Financialization and the Real Sector in Africa: manufacturing and services

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1. Gigantism, infrastructure and energy

• Financialized power leaves its mark on the built environment and the type of development pursued
• There is a synergistic relationship between building ‘big’ infrastructure, concentrating power within party-states (and corruption) and the greater extractivism made possible by international finance
• For example, the economics of investing R250 billion in a container port in Durban where costs are already the highest in the world, do not make standard economic sense:

“Once more, like King Shaka airport, Moses Mabhida Stadium, and the International Convention Centre, ratepayers will have to make up the shortfall for massively underutilized infrastructure whose chief benefit it to those who get the contracts to build them and the political class who serve as the “business partners”
R89 mill pa interest on loans; R9.3 mill p a non-bowl income
And the public pays the price in a failure of service delivery.
1.1 Popularity of infrastructure spending

• Building something creates jobs at opportune moments in the fiscal and electoral cycle.

• Promotes jobs in the construction sector which supports decreases in economic inequality

• Public procurement and tendering processes can be further designed to assist new market entries, political support for the ruling party and to raise political finance.

• Justifying public expenditures on infrastructure is done by talking of the beneficiaries from procurement, building and the employment created, while the actual long-run costs in loan repayment and sustainable jobs which remain after the construction are downplayed.

• In terms of financialisation, there is a synergistic relationship between building infrastructure; concentrating power within party-states and the greater extractivism made possible by international finance
1.2 Industrial strategies for going offshore

• There are key industrial strategies that shape this process, some more legal than others, which include
  • thin capitalisation
  • inverted company structures
  • transfer pricing
  • multiple accounts, offshore accounts, offshore record keeping
  • re-domicile in a booking centre or tax haven
1.3 Jurisdiction shopping

- Firms are ‘jurisdiction shopping’, where
  - “juridically dispersed subjects have learned to take advantage of the fiction of their fragmentation by rearranging their legal existence in ways they see fit”

- “the true meaning of the term “international tax planning”;.. is the planning of whichever aspect of their “reality” corporations or wealthy individuals are prepared to reveal at whichever location” (Palan, 2002: 172)
1.4 The normative: tax havens

- Different views of tax havens commensurate with normative differences in neoliberal and heterodox approaches to economics

**Heterodox:**
- seen as reducing fiscal base in developing countries, encouraging capital flight and criminality, and costing lives through exacerbating poverty (heterodox)
- an abuse of rules and codes of sovereignty and rights of others, including

**Neoliberal or orthodox view:**
- Legitimate use of legislative capacities used in utilitarian manner to attract business, an EPZ for finance, a specialist international service centre, an ‘offshore financial centre’ (OFC)
- Business views this as Tiebout-type efficiency paradigm, preventing states from abusing their monopoly position in an exchange relationship to society, that is punitive taxes
- Tax havens a rational advantage-maximizing strategy for firms (must be good..)
2. Development finance in South Africa: examples

Eg. Public money through traditional development finance institutions

AfDB invests in Frontier Markets Fund Managers with other ‘development’ financiers FMO, DEG, and IFC. Domiciled in the tax haven of Mauritius it nonchalantly invests in dirty energy, such as coal-fired Kelvin Power in Johannesburg
2.1 DFI invest in infrastructure funds

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<th>African Infrastructure Investment Managers Ltd (AIIM)</th>
<th>Used these SPVs:</th>
<th>DFI and IFI investment in African Infrastructure Investment Fund I:</th>
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<td>Invests in Kelvin Power, Emoya Energy pty; N3 Toll concession and Trans African Concessions</td>
<td>African Infrastructure Investment Fund I (AIIF)</td>
<td>• Nordic Development Fund</td>
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<td>South Africa Infrastructure Fund (SAIF)</td>
<td>African Infrastructure Investment Fund II (AIIF 2)</td>
<td>IFI investment in South Africa Infrastructure Fund:</td>
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<td>Kagiso Infrastructure Empowerment Fund (KEIS)</td>
<td>• African Development Bank</td>
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<td>IFI investment in African Infrastructure Investment Fund II:</td>
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<th>AIIF 1, 2 and 3:</th>
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<td>• Domiciled in Mauritius</td>
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<td>• Collects from the ATMs in the Toll concessions</td>
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<td>• (derivative income owned separately from the asset)</td>
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2.2 Overall, DFIs

- Mirror behaviour of private sector in order to invest with them
- Support an extractive political economy
- Use inhuman modernism to justify investments
- Enabling structural violence to pre-existing communities
- And show little environmental concern

Photo Victor Brott/Swedfund cover, Rosencrantz & Co (2010)., Swedfund’s Investments through Funds: Capital for Locally Owned Economic Growth and Development
2.3 Fund invested nature-based industries in SA: the socio technical arrangement

- Callon’s concept of the socio-technical agencement or arrangement (STA) is a configuration of people, institutions and technologies which enacts the ‘performation’ of the economic categories of people and things in marketization processes (Callon, 2006: 25 Callon, 1998; Caliskan and Callon, 2009, 2010)

- Funds investing in Africa’s nature based industries strategically manage a particular STA, which privileges financial interests (domestic and international)

- Material/institutional structure is of private equity and DFIs

- In this, management fees and services have naturalised traditional pay backs and rents
3. Conclusion: this political economy leads to financialisation of power

- Financialisation does not ‘just happen’, but has agents which employ money as a *technology of power* (aka Foucault), using the money form to quantify human and physical contexts, privilege financial parameters and pecuniary factors in decision-making, and thus return decisions in favour of money-holders.

- Financialisation works particularly through private equity funds investing in natural resources, mostly using secrecy jurisdiction domicile which create a particular pattern of ownership and benefits.
3.1: Resumed ‘development of underdevelopment’

- Economic neo-liberalism associated with globalisation and the economic power of global corporations and multilateral institutions
- Leads to the structural displacement of the upper echelons of economies to ‘privatised jurisdictions’.
- This leads to the ‘development of underdevelopment’
- And collapse of neoliberal politics in favour of authoritarianism
3.2 Global ‘de-risking’ of nature-based industries

OECD
Provide development finance

DFI's, ECAs and IFIs distribute the money

Risk is localised, profit is globalised
Environmental externalities poorly regulated

No systematic EIAs here

Mostly to offshore private equity funds

Environment accounted through risk here

Limited extra territoriality of OECD members’ laws and weak supranational law

Who invest in national and contractor companies

Profits, fees

Pollution law applies here

Environment accounted through risk here
3.3 Keynes (1930s financialization):

“The whole conduct of life was made into a sort of parody of an accountant’s nightmare...The same rule of self-destructive financial calculation governs every walk of life. We destroy the beauty of the countryside because the unappropriated splendors of nature have no economic value. We are capable of shutting off the sun and the stars because they do not pay a dividend. London is one of the richest cities in the history of civilization, but it cannot ‘afford’ the highest standards of achievement of which its living citizens are capable, because they do not ‘pay’” (Keynes, 1933: 763-764).
3.4 Contemporary finance?

Then financiers were not willing to ‘mortgage the future’ to build the best. But in the current phase of rule by finance, it is capital that is changing the rules of the same accountancy: they will build the least logical football stadium simply because of the value of the initial construction contracts (including politically), and the first few years of guaranteed fees, whatever the medium term debt or overall utility of the building. Greater feats of infrastructure are now apparently possible, but only with the constant perverse effect of greater inequality, public indebtedness and no eye for financial or ecological sustainability. (Bracking, 2016)
4. State capture

State capture refers to the process of capturing state regulatory authority without democratic authorization, either by private persons or a mix of politicians and private actors.

- State capture of the South African government under the Zuma regime proceeded through control of the contracting authorities for lucrative state-owned enterprises (SOEs).
- The power elite also consolidated state control by capturing the prosecuting authorities responsible for pursuing redress for criminal corruption.
- And by organising, facilitating or failing to prosecute acts of extra-judicial violence targeted at dissenters.

Haroon Bhorat et al: the Zuma-centered power elite staged a silent coup during the ten-year period from 2007 to 2017, not the result of isolated acts of corruption, but a systematically pursued “political project of a well-organised network.”

- An insider political project “to repurpose state institutions to suit a constellation of rent-seeking networks.”
- To do this, Zuma and his cronies established a symbiotic relationship between holders of political office and private actors, causing power to shift increasingly to a “shadow state,” where “deniability is valued, culpability is distributed (though indispensability is not taken for granted) and where trust is maintained through mutually binding fear.”
- While the contractual relationships of the South African “shadow state” are complex, during the Zuma era, they all tended to involve associates of the Zuma family, members of the Gupta family (hence the moniker “Guptagate” for recent corruption revelations), and the families’ relatives or close associates.

[Haroon Bhorat, Mbongiseni Buthelezi, Ivor Chipkin, Sikhulekile Duma, et al., Betrayal of the Promise: How South Africa is Being Stolen (Stellenbosch, South Africa: Stellenbosch University, 2017) ps. 3, 2, 4, 36]

https://youtu.be/Ndzu1sjV_f8  Gupta’s Paradise
Close link between Financialization in global economy, political corruption and party-state power

https://youtu.be/A-Nh_zr0MGU?t=10 Gupta Bling
4.1 New forms of corruption?

- State capture sometimes excused as/confused with ‘radical economic transformation’ the economic redistribution and deracialisation of assets and wealth.
- Certainly there is a copying of some examples set by ‘white monopoly capital’ and the established corporate sector.
- But Financialization facilitates or uses ‘new’ forms of private sector corruption (Bracking, 2013) and remakes old ones.
- State capture a product of a global political economy that leads to the Financialization of power at all levels of government.
- It also affects businesses at the local level.
4.2 ‘Radical transformation’: BEE interviews

A businessperson (2016) explains how difficult it is to avoid paying concessions or bribes, or in local vernacular, ‘leaving money on the table’. He says that:

you just start off innocently, you want to establish your firm, you want to grow, provide for the community…you start getting small projects, but you find my neighbor who’s got more or less the same experience as me, who’s got more or less the same resources as me, they are getting ten times more, so you…say Michael I’m going to give you this X amount of money, what can you do for me? Because, as you deal with these government organizations you start to know the right people who push buttons…. and if I push their buttons in the right way, I would be offered so much money, something might come up in the future

Interviewer: what would be the way to push the right button? Just money?

Unfortunately, it’s all about the money.

Interviewer: That scenario you described, how does it affect business?

Functional wise, it’s not a problem, it actually smoothens things up, you don’t have certain struggles…you get meetings at short notice when you have put in an income, those invoices are paid on time, when you want resources, you get them without a question asked. So that is an advantage. If you are going to make a profit of a R1,000,000 in a project, you are only going to walk away with 60% or 70%, because the other percentage I have to leave back on the table, so if you are going to become a millionaire in 5 years’ time, you only become a millionaire in 10 years’ time, but the other person who is not involved in that colluding business might become the millionaire in five years’ time…a friend of mine says as black people we don’t have anything to show, we don’t have houses to show, no business no cars, because half of our profit we give back to the government departments……A lot of people who should be at a certain level are not there because they have left so much money behind.
Further Reading:

Corruption & State Capture: What Can Citizens Do?

Abstract:
Given South Africa’s recent history of corrupt state capture, the country faces two possible futures: a further decline into spoils politics or a return to an improved constitutional democracy. This essay argues that the latter is more likely in the long run, but is by no means guaranteed. Achieving such a future requires public administrators, citizens, the private sector, and top lawmakers to insist on a public-focused social order. This essay suggests that a coalition of anticorruption agents must be built across the public and private sectors, and that this effort will be successful to the extent that it can link people across traditional class and race divides.

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