more isolated regions combined with the fact that "borrower participation" forms a basis for Ithala Limited's "technical assistance" programs, means that this organization's financial initiatives are more likely than their commercial counterparts to assist KwaZulu-Natal's poorest communities. They are also more likely to guarantee that the capital obtained by people within these communities is used wisely. Finally, while Ithala Limited *is* undoubtedly lacking when it comes to product innovation (i.e. "cell-phone banking"), the simple fact that Ithala Limited can be relied upon to provide finance cheaply, consistently and at meaningful levels, means that the organization does possess unique qualities that justify a continuation of its "banking" activities.

Unfortunately, it is more difficult to use the issue of Ithala Limited's "unique qualities" to justify arguments in favour of the firm resisting political pressures. Indeed, the concerns of institutions like the SARB over the potential impact of sub-prime lending on banking system stability are not without justification. Also, the idea of the provincial government "owning" a "bank for the poor" is of obvious concern to bodies like the National Treasury and the national Ministry of Finance, whose GEAR-shaped perceptions of macroeconomic policy both preclude any notion of the state formally involving itself in the banking industry. For these actors, Ithala Limited's strengths as a rural-focused financing agency, its connectedness to Zulu culture and its ability to make adequate amounts of capital consistently available to the poor, all pale in comparison to concerns about broader macroeconomic health.

However, an argument against Ithala Limited acquiescing to political demands can be made on the basis of flaws rooted in the provincial government's own new policy efforts to "bank" the poor. Contrary to its purported beliefs in the ability of the commercial banks to begin serving low-income earners, the provincial government appears to be considering the use of its Local Competitiveness Fund as a means to subsidize the "big four" banks to provide financial services to impoverished populations. Indeed, this idea was imparted to the researcher by both of this study's government participants (the former head of the Department of Economic Development and the General Manager of the Gijima LED program). This suggests that while political actors may not wish for Ithala Limited to press ahead with its "banking" activities, they also retain some doubts about the degree to which commercial institutions can be relied upon to independently make available "pro-poor" financial products and services to the extent that the recent Financial Services Charter would seem to indicate they would. At the same time, using government funds to *directly* assist commercial institutions in helping the poor is a flawed idea, if only because this plan would seem to contradict the types of political objections that the state has imparted to Ithala Limited over *its* "banking" mandate.

For instance, the SARB and the provincial government have both justified their opposition to Ithala Limited becoming licensed or joining the National Payments System on the basis of fears surrounding sub-prime "risk" and what a mass loan default amongst Ithala Limited's low-income borrowers might mean for banking system stability. However, if the provincial government is going to use the Local Competitiveness Fund to provide subsidies, then it seems as if the potential dangers of poorly-managed "risk" are being *enhanced* rather than mitigated. To be sure, if a large-scale default did occur amongst sub-prime clients of government-subsidized "big four" banks, then the provincial government may find itself in a position where it could be accused of utilizing market distorting mechanisms to encourage commercial firms to take on "risky" low-income earners. In this type of scenario, any "run" on commercial bank assets (even if at a smaller scale) could be blamed directly on the state and surely this would have a more detrimental impact on investor confidence in the national banking industry (and perceptions of the SARB) than the activities of Ithala Limited.

Ultimately, the small scale at which Ithala Limited operates (i.e. it currently provides only a little over 500,000 savings accounts with an average account balance of just R2,497 per client), means that its activities are unlikely to ever pose a meaningful monetary risk for institutions like the SARB.

Furthermore, because Ithala Limited operates with the objective of raising its own capital to complement government assistance (rather than relying solely on provincial subsidies), its financing choices have typically remained prudent and have been made with the stated intention of having the firm avoid unnecessary fiscal losses. Consequently, there is little reason to expect Ithala Limited to generate what Hawkins calls “unchecked monetary flows”. By contrast, if the “big four” banks are simply provided with subsidies to make their products and services more available to the “unbanked” and the poor, then there is the small (but dangerous) possibility that they would actually become *too accepting* of “risk” and distribute finance too easily. If this proved to be the case, then the likelihood of a sub-prime default creating havoc within the South African financial sector seems just as likely to occur as the result of decisions made by commercial firms as it would as the consequence of Ithala Limited’s generally more modest activities.

When it comes to political objections over government “owning” a “bank for the poor”, there is little that Ithala Limited could do (other than privatization) to ease these types of fears. Indeed, for as long as South African policymakers subscribe to market-driven policy notions such as those enshrined in GEAR, there is little likelihood of a parastatal institution coming to be accepted as a “formalized” (i.e. licensed) banking institution. As such, it is the opinion of this dissertation that licensing should not be a priority for Ithala Limited.

If the firm remains under government ownership (something this study does not necessarily advocate), it may be best for it to instead continue operating under an exemption from the National Banks Act so that it can continue offering financial products and services without having to possess formal accreditation. Should this be the case, then it is clear that Ithala Limited will continue to be unable to access the same (and more varied) sources of capital as South Africa’s commercial institutions. As such, some type of arrangement has to be put in place between Ithala Limited’s Board of Directors and its government overseers that would allow the organization to more aggressively market itself abroad as a means to attract donor assistance (i.e. ODA or other types of foreign aid). While not necessarily ideal, pursuing this path may be the most effective way for a parastatal Ithala Limited to access the increased levels of capital it needs to expand its range of products and services.

Given the aforementioned institutional advantages that Ithala Limited still has in acting as a “bank” for the poor in KwaZulu-Natal and given the general lack of logic associated with political fears surrounding Ithala Limited’s “banking” mandate, it is the position of this study that Ithala Limited should resist the political pressures it faces to scale-back its banking activities. In the end, these pressures are not well-founded enough to justify Ithala Limited’s acquiescence to them and as is the case with the commercial pressures the organization faces, they run too great a risk of sidelining Ithala Limited’s effectiveness while in the process leaving the province’s “unbanked” and poor without access to the financial security they require to escape poverty.

6.2 How can Ithala Limited Articulate its Future Mandate and Shape its Corporate Priorities?

If Ithala Limited is to follow the advice of this study and resist prevailing pressures, then the organization must be able to articulate its future mandate and shape its corporate priorities in such a way as to allow the firm to define a stable niche for itself within the South African banking industry. While undeniably controversial and potentially problematic, a partial or full privatization of Ithala Limited may be the most effective way for the organization to begin pursuing this goal. As noted by various research participants in the previous chapter, an injection of private sector shareholders into Ithala Limited's management structure could act as a catalyst for the organization to expand its range of products and services as well as target constituencies (i.e. the emerging black middle-class) that the organization has tended to neglect. At the same time, privatization cannot be undertaken lightly and opponents of this idea have legitimate claims in questioning whether Ithala Limited's "pro-poor" focus would be maintained if the firm began to pursue profit as a prime motivation for its activities.

However, despite the validity of these concerns, they tend to be overstated and should be seen as paling in comparison to the possible benefits that can be obtained through even partial privatization. Once again, for example, it is clear that Ithala Limited is unlikely to become accredited while under government ownership. Political fears surrounding government "owning" a formal "bank for the poor" will be maintained regardless of the questionable logic of such anxieties. Moreover, even if licensing could be readily obtained, Ithala Limited cannot, under government ownership, access the amount of capital necessary to meet the National Bank Act's R250 million capitalization threshold (which all of South Africa's licensed banks have to meet). Through some degree of privatization, however, Ithala Limited could attract capital not only from incoming private shareholders but also from such initiatives as private sector support funding offered by international bodies like the World Bank. Through these, meeting the capitalization threshold may become a realistic possibility and the firm would then be in a position to more seriously renew its efforts to become licensed. This latter point is particularly important because while it is possible (as the last sub-section suggested) for Ithala Limited to continue operating under an exemption from the National Banks Act, this is not desirable as accreditation would better provide Ithala Limited with more diverse funding avenues (i.e. easier access to capital markets) and the chance to further enhance its public profile as a means to attract "unbanked" and poor clients who may otherwise be unaware of the firm's activities.

The main benefit that can be accrued through privatization, however, lies in the area of product and service innovation. Specifically, while respondents in the previous chapter identified "conservative" government oversight as being a key rationale behind limiting corporate creativity, the addition of private sector entrepreneurialism could reverse this situation and provide a much-needed impetus for Ithala Limited to begin investigating the feasibility of developing its own "cell-phone banking" proposals or new and more sophisticated loan products. While opponents of this idea would argue that there is no need for a "poor-focused" finance institution to develop more advanced financial products, such a belief ignores the sentiments expressed by many low-income borrowers (such as the two interviewed for this dissertation). These Ithala Limited clients make clear that even if they are not wealthy, they desire more sophisticated products that can make managing their finances more convenient. As such, Ithala Limited should embark on efforts to try and develop these types of products. From a developmental perspective, any product expansion that occurs as an outcome of privatization could also bring in new sources of revenue that can be re-invested in enhancing the quality of more basic “pro-poor” initiatives (i.e. undertaking further expansion of the firm’s ATM network).

As was noted by the Corporation’s Board Member in the previous chapter, a privatization of Ithala Limited has been attempted in the past but failed due to the hesitation of the KwaZulu-Natal provincial government to relinquish the firm to interests that may not possess a “developmental” focus. This will (and should) remain an obstacle to any speedy privatization process. After all, any privatization that merely sees Ithala Limited abandon its low-income activities in the name of quick profit would be foolish and of no substantive value. However, as the example of Uganda’s FOCCAS suggests, it is theoretically possible for private institutions to operate with joint commercial-developmental mandates. The challenge in this type of circumstance is to make sure that interested private sector parties are willing to maintain a focus on “pro-poor” efforts, something that could potentially be reinforced by adopting the recommendation of Ithala Limited’s former Managing Director to retain the provincial government as an “oversight shareholder”. Alternatively, it may make sense for a privatized Ithala Limited to become associated with a philanthropic organization that would prize development and encourage innovation but which may not be guided by a “profit-at-all-costs” mentality.

In any case, a privatization process would have to be carefully negotiated and this research makes no claims of authority in describing how this may come about. However, as a *broad-based* potential plan of action, privatization should be actively considered primarily as a means to attract new and more varied sources of capital and as a means to gain accreditation without sparking renewed political fears over issues related to government ownership of a “bank for the poor”.

In addition to privatization, Ithala Limited should prioritize an emphasis on improved technology utilization if it hopes to become a viable and *competitive* South African finance institution. While it may be the case that the firm’s aforementioned “unique qualities” continue to provide justification for it to maintain its “banking” role in the present, it is obvious that over the long term, Ithala Limited will have to become more technologically advanced in regards to the products and services it offers. This will particularly be the case when the commercial banks do finally begin expanding into rural areas and introduce populations here to such innovative products as “cell-phone banking” or even credit cards (thus forcing Ithala Limited to directly compete with its larger counterparts for rural dwellers’ attention). However, improved technology utilization will be equally important for Ithala Limited if it wants to compete with the “big four” banks in urban areas, where commercial institutions can be expected to build on such products as the Mzansi Account as a means to offer more sophisticated items to the “unbanked” and the poor in these locations.

The ability to develop new and creative products more easily would likely be the most important benefit gained by Ithala Limited if it were to develop enhanced technological capacity. The provision of “cell-phone” and retail banking initiatives are the most obvious examples. However, an improved understanding and use of technology has other benefits as well. For instance, it was noted in the previous chapter that there is a need for smaller-scale institutions like Ithala Limited to hire “creative” young staff capable of imbuing the organization with a strong sense of innovation if it hopes to be competitive. The information technology (IT) field is one in which there typically exists a sizeable number of young professionals whose expertise may prove invaluable to Ithala Limited in an array of areas (i.e. not just in terms of technology but also when it comes to developing products for low-income young people). If Ithala Limited does not take the opportunity to develop its technological capacity, on the other hand, then these types of young professionals will likely be hired by the “big four” institutions and Ithala Limited may be left with a competitive disadvantage in terms of innovation and ideas in the future.

At the same time, this study’s literature review made clear that there may be a link between “technology” and “cost reduction”. This was reinforced in the previous chapter by the Corporation’s former CEO and his claims that the administrative costs associated with Ithala Limited’s debit card have been reduced only because the organization has been able to take advantage of ABSA’s own technological capacity (and its access to the National Payments System). Clearly, the development of new products will be costly and while this may not be a concern should Ithala Limited remain a government-owned DFI passing along high expenses to the state, it would be problematic if the firm were privatized and entirely reliant on capital being provided by private sector interests who would inevitably want to reduce costs as much as possible. Therefore, it is in Ithala Limited’s interests to begin developing such initiatives as “cell-phone” or even online banking for its clients simply because doing so may, over time, allow it to reduce costs associated with its ATMs, branch administration, etc. A reduction in these costs would, in turn, benefit Ithala Limited’s future competitiveness and would make more capital available for investment in new products, technical assistance programs or other developmental schemes.

Finally, as was forcefully argued by research participants such as the former head of the Department of Economic Development and the Corporation’s Chief Economist, Ithala Limited should also prioritize a development of the organization’s “homegrown” research capacity. While it is often assumed that the “unbanked” and the poor constitute a never-changing constituency whose financial interests remain confined to very basic savings activities, this is actually not the case. As the two borrowers contacted for this study emphasized, low-income earners are actually a fluid market segment whose interests and product demands are changing on the basis of increasing income, the obtaining of new items (i.e. homes, vehicles), etc. As such, it is clearly important for Ithala Limited to possess not only Armendariz de Aghion and Morduch’s sound “information” on the “unbanked” (i.e. data on their savings habits) but also information as how *wider* banking trends and how the development of new products and technologies will shape the perceptions and demands of low-income groups.

Hiring more research personnel, particularly those with experience in product marketing and survey analysis, would thus act as a potentially invaluable contribution to Ithala Limited and could place the organization in a position of being able to *anticipate* what the financial needs of “unbanked” and poor populations will be in the future. This, in turn, would allow the firm to gain an advantage over its larger and well-capitalized counterparts when it comes to being able to design and quickly “roll-out” creative products and services. From a commercial standpoint, this would clearly improve Ithala Limited’s competitiveness and would justify its continued presence in the banking market. From the perspective of effective development, improving research capacity as a means to better serve the “unbanked” and the poor will act to guarantee Ithala Limited’s long-standing position in serving these populations and will ensure that KwaZulu-Natal’s low-income earners have a reliable and responsive financial agent that remains committed to their needs.

Earlier, this dissertation noted that it would pursue a “grounded theory” approach to drawing relevant conclusions. What this means is that while this chapter’s arguments and recommendations can be applied to Ithala Limited, they are also “case-specific” and cannot be readily applied to studies considering the future of other South African DFIs like the provincial agricultural banks or even to non-South African bodies like FOCCAS. More important in regards to “grounded theory”, however, is that when it comes to the conclusions outlined in this chapter, it is apparent that it would have been difficult for the researcher to establish the importance of such themes as “privatization” or the importance of “research capacity” without first undertaking an interrogation of the qualitative information imparted by this study’s participants.

In other words, it would have been extremely difficult to undertake a study allowing for these types of conclusions to be drawn if this paper had adopted a research orientation focused on a pre-conceived (i.e. literature-based) hypothesis. This may be an important notion to keep in mind for future researchers in the development finance field. Indeed, it suggests that potentially more useful findings can be obtained as an outcome of conducting research without pre-conceived expectations of what research *should* find while instead allowing the views of respondents to define what issues are most important.

7 Conclusion

This dissertation has established that in spite of its long-running success in providing necessary financial products such as savings accounts, home loans, business support funding and debit cards to KwaZulu-Natal’s impoverished populations, Ithala Limited is now facing a new set of political and commercial pressures which call into question its future as a “banking” institution. State agencies such as the SARB as well as political actors like the KwaZulu-Natal provincial government, are wary of Ithala Limited’s sub-prime lending activities and the potential impact they could have on the stability of South Africa’s wider financial system. Moreover, the continued ideological dominance of policy plans such as GEAR acts to reinforce opposition amongst these players as to the idea of a government-owned DFI becoming a “state-owned bank for the poor”. As a result of these positions, these agencies are placing pressure on Ithala Limited to scale-back the extent of its “banking” role and to not pursue a “formalization” of this mandate via licensing or entry into the National Payments System.

Additionally, Ithala Limited is facing pressures from the commercial banking sector itself. South Africa's "big four" banks, long disinterested in serving low-income populations, have drafted a "pro-poor" Financial Services Charter that commits them to better serving "unbanked" and poor communities in the future. Also, the roll-out of financial products such as the Mzansi Account would seem to indicate that commercial institutions are becoming cognizant of the need to play a developmental role alongside their traditional profit-making activities. For Ithala Limited, however, the advent of "big four" interest in serving the "unbanked" and the poor raises a set of pressures revolving around the extent to which a parastatal DFI should seek to "overlap" and even compete with willing private sector firms in serving these same constituencies. Taking these sets of pressures into consideration, this dissertation then posed two main questions: 1) how should Ithala Limited respond to these pressures? and 2) regardless of how it chooses to respond, what should the firm do to articulate its future mandate and shape its corporate priorities to ensure that it remains a useful "development tool" in the future?

In response to these questions, it was argued that Ithala Limited possesses a number of unique qualities that justify the firm resisting these pressures and pressing ahead with its efforts to serve KwaZulu-Natal's "unbanked" and poor. For instance, it was established that Ithala Limited possesses advantages vis-à-vis geographic and cultural "accessibility" that commercial firms are currently unable to match. When it comes to the provision of such important initiatives as "technical assistance", Ithala Limited's "accessibility" (i.e. its Zulu-speaking staff) ensures that it is more likely than its "big four" counterparts to be capable of aiding its clients in a cooperative and even participatory manner rather than advocating a top-down approach to firm-client relations. As such, it is prudent to argue that Ithala Limited may be in a position to assist its borrowers make more effective use of capital than commercial institutions. Equally important, however, is that this study noted Ithala Limited to possess a high degree of "trust" when it comes to its sub-prime client base. In a current world environment characterized by a substantial "credit crunch" and a resultant wariness of serving low-income people, this "trust" is invaluable and should guarantee that Ithala Limited continues to make its products and services available on a consistent basis and that it will extend capital in the amounts necessary to actually assist the "unbanked" and the poor escape poverty.

When it comes to the political pressures facing Ithala Limited, this dissertation argued that the firm's small-scale operations (i.e. it provides only 500,000 savings accounts) should prevent its activities from ever posing a meaningful threat to South Africa's banking system stability. Furthermore, it was noted that the KwaZulu-Natal provincial government's own plans to assist the "big four" banks serve the "unbanked" and the poor (via its Local Competitiveness Fund) are deeply flawed and are actually more likely than Ithala Limited's activities to create unnecessary risk. As a result, the organization should resist political pressures to the best of its ability and should make recourse to its above-mentioned "uniqueness" when it comes to justifying why the firm should maintain a "banking" role even alongside commercial institutions.

At the same time, it was also suggested by this study that for Ithala Limited to act as an effective "banking" agent in the future, it may be worthwhile for it to consider pursuing three specific corporate priorities. First, the firm (and its government overseers) should weigh the potential benefits of either a full or partial privatization of organizational ownership. While drastic, this would provide Ithala Limited with the opportunity to access new (and more substantial) sources of capital to fund its activities and it would allow the organization to escape the "conservatism" of government control. This, in turn, would allow Ithala Limited to potentially expand its operations to create new sets of innovative products and services that low-income earners are likely to demand in the future. Second, it was argued that Ithala Limited must be willing to place a greater emphasis on "technology utilization" as a means to both reduce operating costs (i.e. through such initiatives as "cell-phone banking") and to offer more sophisticated services to upwardly mobile clients. Third, it was suggested that Ithala Limited must improve its "homegrown" research capacity in order to place itself in a superior position when it comes to both anticipating national banking trends and identifying the types of steps the firm needs to take to remain a viable competitor to larger bodies while also remaining an effective development agent.

Based on this study's findings, a number of further avenues for future research can be identified. While this dissertation has examined Ithala Limited at an "institutional" level (i.e. the firm's relations with political actors), it would be useful for future scholars to undertake a more "microeconomic" approach to studying Ithala Limited's activities. For instance, a qualitative analysis of how borrowers utilize Ithala Limited products would be extremely useful in trying to further establish the importance of "technology" and whether low-income clients really do attach as much importance to product sophistication (i.e. "cell-phone banking") as the borrowers contacted for this study suggest. In addition, research carried-out to understand the savings habits of Ithala Limited borrowers would be of considerable assistance in helping to identify the types of "developmental" products and services that Ithala Limited could provide in the future. For instance, if borrowers stated that their rationale for generating savings was mainly to undertake home repairs, then it would be possible for Ithala Limited to then use this type of research to offer different types of home loan products, insurance packages, etc.

Finally, while it was noted earlier that DFIs have been in a continual state of institutional decline since the onset of SAPs in the 1980s, it would still be worthwhile for future scholars to undertake comparisons between these types of institutions in different countries. While this dissertation accomplished this on a small-scale (i.e. comparing Ithala Limited to Uganda's FOCCAS and India's rural agricultural banks), a larger-scale comparative analysis may produce research outcomes that are better able to offer a generalizeable set of "best practices" that DFIs can use to maintain themselves as effective "development tools" (whether they take on "banking" roles or not). What should be clear from this dissertation, however, is that if Ithala Limited's "banking" mandate is unable to withstand the political and commercial pressures it currently faces, then KwaZulu-Natal's poorest citizens may come to lack recourse to necessary components of financial security (i.e. access to credit) and their ability to achieve upward economic mobility will be compromised as a result.

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