



FINANCE AND INVESTMENT

No country has developed without mobilising its own resources for productive investment and domestic capital formation. As in other parts of the world that have been successful in economic transformation, as much as is possible of the resources generated in African economies need to be retained for investment in strategic economic sectors and activity. External finance, both public and private, is critical to complement national resources. It is essential, however, that external finance is directed to strategic economic activities that compensate for its ultimate outward transfer of resources. Such transfers must be co-ordinated to minimise the disruption of the continued formation of capital within the national economy.

Like their counterparts in developing countries elsewhere and in developed economies in the post-war years, immediate post-independence African governments adopted policies and institutions that supported investments in developing productive capacity across different sectors: in economic infrastructure such as energy, transport and communication; and in social infrastructure such as health, education, and clean water. In the face of weak or non-existent domestic private sectors, state enterprises were established in economic areas, especially manufacturing, seen as key to catalyse the transformation of the primary dependent economies inherited from colonialism. Foreign investment was sought to fill in critical gaps, often in partnership with governments with defined economic developmental and social objectives.

Financial systems, institutions and policies deemed appropriate to this effort included development banks; directed credit and other financial institutions; commodity marketing boards that tapped into the strategic role of commodities in African economies and mobilised the finance generated thereby for

investment in other sectors of the economy; the developmental mandate of central banks; as well as policies that sought to regulate foreign profit repatriation while providing incentive for re-investment.

In their totality, these were a response to the fact that within the patterns of economic activity dominant in Africa's primary commodity export economies, a bulk of the investible components of the economic surplus was and is transferred outside Africa's economies, rather than re-invested. Much of what remained was either too inadequate for the scale and quality of requisite investments, or too fragmented or held in forms that were not readily investible.

As is widely acknowledged, application of these policies was not always consistent; state institutions lacked the capacity and legitimacy for transparently holding economic agents in account to the policy objectives and their social goals, leading to much abuse and corruption. Further, and more significantly, global collapse in primary commodity export prices took away much of the means for financing these policies, and, complicated by global economic developments, led to profound economic crises.

The World Bank and IMF sponsored structural adjustment policies (SAPs) introduced from the mid-1980s and enforced by means of aid-based conditionality throughout Africa were meant as a response to these difficulties. In the context of corporate driven economic de-regulation which had begun to take hold through most of the advanced industrial world, however, SAPs became a project of neo-liberal, free-market ideology, aiming to install the primacy of the market throughout all economic relations and social provisioning. This system reduced the role of the state to

providing conditions appropriate to the primacy of the market.

The result has been thirty years of the wholesale dismantling of the very policies that the World Bank and IMF had hitherto promoted in Africa and which had still been in practice in those regions of the world that did not have Africa's misfortune of falling into external debt. Thus almost every form of public sector role in the economy and in socio-economic provision has been replaced by private enterprise or subjected to the profit logic of private investment.

As the domestic private sector was too weak to assume the private-sector led economic development mandate so abruptly thrust upon it, this role effectively fell to the foreign investor, typically transnational corporations. Investment policy thus came to be defined around the primary goal of creating conditions favourable to attracting the foreign investor. This has meant maximising investor profits by relaxing and/or removing most economic, social and environmental regulations, while simultaneously providing incentives, including tax incentives, to foreign companies. It has also involved easing or altogether removing restrictions in international capital movements, foreign exchange restrictions, currency controls, etc. to facilitate cross-border investments and profit repatriation. Above all, whereas before foreign investment was contained within a domestic investment agenda, now it is foreign investment which is primary, with domestic players given protected spaces within areas deemed too minor for foreign investors.

Changing Forms of Investment and Finance and Africa's Economies

Foreign investment has taken on a range of forms which pose multiple challenges to African economies. At one end is foreign direct investment (FDI): the establishment or purchase of an enterprise by foreign owners of capital in an African country. Foreign investment can also consist of the external purchase of up to 10% shares in a local company; purchase of government or corporate bonds issued either in foreign or

local currency; buying up local currencies to sell at a profit when the exchange rate is right; and hedge funds buying up agricultural land for speculation. This has been aided by financial sector reforms, including the privatisation of banking, which has enabled the foreign takeover of domestic banks assets now listed on foreign markets; the introduction of stock exchanges and capital markets, non-bank financial institutions; and the cross-border holding of financial assets of all forms.

Thus foreign investment has become closely intertwined with financial dealings, and with the exotic new products and instruments of the age of financialisation. The loosening of regulations to encourage foreign investment has thereby also created space to affect policy for all these financial instruments that would otherwise have little place in an investment strategy of a developing economy.

So far, investment flows to and operation in Africa have not contributed to shifting the economic patterns established under colonialism and targeted by early post-independence policies. The bulk of investment, especially FDI, still flows to resource extraction, operating as enclaves with little or no spill-over linkages to the rest of the economies. The services sector has in recent times attracted significant levels of foreign investment, but its concentration in financial and business services have served to further disconnect investment from the sectors of domestic economy in most need. Manufacturing, domestic agriculture and the rural economy remain ill-served.

Moreover, the nature of these investments, their financing modalities, and the deregulated framework within which they operate have all accelerated the net transfer of resources out of Africa's economies rather than their re-investment. In addition, the weakening of social, environmental and fiscal standards as incentives to attract investment has in effect been the externalisation of all social, economic, and environmental costs of investment: in effect, the transfer of these costs to the public sector. With the reduced

means available to this public sector to fulfil these costs, this has degraded the economic, social and environmental conditions of society at large, and of the poor and vulnerable majorities in particular.

The net effect has been a dislocation of investment and financing from the strategic sectors of the domestic economy. This has had negative consequences for the livelihoods and means of income in the sectors which occupied predominantly by small farmers, workers, domestic producers and industry and trading. Reflecting pre-existing gender-based relations of inequality, women and their economic activities both within the market and in the domestic sphere have suffered disproportionately.

The Problem of Global Finance

The challenges outlined above have been reinforced by changes in the character of global finance and its role in Africa's economies. Global finance has always been integral to the structuring of Africa's economies, given their dependence on imports for most of their manufactured products and their role as primary commodity exporters. The foreign banks and capital markets that have financed mining and other primary commodity companies, as well as the import-export trade, have always served to channel outside disproportionate amounts of finance that could have been reinvested in Africa's economies.

Changes in the financial sector over the past two decades – both globally and in Africa, with increasingly exotic new players, practices and instruments – have compounded this trend. This has enabled financial institutions and players to intervene directly in the mobilisation of financial wealth in Africa's economies, while playing little direct role in the productive sectors of these economies. This wealth is then repatriated as profit.

In the latest wave of deregulation, privatisation of insurance and reform of state-owned pension funds are handing purely local accumulation of financial wealth (requiring little or no foreign investment)

over to foreign interests. This diversion thus puts this financial wealth beyond the reach of citizens and their investment needs. In a twist of irony, pension funds and the vast national wealth that they represent are targeted by governments to underwrite public partnerships with foreign investment (so-called public-private partnerships, or PPPs) in providing infrastructure. Given the history of PPPs so far, this indicates the use of public resources to fund private wealth – and foreign private wealth at that.

The ability of governments, especially in African and other developing countries, to manage these evolving financial processes and flows are further complicated by characteristics of these same processes. For instance, the easy flows of finance across national boundaries and the attendant currency movements have brought with them a stronger tendency to currency instability and crises of volatility. In dealing with such crises, governments are forced to throw whatever foreign reserves they have into shoring up their currencies. Indeed, the accumulation of foreign reserves for these purposes has begun to take priority over investment of these resources in production and exchange in the national economies.

Measures at the intergovernmental level, which could counterbalance the limits of individual national governmental action as well as provide support for weaker national governments in Africa and elsewhere, are undermined by the tendency of further deregulation that seems to dominate as the default position in sites of inter-governmental decision making, whether in formal institutions like the IMF or the informal groupings and gatherings as the G20. For African countries, this is aggravated by a further deficit of governance. Not only are they under-represented in these spaces, but the imbalances of power therein undermine their ability to effectively articulate their specific issues, interests and perspectives as an integral part of the agenda.