neo-liberalism and finance in Africa:

locating ppp's and blended finance

by

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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

the mining illustration

- 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 witholding 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, its 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….