neo-liberalism and finance in Africa: locating ppp’s and blended finance

by Tetteh Hormeku-Ajei, Third World Network-Africa

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FINANCING FOR DEVELOPMENT IN THE ERA OF SDGs: BLENDED FINANCE AND PPPs

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introduction: issues and context

• Thirty years of neo-liberal economic/development paradigm
  • universal economic de-regulation and liberalisation: market and private sector
  • weakness of domestic (African) private sector, hence dominance of foreign investor.
  • inter-twining of finance and investment, traditionally and even more so with financialisation
  • finance under neo-liberalism

• The thrust of SDGs
  • inclusive growth and sustainable development
  • for Africa (e.g. Africa 2063): structural transformation—agrarian transformation and industrialisation, resource extraction with domestic economic linkage

• Issues:
  • finance and structural transformation.
  • problems of neo-liberal finance
  • trajectory of blended finance and ppp’s
approach

• Peculiar challenges of finance and development under primary commodity export dependence
• Early post-independence policy responses
• Thirty years of neo-liberal finance policy
• Highlights of the trajectory of PPPs and blended finance
financing development:
a schema of (a hierarchy) of sources

• (Four) sources (in general and within SDGs) with contested inter-relationships:
  • National /Domestic Resources: Private and Public
  • Foreign Resources: Public and Private

• From the logic of capital formation and development these can be regrouped and prioritised as:
  • **Primacy** of national resources within the logic of domestic accumulation
    • Public
    • Private
  • **Supportive role** foreign public: driven by primarily public reasons (combination of public and private)
  • **Complementary role** foreign private: driven primarily by private/profit motivation -- externalisation
economic surplus and (domestic) capital formation

• Economic Surplus
  • What and how is it used?
  • How much and in what form?

• Composition: sectoral distribution of output-income:
  • agriculture, minerals, manufacture, services, etc...

• Distribution. Between
  • Private Accumulation
    • investment for expanded (re)production
    versus
    • luxury consumption

[related to (class-based)-income/wealth distribution]

• Public Investment
  • productive investment
  versus
  • unnecessary and/or wasteful consumption-e.g. military, monument, and corruption
economic surplus in the African political economy

• Essentially the political economy of primary commodity export dependency:
• Weight of agriculture, nature of agricultural labour, and forms property
  • (plantation and export cash crop agric)
  • Smallholder (one acre or less) with a family of five; traditional land tenures; territorial. Petty commodity production relations even when within cash economy

• Nature of Enterprise in Secondary and Tertiary Sectors
  • Preponderance of small enterprises—A few medium to large with sea of artisans, etc

• The Role and Importance of Foreign Enterprise (Also High Surplus Area)
  • Mining, Plantation Agriculture and Export Agricultural Trade
  • Import-Export Trade and Top-Tier Distribution
  • Finance
implications and strategic challenges for capital accumulation

• Challenges
  • Foreign domination of strategic high surplus areas and externalisation of surplus/accumulation
  • Small size of most of the surplus generated in rest of economy, and in non-monetised/non financial forms
  • Scattered and fragmented.

• Strategic Responses
  • Control/Minimise externalisation
  • Create means for encouraging monetisation of wealth and financial assets
  • upscale and concentrate
post-independence policy attempts

• Investment Policies
• Financial Policies and Systems
• Exchange Rate Policies
• Taxation Policies
range of (non-finance) policies: a sample

• Strategic aim: to increase economic surplus; direct as much of this into re-investment in domestic economy
  • Personal and Corporate Income Tax
  • Agricultural Marketing Boards: (Attract and reinvest agric surplus)
  • Commodity Taxes: Domestic and International Trade.
    • “Frontier” tolls; import duties and export taxes
  • Foreign Enterprise: E.g. Mining Sector
    • Royalties, Corporate Tax; Export Duties; Controls on Profit Repatriation, Joint-Ownerships
  • Compulsory Levy
• Wider State Economic Activity:
  • State Trading Companies; State Enterprises; State Financial Institutions: Commercial and Development Banks, Insurance, Pensions
financial policies and systems

Banking
- Central Bank and a Developmental Mandate
- Development Banks and Directed Credit:
  - Agricultural Development Banks
  - Rural Banks and non-bank institutions: Post Office Savings Bank
  - Banks for Housing
- Rural Policies of Commercial Banks
- Interest Policies and Credit Ceilings

Non-Bank Finance – insurance, social security, etc.

Commodity Boards

Capital Controls and foreign exchange regulation
the neo-liberal attack

- **Liberalisation**
  - Remove credit controls and interest rate policy – market
  - abolish specialist banks, especially thru removal of state role and support

- **Privatisation and de-nationalisation**
  - privatisation of state held/built banks and financial institutions
    - commercial banks; specialist banks; insurance companies
  - Foreign Private Ownership

- **De-regulation**
  - Abolition of controls on profit repatriation
  - Removal of Foreign Exchange Controls
  - Liberalisation of Capital Account – in fact where not in law
effects and implications

• proliferation of financial players and activities – deepening
  • many financial institutions; different finance instruments
  • chasing the same quantum of (financial) wealth in general
• but worsening in intermediation role of finance in production
  • diminished lending to productive sectors
  • lending at high costs
  • decreased financing for vulnerable but large sectors
effects and implications - 2

• increased internalisation of finance
  • foreign presence in equity markets
  • residents in foreign equity markets
  • private sector borrowing in global markets
  • ‘dollarization’, including through residents operating dollar accounts
  • foreign (global) financial institutions in financial system—international banks etc.
  • domestic bond markets open to foreigner
  • currency arbitrage and carry trade

• increased vulnerability
  • debt
  • currency volatility and currency reserves
  • capital markets shocks and volatility
  • exotic and toxic assets

• resource outflows
effects and implications – in sum

• deepening original conditions of finance and surplus
• de-linking of finance from “real” sectors
• outflow of financial wealth and resources
• undermining domestic resource mobilisation
not to forget:
liberalisation and other non-finance measures

• commodity boards
• investment
• changes in tax systems and regimes
the taxation example

• Gravitation towards personal and corporate income taxes at low levels
• Dismantling of (many or all) other tax devices:
  • commodity and international trade taxes
  • commodity boards
• Dismantling of other means of direct public participation in attraction surplus for investment
  • privatisation of state enterprises—one-off returns to state coffers;
  • more seriously in strategic areas: finance, insurance, development banking.
• Later adoption of VAT and others to make-up
Attract Foreign Investment. In context of race to the bottom. Thus, roughly similar over-generous tax regimes in all countries:

- No VAT
- No import or export taxes (except SaLeone)
- CIT rates down from 40% during 70s/80s to 30% or lower
- Extremely low withholding taxes (between 10 and 15%) on dividends, loan interest and consultant fees compared to other mining economies (20-35%).
- No windfall or additional profit taxes
- Very low royalties: average 3%
- Stability agreements
the trajectory of PPPs: highlights

• "External" Aspect/Perspective
  • Use of ODA and other public finance
  • Foreign Capital

• Domestic Aspect/Perspective
  • Domestic Financial Resources as leverage: e.g. social security..
  • Target Areas of Investment: Preference for “infrastructure as services” and not so much production
  • “Investment” as long-term financial “asset class”

• Misguided notion of Infrastructure Needs and Development
  • overly and reductionist statistical projection as bases of finance calculations and mobilisation versus step-wise roll-out of infrastructure needs in tandem with economic development
  • Unjustified side-lining of public sector need financed by public resources including loans
eclecticism of ppp projects: a sample from Ghana

• Road Projects-A new Motorway, and a rehabilitation of another
• Health Sector– Urology Centre of Excellence
• Water-Bulk Water Project
• Markets– A range of projects to ‘modernise’ community markets by district councils around the country
• Modern Pedestrian Foot-bridges
• Office Accommodation for the Securities Exchange Commission
returns on ppp and public finance

• Recovery of Investment in PPP via:
  • Either charges or service tariffs to end users
  • Or charges on Government budget, fixed or partially fixed
  • Or Combination

• As User charges, it comes back in certain circumstances to government, in form of subsidies due to public interest

• As government charge, it’s like a loan taken by government, but worse
  • Private sector loan higher, which translates into higher charge on government.
  • Private sector charges less definitive end-date
  • Also note. In Africa, private sector expectation of returns on investment are higher due to so-called risks. e.g. World Bank estimates for early 2000’s. 24-30%
ppp and net resource outflows

• Unlike in advanced countries, PPPs in Africa are overwhelmingly foreign investment.

• A mechanism for net outflows (cf: David Woodward and Ha-Joon Chang)
  • Profit repatriation, without incentive for re-investment, esp. in infrastructure;
  • High level of returns, not fixed as loans.
  • Problems of exchange rates, currency reserves, etc
  • Especially since not invested in areas with capacity for immediate/compensatory generation of foreign earnings
  • Build-up of foreign debt (when linked to government payment)

• Problems for domestic capital formation; source of financial weakness in Africa
in the end...

• (the overall trajectory of) blended finance and ppp’s fit into the processes and systems of neo-liberal finance over the past three decades

• working as reversal of (post-independence) finance policy initiatives tailored to address the challenges of domestic capital formation/accumulation in a primary commodity export dependency

• and further perpetuating net capital outflows....