How do investors value the environment? Financialization of ‘natural resources’ through private equity vehicles in secrecy jurisdictions

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Abstract

There has been a recent growth in the scope of foreign investment in Africa, and the consequent greater financialisation of resource-based economies. Some of this investment has been speculative and based on perceived high value 'futures' in biodiversity, bio-fuels and land, carbon capture or finite minerals. However, the financialisation of the various economic sectors which extract wealth from Nature includes older markets in agribusiness, agriculture, mining and infrastructure, and these are the principle subject here. This article explores how financial networks in Africa (and tax havens) link natural assets to international private equity funds, and donor development finance, serving as a political technology over the future of non-human resources. To do this, it reviews how 'impact investing' or 'developmental' private equity funds build in concern for the 'environment' into their investment decision-making. The argument here is at three levels: 1) that private equity currently employs a thin, partial, and pseudo mathematical method of assessing environmental impact and worth; 2) that environmental and developmental impact 'science' is a performative *political technology* which adds legitimacy to the authority of financiers, but does little or nothing of benefit to the 'environment'; and finally, that 3) private equity has lead to the financialisation of the non-human world through a *power relationship* which favours financiers. This is facilitated by the wider dissembling of sovereignty and national economic space in the global economy over the last 30 years, the growth of secrecy jurisdictions, the consequent making of spaces of exception from law and regulation, which together challenge the future of democratic management of environmental resources. Thus this paper asserts financialisation as a political relationship, which (de)values the non-human world.

Introduction

In many areas in Africa, the non-human world is regulated through the development discourse, and by corporate financial interests which are directly linked to, in business with, or subsidized by the aid industry or development finance (Bracking, 2009; Büscher¸ 2011, forthcoming). Private equity is the dominant organizational form of this alliance between private owners of finance, and their public sector 'partners' in development, and this article considers these wider public/private networks of finance and their role in carrying financialisation as a power relationship into the use and management of resources in Africa. Within this hybrid market, the slightly more transparent working practices within development finance institutions allow us a window through which to view the private sector proper, in that within pooled private equity funds the working practices of the public and private are partially aligned (Bracking et al, 2010). Thus this article reviews how specific private sector development (PSD) interventions, and the funds in which they invest, measure, understand and value the 'environment', and how this financialised relationship is subsequently presented as representing their care and concern for the non-human world. The data set analyzed in order to substantiate the theoretical premises made here is the environmental, social and governance impact assessment systems of the 15 European development finance institutions (see Bracking and Ganho, 2011). We explore how these give worth and value to environmental harm and benefit, in the wider context of 'environmental, social and governance' (ESG) assessment systems.

To this end, section 3 outlines the common financial forms and organizations of ownership and domicile in use by the private sector and its public counterparts in order to describe the system which carries financial forms, and their associated power relationships, to sites of resource extraction and use. Section 4 examines the specific role of secrecy jurisdictions and private equity funds in the strategic management of commodification and financialisation of resources in Africa by private banks, funds and development finance institutions. The evidence points to the ubiquity of the private equity fund domiciled in a secrecy jurisdiction, as the primary node of investment decision-making and money circulation in resource-based economies. Overall, the article argues, in section 5, that since current models of private sector development intervention are so closely aligned to the operating rational of the generic private sector, and thus enjoy the same opacity, it is easy to see how financiers largely escape criticism for their extractive investment practices in Africa and their low level of environmental concern. The opacity of the private equity form, couple with its domicile location, largely occludes the details of investment decision-making. The article then reviews, as far possible given these restrictions, the methodologies for valuing the environment which private equity funds and their development finance institution partners do employ. We find that they are not scientifically robust, but are 'technically thought' and rearranged to be performative of the role of measurement in confirming the legitimacy, authority and power of financiers in a Foucauldian sense (Foucault, 1991 (1975): 24-26; see Sullivan, 2011: 24-27 on the similar role of such measurement practices in ecosystem service science). These systems are reviewed here to illustrate the omissions,

occlusions, and statistical sleights of hand necessary to privilege profit over other values and “profit-oriented market exchanges over the distributive and sustainable logics of other economic systems” (Sullivan 2011, 5; citing Graeber, 2001; Büscher et al, in press), while appearing to operationalise concern. The meaning of the systems of impact evaluation is not found in a scientific commensurability with the subject they profess to attend to – environmental health - but the production of techno-scientific knowledge by ‘ideological functionaries’ (in this case, ESG impact ‘experts’) to propagate an elite justification of private financiers’ world view (see Igoe et al, 2010, citing Gramsci). But first, a brief review of terms.

2 What is financialisation?

The concept of financialisation is widely used at an abstract theoretical level, akin to the Marxian notion of the ever greater commodification of life and resources under capitalism. In political economy, financialisation refers to 1) the depth and spread of financial markets; 2) combined with new innovative and complex financial instruments, including a spectacular range of short term and abstracted derivatives and futures products (see Hildyard, 2008); 3) accompanied by a growth in all types of debt finance at the global, national, firm, household and individual level and the consequent dominance of financial over productive capital and consumption. This latter is seen to signify the dominance over and critical control by banks and financiers over the productive sector and the economy more generally. For example, Krippner defines financialisation as a “[p]attern of accumulation in which profit making occurs increasingly through financial channels rather than through trade and commodity trading” (Krippner, 2004: 14) resulting in the ascendancy of shareholder value in corporate governance; the greater dominance of capital-market over bank-based financial systems; and the explosion of financial trading and instruments and the rentier financial class itself (Krippner, 2004, this latter following Hilferding). Epstein summarises that “financialisation means the increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of the domestic and international economies” (2006, 3).

Arguably the weakness of these definitions is that they refer as much to the consequences of the greater dominance of finance, than to the causes of, or processes of the same. More specifically empirical work arrests this problem somewhat. For example, Johnston and Saad-Filho uses financialisation to refer to trends in financial investments after 1979, where high interest rates made financial investments and financial activities more attractive (2005, 13). The size of the financial sector increased significantly, while non-financial corporates began trading in financials, and even at the household level financialisation spread as households either became key owners of financial products, such as pensions, or took on historically high levels of household debt, spurred on by easily available personal credit (2005, 13-14). Thus finance becomes a mediator of class consumption, as wealth gravitated to holders of financial assets (Epstein, 2006, 4).

More recently, the concept of financialisation has been applied to discrete and limited policy instruments, such as carbon trading, species banking or biodiversity

and offset markets (see Sullivan, 2011), rather than grand theoretical change. Financialisation in this 'frontier sense' of creating 'new' phenomena has been used to describe both the use of a financial instrument in the valuation of a previously uncommodified resources, [such as in carbon trading, debt for equity swaps, environmental mortgages, species, biodiversity and sustainability derivatives]; and the greater use of monetary valuation of previous vernacular exchange, such as through the titling of land markets or use rights to land. This discrete, 'frontier' use of the term, refers to the critical boundary of capital accumulation as it meet the non-valorized world, and talks to the active attrition which draws people and things into generalized commodity production. This definition has antecedents in concepts of primitive accumulation, or in Harvey's reframing of this as 'accumulation by dispossession' (Harvey, 2003; 2010; see also Sullivan, 2011, 21-23; and Ferguson, 2006). This work on frontier commodification is an important aspect of Marxist theories of capital accumulation more generally.

From within the conservation literature, Sullivan applies financialisation to new markets and new products, asserting that "[f]or finance to 'operationalise' the accumulation opportunities of environmental crisis and conservation, products and commodities connecting these domains need to be created so as to open a new financialised sphere for investment, trade and speculation. She cites Robertson that capital has to 'see' nature in new ways (Robertson, 2006: 368), "requiring that the earth-in-crisis is rethought and reworded such that it is brought further into alignment conceptually, semiotically, and materially with capital" (2011, 6). In this genre, the financialisation of conservation, and the environment more generally, is a seen as being wrought from the non-human world to serve the purposes of commodification and fetishization in wider accumulation dynamics (see also, Igoe et al, 2010: 494). However, these frontier processes do not form in isolation from the more generic processes of financialisation occurring in mainstream markets, since it is largely direct regulatory measures imposed by governments for offsetting in older capital markets which has generated demand for the 'spun out' biodiversity, species and sustainability banks, funds and products. For example, the current World Bank environmental impact categories include "Category A project(s) … likely to have significant adverse environmental impacts that are sensitive, diverse, or unprecedented..[which] may affect an area broader than the sites or facilities subject to physical works" (World Bank, 2011). This is the worst grade of project. Meanwhile, a Category B, "has potential adverse environmental impacts on human populations or environmentally important areas - including wetlands, forests, grasslands, and other natural habitats - which are less adverse than those of Category A projects. These impacts are site-specific; few if any of them are irreversible; and in most cases mitigatory measures can be designed more readily than for Category A projects" (ibid). Thus both do not preclude a willingness to invest, despite severe environmental consequence. However, the environmental assessments for both categories can be used to "recommend..measures needed to prevent, minimize, mitigate, or compensate for adverse impacts and improve environmental performance." In other words, the license to pollute allowed to projects creates demand for products in the 'new' offset markets.

In the financialisation of conservation literature the two definitional nodes are in evidence – the abstract sense and discrete instrument. For example, Brockington and Duffy quote Harvey to the effect that neoliberalism has meant "the financialisation of everything" (Brockington and Duffy, 2010, 480; citing Harvey: 2005, 33), but then go on to argue that actually financialisation has had limited impact in conservation, being limited to some debt for nature swaps by larger NGOs and 'interchanging of personnel" (ibid). Thus the bridge between the grand theory of 'everything', and the practices that financialisation may lead to or embody is isolated as problematic here, a point also made by Castree in his epic review of the neoliberalism and environment literature (2011). Here, the two ways of conceptualizing financialisation (old, generalised and mainstream; new, discrete and additional) are related since 1) 'new' products have precedents, for example in the first generation of debt-for environment swaps from the 1980s; 2) many 'new' products are linked to offsetting are a consequence of accumulation in 'old' sites, where environmental impact must thus be similarly measured, evaluated and priced to create substitutability and commensurability between the two markets; and 3) some 'new' products are rebranded or reclassified prior existing 'old' companies and funds, such that eco-funds, natural capital and green bonds have etymologies in plantation, forestry and conservation companies.

This illustrates that financialisation does not 'just happen', but has agency, and is a technology of power which uses the money form to quantify human and physical contexts, privilege financial parameters in decision-making, and ultimately return decisions over resources in favour of money-holders in contexts of contested uses and meanings for the non-human world. This analysis can usefully inform the debate on the creation of "Nature Inc', since it is the same sites of financial power – geographically, institutionally and socially - which ultimately determine the price and value of the new commodities being wrought. This article argues that the institutions, investment forms and accounting practices that structurally link the frontier markets with established resource-based accumulation, share the salience of the private equity fund and offshore domicile jurisdiction, and that these condition the way finance behaves in more discrete economic places and spaces. To do this, the paper uses the term financialisation as signifying a relationship of power in a post-structuralist frame, informed by Nitzan and Bichler's thesis that "capital is not a narrow economic entity, but a symbolic quantification of power…[capital] represents the organized power of dominant capital groups to reshape – or *creorder* – their society" (2009, auth emph). Financialisation as process is embedded and enacted using financial instruments working as governance technologies, enabled through accounting mores and sited in the agency of banks and capital markets. In other words, the definition used here seeks to identify the critical subject of financialisation rather than defining it by its consequential implications or effects.

One premise of this paper then, is that if we are to understand the future of the economic relationship between capitalism and environment (Brockington and Duffy, 2010; Castree, 2011), the particular process of financialisation needs to be embodied rather than merely intoned. For this, the 'working misunderstanding' of economics,

which is powerfully embedded into our culture as something only experts can understand, needs to be fully deconstructed, [not least because democratic accountability depends on this]. More widely, and not just because economic and financial literacy are restricted, theoretical work has argued variously that financial neoliberalism is fundamentally political: it reforms structures of power within society, a 'non-economic form of regulation' (Roberts, 2010). For Panitch and Gindin these financial governance mechanisms are authored and promoted by the US (2003); while for Ayers civil society is the carrier of institutional arrangements which further and legitimize the economic project of financialisation (2006). Bracking explores the international financial architecture of the concessionary aid and finance system and argues that it is from the 'top floor of the house of trade' (citing Arrighi, 1994; see also Braudel, 1982) that public liquidity is regulated to keep "Southern populations in a permanent austerity cycle" (Bracking, 2009: 3). Bracking argues that it makes sense to see capitalism as a three tiered structure (following these authors) where finance has an autonomous strategic role from the 'Boardroom', directing other circuits of accumulation. Similarly, Johnston and Saad-Filho outline the mechanisms by which finance control workers and consumers (Johnston and Saad-Filho, 2007), while Folkman et al more discretely categorise the financial intermediaries in this regulation of finance in the UK economy (2007, 557). Folkman's research on institutions and practices is complimented by Hay's work on discourse, in which he expertly interrogates the extent of contradiction, aspiration, narrative and non-association between different elements of the neoliberal ideology which is mapped to this deepening of financialisation globally (2004).

The weakness of current critique, however, is that it exists on several levels whose interconnections are not well built: the abstract theoretical where it is closely entwined with neoliberalism; and the micro, where it is discussed in specific financial instruments and policy. But there is a dearth of the empirical work necessary to identify the structure and agency of the relationships that carry financialisation into human lives as power, something that Brockington and Duffy found when they applied the term to conservation (see above). Globalisation theorising has not helped here: there is much written generally about the speed and spread of economic interconnection, but little on who does what, ownership or power. But two promising subgroups of political economists offer a lead. First, a smaller group of writers who have, somewhat inadvertently, produced a better conceptual map of financialisation through empirical work on tax havens (Palan, 2002; Palan et al, 2010; Bracking, 2010; Shaxson, 2011). Indeed the subtitle 'How globalisation Really Works' of Palan, Murphy and Chavagneux's book 'Tax Havens' acknowledges this connection (2010). Second, the connected but wider interdisciplinary work on imagined communities and sovereignty regimes informs our knowledge of the (informalised) institutional nexus in which financialisation occurs (Cameron and Palan, 2004; Agnew, 2005; Ong, 2006; Leander, 2008), using spaces of exception as much as legal sovereign domains.

While it is not necessary to review this latter literature fully here, it most importantly (for our purposes in defining financialisation), points to the synergy of private capital flows and sites of power with the multiple breaches to a unitary state sovereignty.

These authors have identified the imagined, virtual and exceptional spaces which the global sovereignty and domicile regime has authored - such as tax havens – within which financial firms can exist in non-relation to social, national or political space. Unitary sovereignty has dissembled into a frontier zone characterised by portals of exception in law and regulation, rather like an upturned colander 'protecting' the sovereign space beneath , while allowing free flow to the wealthy and politically connected (Bracking, 2012, forthcoming). The consequent reorganisation of economic space evinced in the accompanying growth of tax havens, or secrecy jurisdictions has been the catalyst for financialisation.

Financialisation processes are wrought by individual firms acting as "juridically dispersed subjects [which]....have learned to take advantage of the fiction of their fragmentation by rearranging their legal existence in ways they see fit" (Palan, 2002: 172). Indeed, Palan theorises tax havens as places where the 'commercialisation of sovereignty' has provided for 'parking lots' for firms to domicile in. The shell or holding company, or the off balance sheet 'special purpose vehicle', is sited offshore, where it can hide both excess profit and excess liability. This opaque risk and liability carrying function became a chief trigger of the 2007 Second Great Crash. But for this corporate migration to happen, a way in, and then out, of the sovereign space had to be enabled without friction with national norms, institutions or regulation. Financialisation processes within neo-liberalism have done this, through the invention of particular company forms, such as special purpose vehicles (SPVs) (see Hildyard, 2008). Thus what is 'new' in contemporary processes is not just the spread of commodification into new spaces – bio-prospecting, nature derivates – but the further fetishization of finance itself from the context of production, through offshore domicile, remote accounting, virtual and derivative forms, and ultimately arbitrary intra- and inter-firm accountancy systems at the whims of transfer pricing, 'tax planning' mechanisms and 'jurisdiction shopping'. In short, financiers can largely make up what profit they make and where they notionally make it. In this the pooled private equity fund is the *sin qua non* of ephemeral value.

3 Financialisation and private equity

The development finance institutions (DFIs) of European states sponsor or participate in private equity funds as their primary and preferred means of 'doing private sector development' (PSD) in Africa and elsewhere (Bracking et al, 2010), thus creating public-private partnerships in the financial sector. Moreover, DFI money is mostly committed to the same opaque offshore structures as the private investor proper enjoys, through tax havens (Bracking et al, 2010). The SPV and international business company (IBC) are types of private equity fund which have the thinnest of informational footprints in the public sphere, set up principally to pool investors in order to further some 'special purpose', such as mining, infrastructure, water, forestry or leisure within a portfolio of assets (loans and equity) in investee companies. They are the *sin qua non* of offshore arms length investing as they offer secrecy to their original members, known as 'commercial confidentiality', while conducting relationships with onshore companies which keep these investors at a distance from any localized risks and hazards to their reputations or names. Risks

such as spillage, despoliation, industrial accidents and links to dictators onshore are contracted to the onshore parties, so that if anything goes wrong the link to the beneficial owners is virtually impossible to trace: in other words, the holding company, offshore trust company or actual owner cannot be established by other stakeholders. The DFIs claim that by investing in this way they can reach and influence the wider investment market, contributing more to development by their catalytic role in improving standards, than they could if they invested just on their own (see EDFI Secretariat, 2009).

Thus physical structures and human contest have been fragmented into their multiple parts, corporeal and abstract (risk) and then separately commodified and sold to financial managers who store them in jurisdictions which give the best return. These domicile sites store the underlying assets of onshore national territories, such as land, natural resources and minerals by placing their legal existence, or sometimes just the derivative income stream expected from it, within private equity funds. Resources are managed by financial firms and fund managers, using multi-scalar (local, national, international, virtual) and multi-territorial (parts of firms in different national sovereignties) regimes of use, ownership and disposal. Thus, while more popularly seen as a national sovereign asset, such things as countryside are increasingly subject to commodification through financialisation, rendering them imagined, ephemeral and non-territorialised. The dissembled parts of the non-human world, derivative products such as timber, subsoil, plants and their real or potential asset streams, alongside risk, tenure and use rights, are subdivided and placed into private hands, and then traded as derivatives or speculative products in temporally-bound, but ultimately ephemeral, fund structures.

Financialisation and resistance

Back onshore, as companies became more distant, and ownership structures more opaque, the tradition of distrust and association of foreign capital with 'imperialism' has been retained by social movements, who have become increasingly frustrated that the ultimate beneficial owners, with whom the disagreement over an actual investment site is with, are hidden from view in offshore trust structures. Only rarely does a company structure come into full view, such as when Private Eye described the Australian gold company Minerals Deposits Ltd in Senegal which paid just USD 45,000 in tax in Senegal, while benefiting from tax exemption of USD 14.6 million by way of its Mauritian domicile (Private Eye, 2010). Or the copper mine in Chile, which made ostensibly no money for 23 years (onshore) and then sold for US$ 1.8 billion (Riesco et al, 2005). Details of the avoided tax and offshore profits of private equity capital have been aggregated, with lost tax in Africa amounting to one and a half health systems (Oxfam, 2010). Negotiations over the benefits of mining in particular have retained a moment of resistance to foreign capital because of the abject juxtaposition between the wealth of the company structures, and the impoverishment of the surrounding areas (see Bebbington et al 2008; and on Ghana Hilson and Clifford, 2010; Bush, 2010). Infrastructure projects have attracted a similar volume of critical comment (Bayliss, 2009; War on Want, 2006).

Thus private companies have come under increasing pressure from the world social forum movement and development campaigners to give evidence of their development and social worth. Counterbalance is a constant advocate of greater transparency, accountability and environmental standards for the European Investment Bank (Counter Balance, 2009); UK campaigners and NGOs were vociferous in the 2010 parliamentary review of the Commonwealth Development Corporation (HMSO, 2011); South Africa's civics are watching Eskom big oil; while the anti-debt network, Afrodad, Eurodad and national groups are determined that the debt footprints of PSD interventions should not be found in sovereign underwriting of the private sectors excesses. DFIs themselves have also been obliged to research and reform the accounting for development that does occur in impact instruments (Dalberg, 2010; Sinha et al, 2011; Rosencrantz & Co, 2010). Both of the most used development impact frameworks: the IFC's DOTS system (IFC, 2011) and DEG's Corporate Policy Project Rating system (CPR) (DEG, 2010) have been the subject of both internal and independent review (Grettve, 2007; Sinha et al 2011; Bracking and Ganho, 2011). Sinha et al, for the UK Department for International Development argue that DFI/MDB assessment of social, governance and environmental impact, but note that as qualitative indicators, or "various proxy indicators at project level and qualitative judgmental assessment of wider beyond-project impact" are rarely reflected in overall investment decisions (Sinha et al, 2011: 42). In Bracking and Lawson a review of government level criticism of European DFIs, particularly those from the UK, Sweden, Germany and Norway, showed a number of Auditors concerned about the lack of evidence of development impact (2010, 87-95). Langan is also providing a convincing argument that the PSD measures within the EU's trade policy have no recognizable developmental impact in a positivist frame of reference, but an expedient discursive impact on Europe's representation of itself as a benevolent international 'partner' (2009, 2011).

4 Financialisation and environmental governance

So what does this offshore political economy structure and privileging of private equity mean to the environment? First, as we have seen from the above, the structure of the financialised economy privileges Fund Managers as the ultimate decision makers, determining how environmental impact is managed within the firms they direct. Second, much of Africa's assets in natural resources, infrastructure, mining and utilities, or at least the ownership of the derivative income streams thereof, are held in financial funds which are cross invested with development finance institutions through intermediaries offshore (with quite severe, and negative, consequential effects of tax avoidance, compromised fiscal revenue, growing inequality, and the undermining of democratization reviewed elsewhere (NOU, 2009; Bracking, 2010; cf Chua, 2004). This makes struggles for social, economic and environmental justice complex: how do activists respond to the ever greater commodification and financialisation of nature, natural resources and space, in the context of its virtual domicile? This is a hard question, not least because there is no counterfactual case that can easily be made, in the form of a democratically regulated economy to parallel the one we have. For theorists who are neoclassical

supporters of the current system this is not a problem: Fund Managers and DFIs 'doing development' are part of a good and efficient capitalism. In other words, one's underlying paradigm dictates not only the nature of the problem, but whether there is one at all.

But for heterodox economists, the problematic of how do you achieve public goods such as 'development' and environmental stewardship in a neoliberal market brings issues of financialisation to the fore. In areas of production and commercial development which involve fixed assets, point source minerals, and 'natural' resources this is a particular challenge since it is exacerbated by their potentially finite nature; the difficulty or managing natural and biological processes *per se*; and the populist instinct for people to feel uncomfortable with foreign ownership of Nature, land and national utilities. Given that policy is dependent on one's original paradigm (orthodox or heterodox), private sector development (PSD) interventions follow two types 1) that the potentials of the market should be exploited further, with an incremental enhancement of this found in clever targeting. As long as the DFI picks a clever entrepreneur or company to invest in, (which they invariably claim to do) capitalism and development can be viewed as synonymous (orthodox). And 2) PSD should be to correct market failures, to be of a different type to capitalist investments per se, with clear developmental impact (heterodox, or part of an emerging post-liberalisation position.) The hegemonic view at present is held by the orthodox economists, such that secrecy domiciles are seen as efficiency enhancing, since many market leaders have chosen to domicile there, and DFIs can 'augment' that effort.

Thus DFIs endorse the structural consequences of financialisation, and its exemptions from national sovereignty and economic space, by awarding offshore financiers critical decision-making powers over what, where and who is entitled to capital, and this includes the greater commodification and financialisation of environmental assets and risks. The CDC's new sustainable forest fund is one such example, where an initial USD 50 million will build a new node of power offshore (CDC, 2010). But crudely, it is offshore fund managers who decide which plantation companies, estates, biodiversity resources, forests, hydro-electric dams and wildlife reserves should be invested in and on what terms, while domestic companies have to comply with the investment model. Private investors are joined in this by DFIs, who also use secrecy jurisdictions to pool money in funds, in order to invest in target markets 'onshore', (but whose holding companies are probably offshore nonetheless), and then when the private equity fund 'closes', to retrieve their investment with profits. For example, in 2010, Norfund stated that 49 of 81 of its investments use offshore financial centres (OFCs) – the industry name for secrecy jurisdiction or tax havens - or 77 per cent of portfolio commitments by value in 2010 (Norfund, 2010)[1]. This figure represents a reduction from year-end 2008 (of four per cent from 81 per cent (NOU, 2009, 109) as a result of the restrictions in place since the fourth quarter of 2008 (Bracking et al, 2010, 11). Also in 2010, 12 of 17 Swedfund fund investments were in secrecy jurisdictions, while CDC had 144 in tax havens, or

[1] Using the methodology developed by the Norwegian Government Commission (NOU, 2009). In an e-mail of 11th June 2010, reported in Bracking et al (2010).

80 per cent of all the CDC's investments by number (not value) (Bracking et al, 2010: 10, 11).

DFIs argue that this is the best model to attract private funds, which are needed since their funds are only relatively small, and the investments required for development can only be sourced at scale from the private sector, an idea which is also found in theories of 'impact investing' (see Thornley et al, 2011; Simon and Barmeiser, 2010). This perceived 'need' for the private sector to provide public goods also resonates with the neoliberal turn in conservation whereby big business was presented as the only agent with enough expertise and money to 'save' the environment (Sullivan, 2011; Brockington, 2009, Castree, 2011). 'Big business' offshore consists of large institutional pension funds and mutual funds from European, funds of flight capital, totaling USD 206 billion in registered funds (IMF World Economic Outlook database), perhaps another USD 641-979 billion in illegal capital flows (Kar & Cartwright-Smith, 2009) and between USD 11-12,000 billion in 2004 (Tax Justice Network) in placements from high net worth individuals (figures from NOU, 2009: 11). These different sources of money in secrecy jurisdictions, added together, amount to about 30 per cent of all foreign direct investment (FDI) globally (OECD, 1999, 8; cited in Palan et al, 2010, 52)[2]. Investments offshore are not subject to corporation and withholding tax onshore, and by domiciling a subsidiary offshore a company can avoid tax by allowing the onshore facility to 'borrow' funds from the offshore part, thus avoiding withholding tax and even generating tax credits. This singular arrangement goes a long way to explaining the low profitability of enterprises in Africa.

The Norwegian initiative to legislate on thin capitalisation in its liquid mineral sector is a response to this problem. In Africa, the 'missing profits' are of particular concern as whole sectors, such as gold in Ghana, or oil in Nigeria, tend to deliver the rent assigned through the respective 'Mining Code' or oil regulations[3], but beyond that, the companies are perennially and singularly unprofitable, such that the capital gains tax provision across Africa nets only very small returns. Offshore of course the story is different as Oloko illustrates for the PEP fund in Nigeria (2010). Counter Balance summarise that the ability to raise direct taxes is between 2 and 6 per cent of GDP in poor countries, compared to between 12 and 18 per cent in developed countries (Counter Balance, 2009: 6). Similarly, FitzGerald shows that the indirect tax pressure in Africa is approaching the world average rate of 8 per cent of GDP, but income and property tax pressure is only *half* of the developing country average (FitzGerald, 2010, 9).

5 Investment funds and environmental governance

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[2] The definition of FDI behind these figures is that of the OECD, where the active ('direct') or passive (as in 'portfolio' investment) ownership of 10% or above of shares in a foreign enterprise is defined as FDI, such that FDI refers to ownership structures, rather than direct assets.

[3] Minerals Codes in hard rock minerals tend to assign a rent of between 3 to 5 per cent of the total wholesale value of the product

Given that tax haven domicile and private equity are ubiquitous to the way that PSD is delivered, and environmental assets are stored, a number of investment governance problems emerge, explored in recent primary research.[4] Using offshore funds:

> "impairs assessment of developmental impact, political risk, reputational damage, consolidated and counterparty risk in the underlying investee companies, due diligence monitoring and the oversight of investment partners. The model relies on leverage and influence, but the positive effect of augmenting private investment flows is largely unproven and must be offset against the model's disadvantages in terms of reducing the fiscal base in developing countries, increasing business opacity and for privileging the interest of investors unduly in relation to other stakeholders." (Bracking, HMSO, (UK), 2011). [5]

DFIs claim that they can use this model to deliver development and critical public goods, such as sustainable forestry, conservation reserves, leisure facilities, agribusiness, plantation agriculture and utilities, alongside 'productive' sector growth in energy, mining and industry. Yes by doing it this way, African states are denied the rightful and morally just fiscal resources, which would otherwise be available to them had the funds and companies in which DFIs invest been domiciled in their countries of actual operation. However, from the perspective of financialisation here, whatever the cost-benefit analysis of the model[6], the important point to note is that critical decisions on how social, economic and environmental choices are made has been removed from the national space, and privatised to financiers. Although some projects might be subject to planning permissions or pollution regulation locally, and thus generate some public influence, by investing in the private sector in equity the public influence of DFIs is effectively diluted. Commercial confidentiality clauses also limit DFIs public disclosure and whistle blowing functions. In short, financialisation has given reporting power to DFIs, where the plausibility of that which is reported cannot be independently verified. This power of exclusive 'knowledge' means that DFIs generate powerful developmental narratives about their work.

Environmental impact assessment follows this pattern. There are a number of worrying features of environmental governance being carried out by private equity funds. Recent research by Bracking and Ganho (2011), on behalf of Norwegian Church Aid, reviewed the environmental, social, governance and development impact assessment systems of all 15 DFIs who are members of the European Development Finance Institutions (EDFI) organisation. We asked them whether they used impact assessment ex ante, during, or ex post investments being committed, and what role impact evaluation played in investment decision making. We also analysed the scientific validity and data collection methods used; whether the

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[4] Research on secrecy jurisdictions and development was funded by Ankor, Norad, and summarised in Bracking et al (2010) with supplementary evidence in and edited collection Bracking (2010).

[5] This section draws on written evidence to the UK Select Committee for International Development (2011)

[6] It is hard to accurately calculate a 'developmental impact' which includes tax losses and offsets these against figures for employment created or tax paid, which are the indicators most often used by DFIs in order to promote the benefit of their work (see EDFI, 2009).

reports were discussed as part of a public consultation, and indeed whether they were published at all. We found in general that systems have become iteratively more elaborate in the past few years and involve the collection of much data, direct or by proxy, but that the majority of the indicators used have a problematic relationship to the criteria being tested or evaluated, results are aggregated into meaningless and abstracted 'scores'; they are mostly not published; DFIs do not generally use expert or public consultation; environmental impact is mostly carried out once the decision to invest has already been made according to financial criteria; and it is unclear as to what influence such reports have at Board level, with some Boards retaining the right to invest even when ESG reports given the worst scores available (Bracking and Ganho, 2011).

In particular, the research found that CDC has (only) recently mandated Fund Managers to produce ESG data on portfolio companies, but compliance with the Investment Code agreed between CDC and the private equity funds is self-regulated by the same Fund Managers, who rarely visit actual sites. Worse, the FMO 'scorecard' has no ex ante environmental assessment of projects, and does not require Fund managers, direct investment company managers, or underlying investee companies to have any specific system for development impact assessment. The FMO assessment also has a somewhat arbitrary and low weighting for social and environmental factors, such that a good financial performance can offset it in the final 'score'. Meanwhile, Norfund has a policy setting a preference against secrecy jurisdictions (as does Swedfund, but no other DFI outside the EDFI *Guidelines* (EDFI Secretariat, 2009)), but the ESG reporting quality from underlying companies can be of poor quality. A new impact system has recently been introduced. Swedfund has an ex ante assessment which does not include ESG criteria at all, only risk and financials, which leave the organisation over reliant on an 'honour code' with potential Fund Managers (Bracking and Ganho, 2011). DFI as a whole, but to varying degrees, make extensive use of tax havens – for example, 81 per cent of Norfund's portfolio is routed there, or 164 CDC funds (Bracking et al, 2010).

There are systemic and procedural problems with environmental management carried out by private equity funds and by DFIs. The DFIs claim a 'positive influence effect' on better environmental outcomes, but this is little evidenced, as the effect of their board membership is unclear. They also make few visits to company sites, and rely instead on Fund Managers assurances, who in turn may rely on local firm's promises of good practise. Also, although portfolio companies, direct investments and funds are all legally obliged to produce statistics for the DFIs, these are aggregated when reported to the public, such that a 'bad project' in a good setting (low income country) could pass unnoticed, since allowances for expected (low) performance would be made, and then its low score rendered invisible by aggregation into the portfolio average. Thus, our metaphorical 'top floor' of the 'house of trade' (Arrighi, 1994: 25), where investment decisions are made, - a 'sophisticated art open to only a few initiates at most' (Braudel, 1981: 24) - enjoys exceptions from sovereign oversight and regulation, and can accommodate environmental impact choices within representational products of its own choice.

The ESG assessment systems themselves are also not robust, although when considered against their limited disclosure and use, this is perhaps not surprising. For example, the Corporate Policy Project Rating System (CPR) is a DEG (Germany) sponsored impact tool, now also used by Proparco (France), SIFEM (Switzerland), Bio (Belgium), COFIDES (Spain) and OeEB (Austria), but has a weighting system which favours financial criteria, and in aggregation poor individual ESG scores can be offset. Also, CPR assessment is only carried out in relation to other portfolio companies, which allows for low historical path dependence in portfolio quality. Most worrying perhaps, is that DFIs have the power to override CPR results, even when the worst score is recorded, and go ahead and invest by 'special exception'. Thus it is not clear how impact assessment is subsequently used to change firm behaviour or for investment decision-making. Similarly, the IFC-sponsored Development Outcome Tracking (DOTs) system, a version of which is also used by CDC (UK) uses a high number of proxy indicators with poor commensurability to the effect being measured, such as a headcount indicator of employment created which is published without account of displacement effects in competitor firms, or redundancies before firm reorganisation. DOTS also expects projects in some contexts (poor countries with bad governance) to be low ESG performers, so scores are only calculated in relation to initial targets and low initial expectations.

In terms of specific environmental criteria, DFIs only tend to measure whether an environmental management system is in place and whether 'things are improving' against internally set targets, rather than checking against mandated international standards or outcomes. Thus there is no view assigned to actual pollution levels, and the extra-territoriality of European environmental law is not applied (including in investments by the European Investment Bank); while the FMO scorecard and DEG's influential CPR offset bad environmental performance against high profitability, with uncomfortable parallels to historical precedents for high polluting/high profitability firms and projects in colonial Africa. In short, ESG systems in DFIs bring to mind Henri Poincaré observation that "Science is built up of facts, as a house is built of stones; but an accumulation of facts is no more a science than a heap of stones is a house" (1905). There are many numbers collected, but little meaning in them, such that the real proxy effect is arguably the production of a spectacle of care, rather than the thing itself (see Igoe, 2010). Also, DFIs do not employ a standard system, such that there is little comparative data, a high degree of pseudo-scientific complexity, and low public trust, even though DFIs are supposed to lead the private sector into ESG improvements and set industry standards in this regard (Bracking and Ganho, 2011).

Thus, those who criticize the new markets in the financialisation of environmental harm could usefully consider these in comparison to how the environment is 'cared about' in mainstream equity markets, since some policy makers plausibly argue that until there is a price placed on environmental harm that is 'real' (rather than a proxy value in a score card), investment managers will pay little heed. As Büscher (2012) notes of the neoliberal paradigm in Africa more broadly (citing Berman's idea of 'modern nihilism' (1988)), once a thing has a price, it has a 'value' and the morality of what is at hand becomes a secondary consideration. Ironically, it is the most concerned Fund Managers who are using this neoliberal tool to try and effect

positive change, but are finding it surprisingly hard to decide on the financial values to attribute to aspects of sustainability or environmental assets, even when they converge with the normative position that this should be done. For example, the IFC's *Planning and Financial Valuation Model for Sustainable Investments* is designed to show that investing sustainably guarantees financial return, to encourage mangers to make developmental investments (IFC, 2010). In this, the way that risk is defined attributes to environmental movements a powerful ability to disrupt, as issues of disruption, appropriations and lawsuits figure heavily in 'sustainability related risks' and are 'priced in'. Fund Managers are urged to take heed of this risk, and 'do the right thing' a priori.

Thus, IFC and DFIs have started to address the inherent difficulty that exists with attaching a value to such things as social cohesion, reputation, cultural heritage, and protection of rights, which had been economic 'intangibles' or 'externalities' in their previous financial model. Historically, environmental and developmental goods were excluded from due diligence, risk assessment, and impact documentation entirely, thus effectively not influencing investment decisions at all. Now the mainstream has begun to price them in, independently from, but as we saw above, in relationship to, the newer offset markets. Finance is thus an important site of contestation over the future of the non-human world, and attempts to build financialisation of traditional externalities into investment decisions should be recognised as both a neoliberal travesty of ontological proportions in the reconfiguring of 'value' and 'nature'; but also an attempt by some of the most progressive fund managers to take more heed of environmental concern, with all the contradictions which then flow from the two propositions considered simultaneously.

Conclusion

Environmental impact assessments largely begin when decisions on who, how and where investments will be made, are already determined. Thus arguably, 'old' technologies of valuing environmental harm are no better than new offsetting mechanisms and product markets. However, the two generations of technology (impact assessment and financialised offsetting) share a power structure, wherein DFIs, private equity funds and commercial bank intermediaries make investment decisions with low public transparency and limited accountability. As a consequence, decisions made within the capital supply institutions are not clearly influenced by the data provided by development or environmental impact evaluation systems, (even when these are carried out, which is not mandatory), and moreover, they do not need to be: finance capital dictates to society what it will value, not the other way around. Thus, the power structure conditions that the value of new financialised nature derivates and offsets are also not clearly related to exogenous scientific benchmarks, but instead to investor perception and market speculation.

Since the onset of hegemonic neoliberalism (from the early 1980s), the low quality of ESG systems has partly derived from the uncritical assumptions that have been held by DFI and private investors: that any investment must be good for growth; that growth is roughly commensurate with development; and more recently, with

poverty reduction. Each link in this associational chain is problematic in practice and hard to prove with empirical research, but the assumptions of this model have benefitted from aligning with the 'truth regime' of neo-liberalism (Igoe, et al, 2010). Indeed, current academic work on private sector development largely begins with an assumption of the validity of these associations (see ODI, 2010), and restricts itself to technical issues of cost benefit analysis and effectiveness, without significant reference to the wider human and ecological environment. That low quality assessment and investment based on faith in neoliberal precepts can continue is because investment decisions are the sole preserve of financiers, and thus aligned and subject to their worldviews. The current financialisation of the non-human world aligns itself to this wider pre-existing order of financial power.

A counter-hegemonic perspective is a challenge. Current work on globalization, neo-liberalism and financialisation, as we saw above, is generally abstract and somewhat eclectic, not linking well to regulatory regimes, institutional forms or financial models. Harvey's seminal work on accumulation by dispossession (2003), Ferguson's unique insights into investment 'hopping' over Africa (2005), and classical Marxist insights over capital's tendency to ever greater commodification of human life and the environment (Castree, 2006) have given us the broad spatial coordinates and temporality of the political economy of modern Africa. However, activists are still removed from the praxis of modern accumulation, who does it, and how it is organized. Aspects of the political technologies forging the financialisation of the non-human world can generate new points of contest and challenge for activists, and pressure points to force reform.

This is required because current calculations of what is acceptable risk to the environment are set at levels that many of us believe to be unacceptable, as the multiplicity of localized struggles globally indicate. What is efficient to the financier – offshore domicile, no local integration (or accountability), opaque company reporting and a relatively liberal policy on co-investors – is not healthy for the environment. The logic of 'unstoppable time' that is intrinsic to the meaning of 'growth' in neoliberal ideology also generates maxims dangerous to people and the environment; such as the argument that everything at the frontier of commodification needs to be 'developed' to generate 'much needed' growth; or the belief that investment capital is scarce and should be 'won' at any cost; or the multiple representations of crisis and calamity with which financiers force acceptance of extractive models (Moore, 2008). The means by which power is instrumentalised through processes of financialisation, and how this is represented and justified, needs to be better understood, as a matter of some urgency, if we are to find ways of treasuring (and valuing) nature outside the capitalist market. Ironically, one way to do this might be through the democratisation of development finance, where valuing Nature is indeed technically 'financialised' in risk and impact frameworks, in order that regulators can mandate adherence to standards, and by so doing, secure its (unmeasurable) intrinsic value. This is the interesting current interface provided by development impact assessment instruments such as the IFCs DOTs system or DEG's CPPR system where such iconic items of social development as 'heritage', 'culture' and poverty reduction are gradually entering as criteria. As

investors financialise their traditional externalities an opportunity arises for accountability.

However, this argument is similar to that used by supporters of financialisation as a means to save Nature and is the rationale for the green-wash found in new green bonds and equity products. Many environmentalists would reject this outright as a depoliticized and dysfunctional logic which gives a license to pollute, as long as it is costed. At most, these new sites of contestation only work when pressure is built outside the technical fix, in social movements and political parties, since fear of disruption, and democratic mandate are the drivers of change, negative and positive respectively. Arguably we are still a long way from changing the way capitalism interacts with humans and Nature: proxy indicators are no substitute for the wholesale change needed to do this, in both the paradigm of PSD, and more fundamentally in the organization of power in our societies. It would require critically visioning how capital as power (see Nitzan and Bichler, 2009) becomes normalised and justified, and then imagining an alternative. In this article, we have explored how capital as power, carried in the money form, is used by investors in their interactions with Nature, and found it to be intrinsically cavalier, arbitrary and self-serving.

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