

Financialisation of non-financial corporations in South Africa

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TOWARDS A JUST TRANSITION - THE ROLE OF INDUSTRIAL POLICY

Outline

1. Setting the Context: Why Financialisation Matters
2. Financialisation in Middle-Income Countries: Analytical Framework
3. South African Case Studies: Focus on Sasol
4. Financialisation and Industrial Policy for Sustainable Structural Transformation

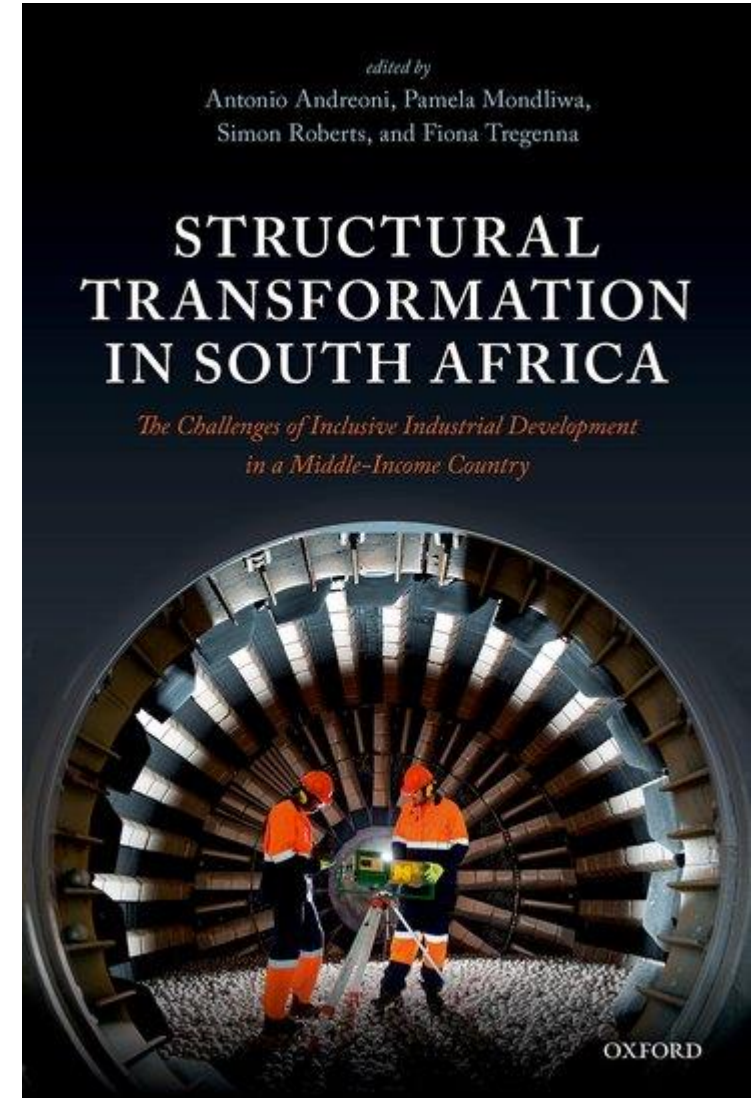
Why Financialisation Matters

- At the level of NFCs, financialisation affects firm behaviours in ways that undermine the nexus between profit and investment

(Andreoni, Robb, van Huellen, 2021)

Objectives of research agenda:

- Identify the unique structural conditions within which corporate financialisation in middle-income economies manifests.
- Evaluate how these structures impact the *forms* (sources and processes) and *outcomes* of corporate financialisation in MICs.



Financialisation in Middle-Income Countries

Analytical Framework – Structural conditions

Hypothesis: NFC financialisation is structurally different in MIC vs. advanced economy contexts

- **Production: Subordinate structural position within GVCs** (Andreoni and Tregenna, 2020; Andreoni et al., 2021; Lee, 2013; Paus, 2016; middle-income trap literature)
- **Finance: Subordinate structural position within global hierarchy of currencies, financial markets** (Bonizzi, 2020; Alami et al., 2022)
- Premature de-industrialisation; lack of competition domestically and competitiveness internationally; capture of critical institutions and policymaking processes; exposure to range of external risks and pressures

Financialisation in Middle-Income Countries

Analytical Framework – sources and processes

Sources of financialisation in MICs:

Schumpeterian Rents:

- Related to technological or business model innovation that lays basis for dominance - vertical and horizontal power.

Rents Chain:

- Value capture along VCs – vertical power.

Market Rents:

- Related to market concentration and collusion – horizontal power.

Policy Rents:

- Public asset capture
- Distribution of land and resource rights
- Access to finance, subsidies, other govt. resources
- Corporate governance, regulatory framework, etc.

Financial Rents:

- Leveraging balance sheets and financial engineering
- Extraction of surplus from upstream suppliers/downstream customers/subsidiaries
- Directing finance within holding structures, etc.

Processes of financialisation in MICs:

Corporate financialisation processes:

- Dividends
- Share buybacks
- Interest payments

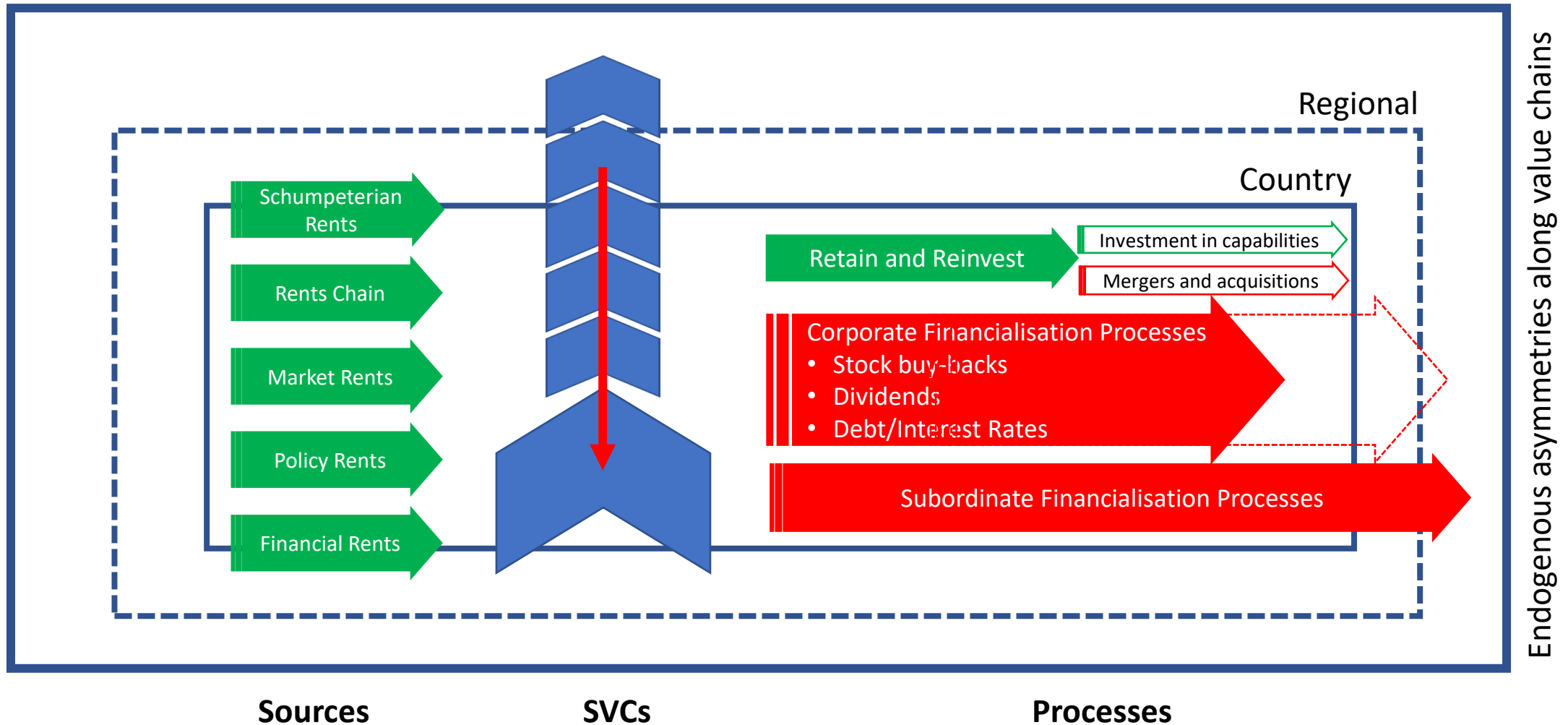
Subordinate financialisation processes:

- Impact of cross-border financial flows: volatility and cyclical contraction (push factors); high financial pay-outs even in times of loss making (pull factors)
- Excessive cash holdings as precautionary measure
- XR risk and currency mismatch between debt servicing and income streams
- Low yielding assets, high yielding liabilities
- Leveraging of balance sheets is constrained

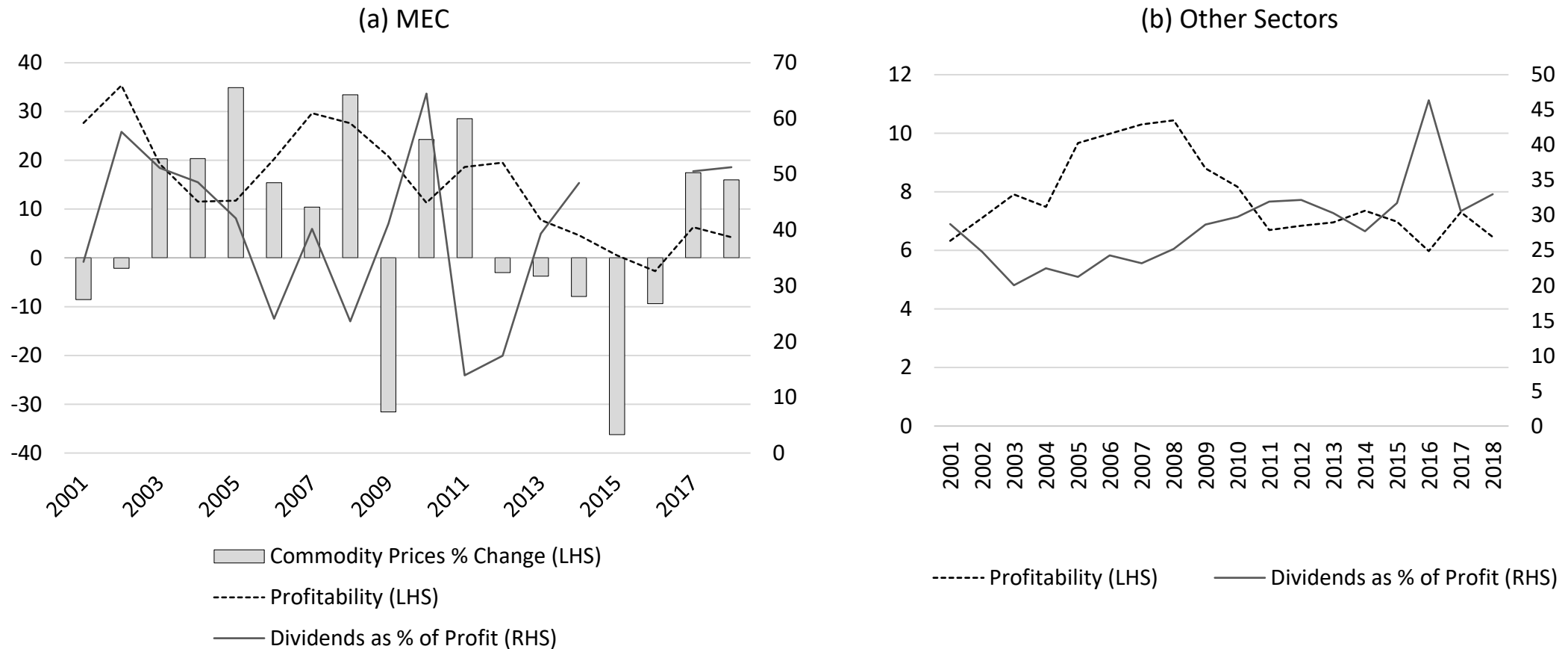
Financialisation in Middle-Income Countries

Analytical Framework

Global – macro financial markets



Profitability and Dividend Payments



Notes: Dividends as % of Profits in (a) are interrupted for 2015 and 2016 as profits turned negative while dividend payments were maintained throughout.

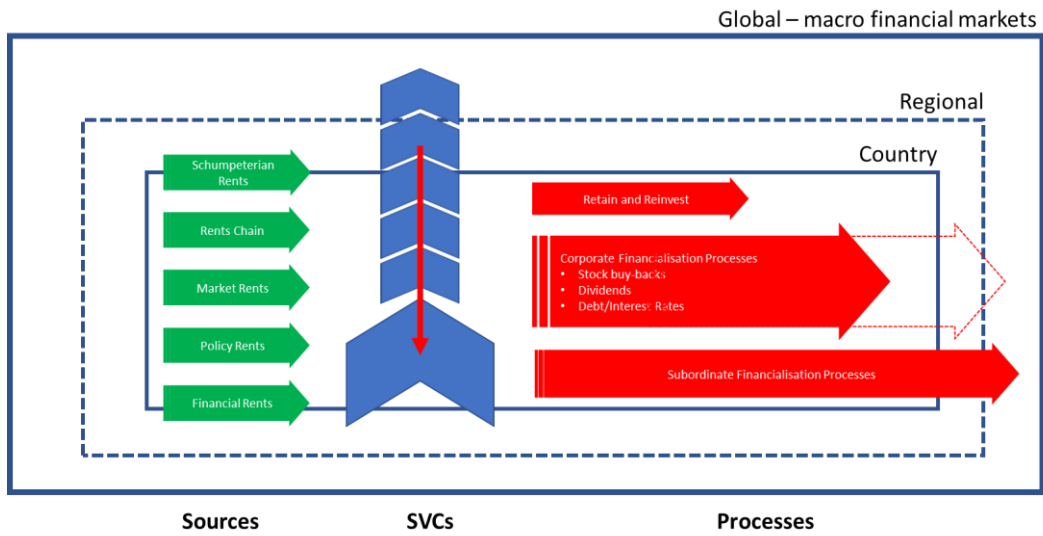
Profitability is measured as net-profits as a % of turnover.

Source: Andreoni, Robb, van Huellen (2021)

South African Case Studies

Comparative Case Studies Overview

Company	Sectoral VC	Ownership trajectory & strategic control	Sources of financialisation				Processes of Financialisation
			Schumpeterian Rents	Rents Chain (vertical)	Market Rents (horizontal)	Policy Rents	
Sasol	Chemicals; synfuels	SOE → IIs, AMs	Schumpeterian Rents, Rents Chain (vertical), Market Rents (horizontal)				
MTN	ICT; mobile service provider	Commercial banks → IIs, AMs	Schumpeterian Rents		Market Rents (horizontal), Policy Rents, Financial Rents		
Afgri	Grain storage & trading	Co-op → Listed → Pvt. equity		Rents Chain (vertical), Market Rents (horizontal), Policy Rents, Financial Rents			
Tiger brands	Milling; FMCG; brands	Conglomerate → Unbundled → IIs, AMs			Market Rents (horizontal), Policy Rents, Financial Rents		
Shoprite	Super- market retail chain	Conglomerate → Unbundled → IIs, AMs	Schumpeterian Rents, Rents Chain (vertical), Market Rents (horizontal)			Financial Rents	

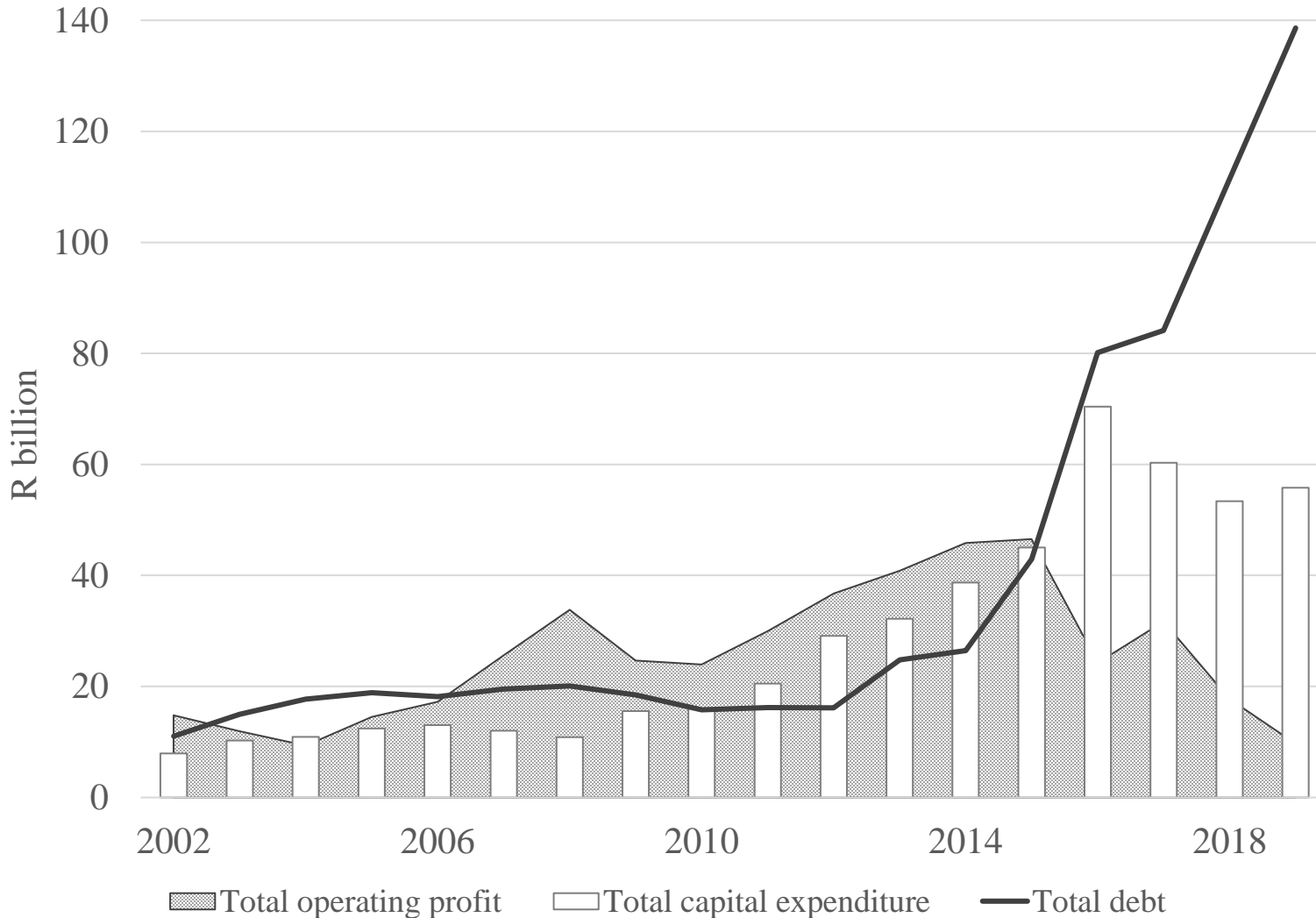


South African Case Studies

Sasol

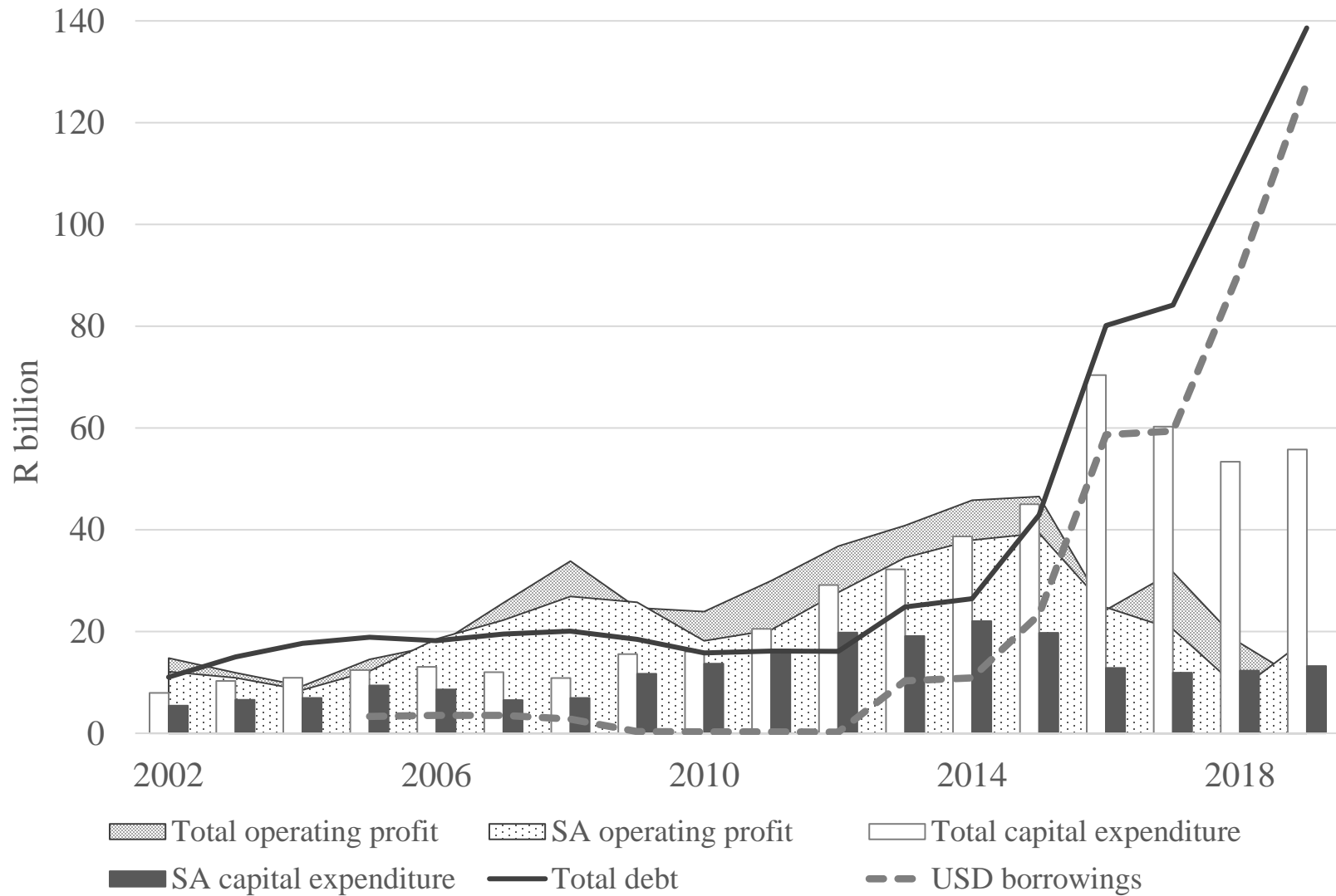
Company	Sectoral VC and Geographic scope	Ownership trajectory & strategic control	Sources of financialisation					Processes of Financialisation
			Schumpeterian Rents	Rents Chain	Market Rents	Policy rents	Financial Rents	
Sasol	Chemicals; synfuels Global	SOE → Privatised, listed → Commercial banks → IIs, AMs; increasingly overseas but still large govt. stake through PIC/IDC	Technological innovation (Fischer-Tropsch process; large-scale producer of grey hydrogen)	Upstream lead firm in multiple VCs; Vertically integrated along some VCs	Monopolist or dominant player in multiple markets	Privatisation of formerly state-owned monopoly; Non-intervention; import parity pricing	Shedding “non-core” assets; US- and tax haven-based financing subsidiaries	Dividends Debt

Sasol



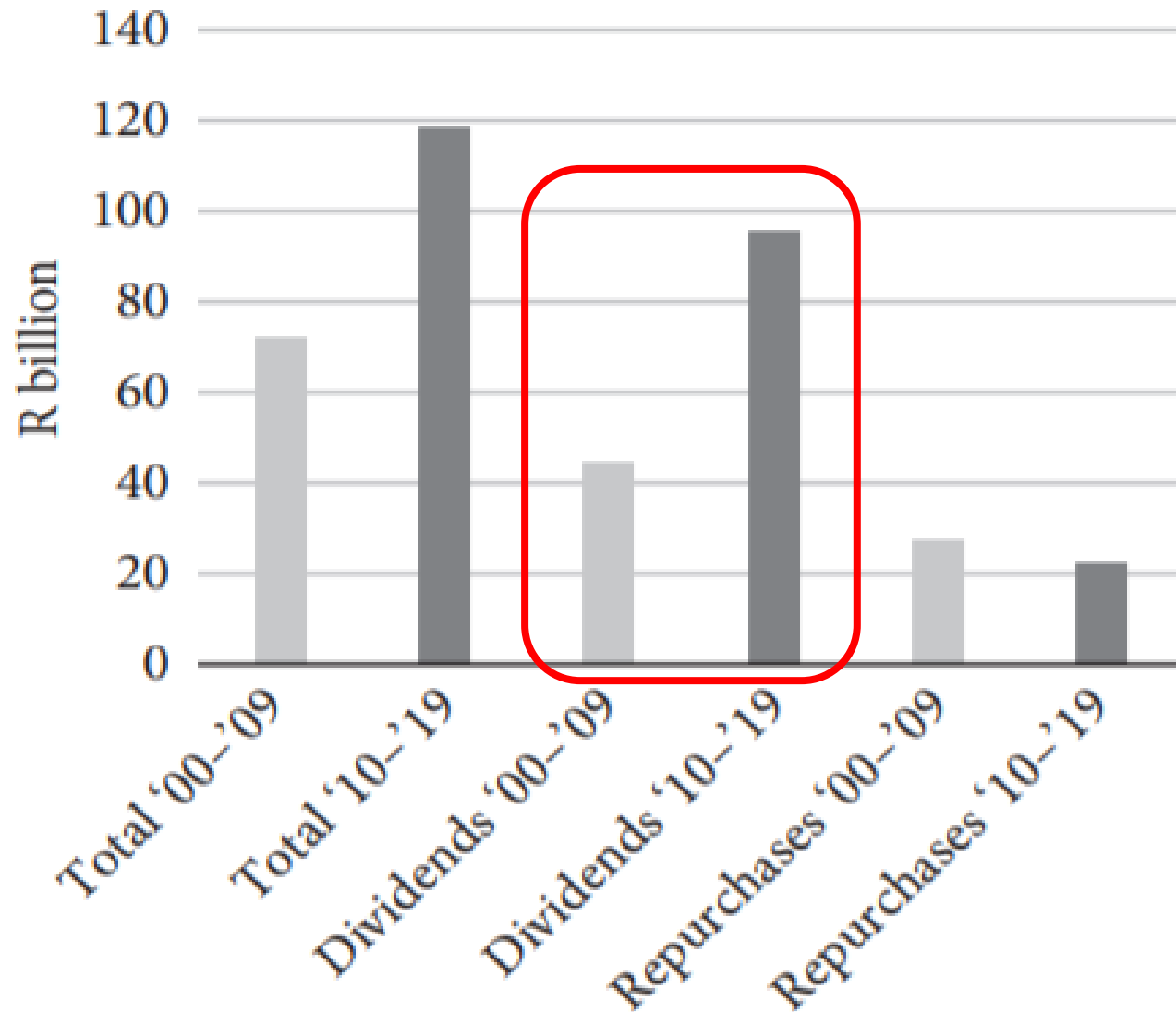
- Steady operating profits until commodity price trends reverse and oil prices dive
- Embarks on investment drive as downturn accelerates
- Expansion in capital expenditure from 2010/2011 **driven by debt**
- Poor execution of large-scale projects (LCCP) impacts performance

Sasol



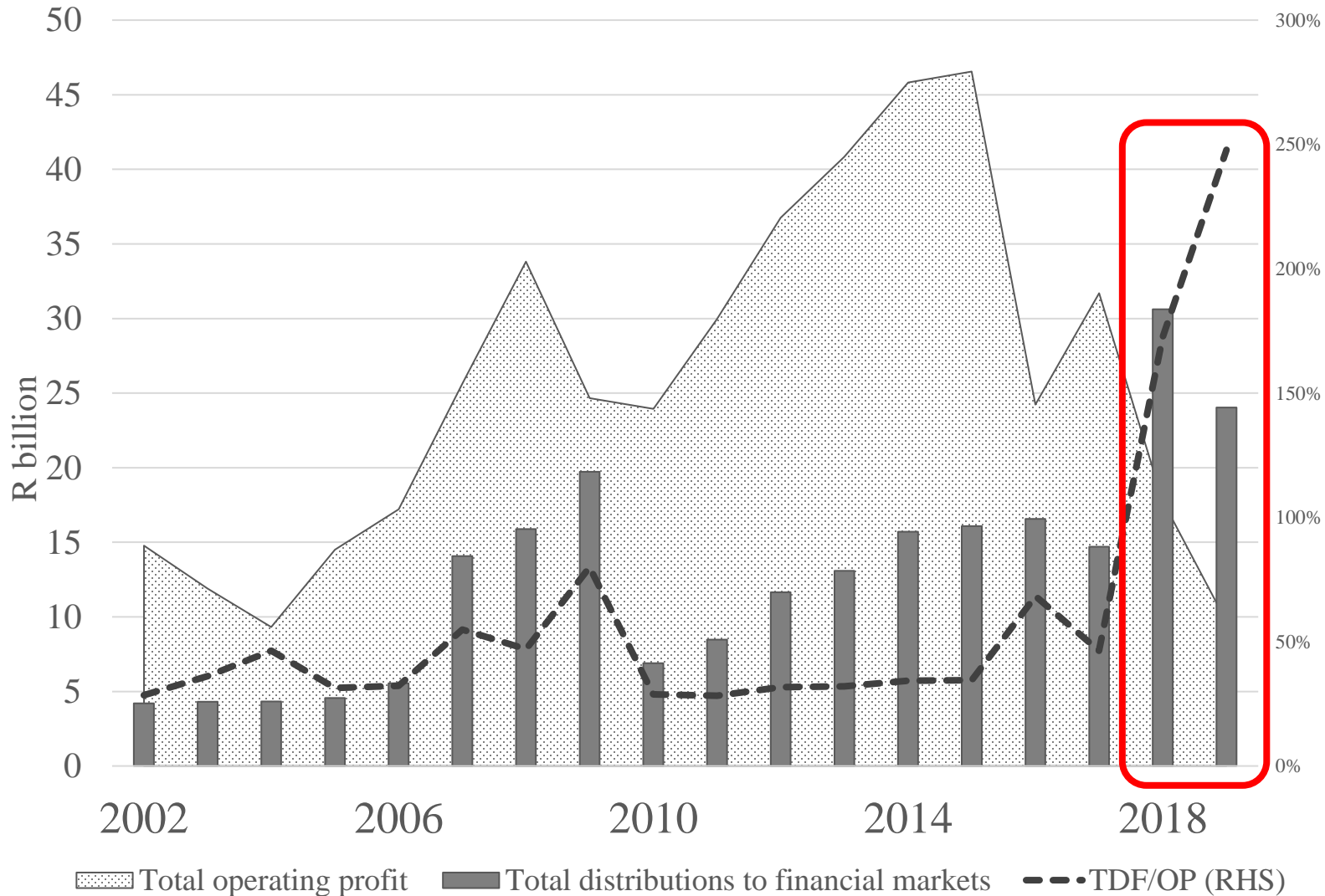
- **Delink** between high % of profits generated in SA vs. increasing % of investment overseas from 2010/2011
- **Delink** between % of debt denominated in USD vs. dollar-generating assets

Sasol



- **Dividends** the main driver of returns to shareholders
- **Repurchases**, introduced in 1999, less significant relative to UK, US
- Largely due to tax efficiency of dividends vis-à-vis repurchases (Wesson, 2015)
- **Regulatory context matters**


Sasol



- Adding interest payments to dividends and share repurchases, we get **total distributions to financial markets**
- Financial markets' claims on firm profits persist **even when performance and conditions are volatile**

Implications for Industrial Policy and Sustainable Structural Transformation

- Financialisation of NFCs undermines ‘retain and reinvest’ patterns of accumulation, diverting resources from sustained productive investment essential for structural transformation
- Industrial policy without a ‘retain and reinvest’ corporate governance regime is hamstrung - runs the risk of having public resources replacing private investments, while profits are extracted
- Regulatory reforms can shape corporate governance and reduce NFCs’ exposure to predatory value extraction – reforms can be a zero cost policy with large impact on investment regimes
- In NFCs with significant government shareholding, the state can exercise strategic control and direct investments for systemic interest (e.g. green hydrogen)

TOP INVESTORS (AS OF LATEST FILING) 

1	Public Investment Corporation (SOC) Limited	17.06%	107.39M shares	30-06-2021	+13.20M shares
2	Industrial Development Corporation of South Africa Limited (IDC)	8.46%	53.27M shares	30-06-2021	Unchanged
3	MandG Investment Managers (Pty) Ltd	5.92%	37.29M shares	31-12-2021	+6.26M shares
4	Allan Gray Proprietary Limited	5.57%	35.08M shares	30-06-2021	-7.72M shares
5	Ninety One SA Pty Ltd.	4.60%	28.97M shares	30-06-2021	+17.67M shares

Thank you!

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