South Africa’s finances: Offshore private equity, carbon emission credits and “entreprocurement”

Tax havens, private equity funds and development finance institutions

OSISA, Module 8, lecture 2
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Uhlanga: performing the modern through a PPP

Argument and plan

1. To describe how national South African companies and development finance institutions pool their money in private equity funds in tax havens

2. With the consequence that public development finance subsides large corporations with little development impact

3. Also, development finance goes to some of the worst polluting companies, locking us into a fossil-fuel energy policy, and enriching fund managers and undermining economic justice.

1. Tax Havens

- A fictional or juridical rather than *de facto* abode
  - “the sovereign equivalent of parking lot proprietors: they could not care less about the business of their customers, only that they pay for parking their vehicles there” (Palan, 2002: 152)
- 46-60 tax havens housing about two million international business companies (IBCs), and thousands/millions of trusts, mutual funds, hedge funds and captive insurance companies.
- Causing USD 160 billion per year in lost corporate taxes which is more than one and a half times the combined aid budget of USD 103.7 billion in 2007, and enough to fund the MGDs by 2015. Christian Aid (2008)
- Huge use even by ‘public’ sector: 81% Norfund, 164 CDC funds (Bracking et al, 2010)

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 [i

2.1.1 DFI invest in infrastructure funds

African Infrastructure Investment Managers Ltd (AIIM) Invests in Kelvin Power, Emoya Energy pty; N3 Toll concession and Trans African Concessions South Africa Infrastructure Fund (SAIF)	Used these SPVs: African Infrastructure Investment Fund I (AIIF) African Infrastructure Investment Fund II (AIIF 2) Kagiso Infrastructure Empowerment Fund (KEIS)	*DFI and IFI investment in African Infrastructure Investment Fund I:* •Nordic Development Fund *IFI investment in South Africa Infrastructure Fund:* •African Development Bank *IFI investment in African Infrastructure Investment Fund II:* •IFC •CDC	*AIIF 1, 2 and 3:* • Domiciled in Mauritius	

2.1.2 Combined and uneven development

- Public and private money structures an uneven, unequal, extractive 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.*

2.2 Public money through the CDM

Despite Denham Capital Management’s (US$ 4.3 billion) dirty energy portfolio and bad reputation, it invests in BioTherm Energy and MethCap in South Africa, netting hundreds of thousands of lucrative CERs for Denham and PetroSA.

has extensive portfolio of dirty industry

is building two 300 MW coal-fired stations on Luzon Island in the Philippines, and exploiting virgin oil and tar sands in North America, despite protests.

has been sued several times for fraud, ‘thin-cap’ and aggressive practices by company directors of firms it invests in (Tanner Cos and Vulcan Power Co)

DENHAM CAPITAL

CEO Stuart Porter

2.3.1 Scaling up to spend the Green Climate Fund?

designated national authority

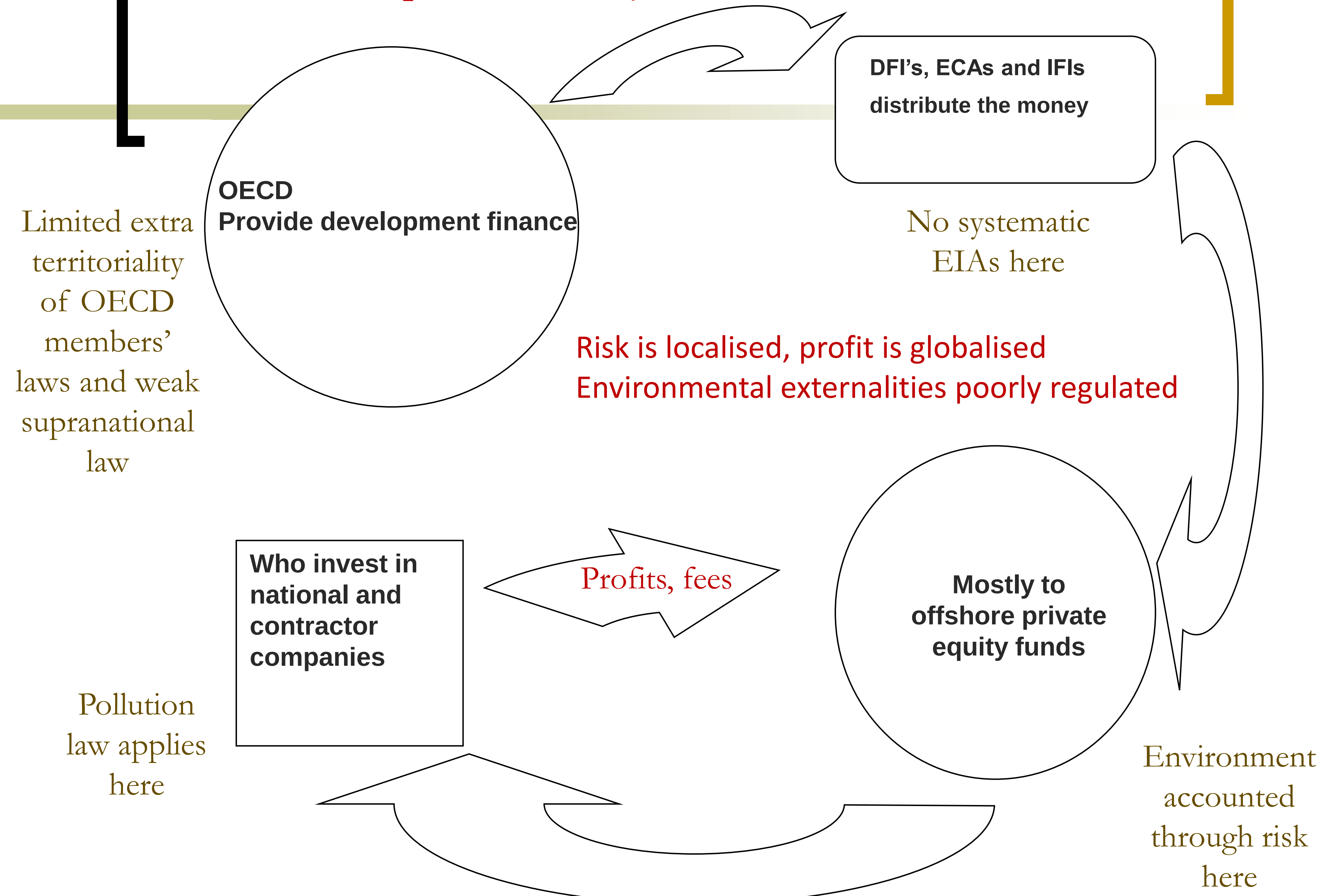
The Designated National Authority (DNA) manages South African CDM projects and valuable CERs, gratefully received by shareholders of Omnia, Sasol, PetroSA, South African Breweries, Mondi and the Beatrix Mine - for polluting a little bit less

2.4. There is a pattern...

- Public provision of money (through traditional development finance, CDM accredited CERs, and new Green Climate Fund) going to big corporates (ostensibly to pollute a little bit less in latter two cases)
- But firms have global structure: a nationally based power, energy and mining company has ‘parent’ in tax haven, or is invested in by global funds that live in tax havens.
- These funds then have portfolios which have both dirty industries and new renewables
- The ‘incentive’ to invest away from fossil fuels is not incentivised at all: in fact CERs indirectly cross subsidise the worst offending dirty companies under the umbrella of the funds by shoring up overall profits

- Is the political economy which is the problem...

2.5 Global public subsidy of nature-based industries



3 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.

4 The inevitability case of neoliberalism?

- "capital invests where it can secure the greatest net return….;
- That markets for goods and services are fully integrated globally and that, consequently, national economies must prove themselves internationally competitive ……;
- capital enjoys perfect mobility….
- That capital will invariably secure the greatest return on its investment by minimizing its labour costs …..[in] economies with the lowest rates of corporate taxation;

QED

- That the welfare states (and the taxation receipts out of which it is funded) represent nothing other than lost capital to mobile asset holders and have no positive externalities" (Hay, 2004, 520)

- People don't matter!

4.1 Inevitable or political?

Each assumption is dubious or false

- "*stylized rationalist and open economy assumptions deliver a spurious necessity to economic policy choices*" (Hay, 2004, 521)
- capitalism does not just appear but requires political force and institutions to regulate its actions

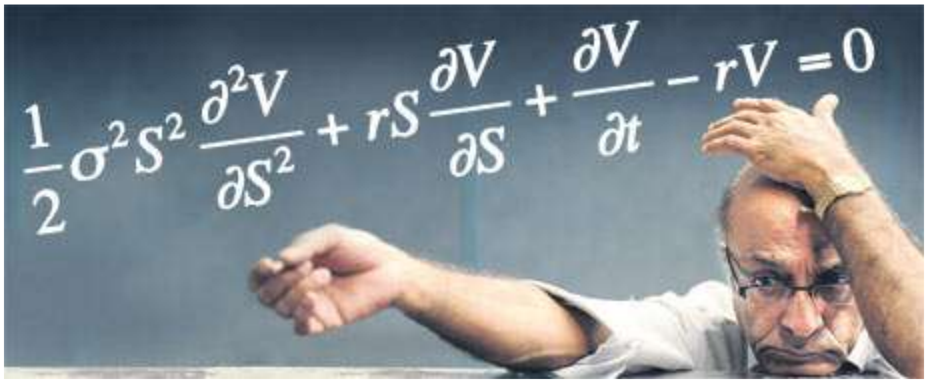
Making nasty markets: secrecy jurisdictions and private equity firms:

- Secrecy jurisdictions/tax havens make these assumptions more likely to be realised, at least in part
- Secrecy jurisdictions help build markets more like the abstract market of neo-liberalism, which favour finance
- Private equity funds are their STA partner, as they also make neo-liberalism 'more real'

5 Conclusion

- DFIs and private equity funds are largely ‘black boxes’ into which the public cannot see, and decisions made within these capital supply institutions are not accountable
  - Development is poorly served
  - Environmental regulation is weak

A nasty calculative device…



The Black-Scholes equation

the symbols represent these variables: σ = volatility of returns of the underlying asset/commodity; S = its spot (current) price; δ = rate of change; V = price of financial derivative; r = risk-free interest rate; t = time. Photograph: Asif Hassan/AFP/Getty Images

Causing misery in Greece

http://www.guardian.co.uk/world/2012/feb/12/greece-cant-take-any-more?newsfeed=true