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Debates over IMF reform in South Africa

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Introduction

Since the Asian crisis of 1998, there have been numerous debates and discussions internationally about the need to design a new international monetary architecture. Inevitably, much of these discussions have revolved around the role of the IMF and the World Bank. The recently published Meltzer Commission Report was one of the outcomes of these debates. This report came up with a number of controversial recommendations about the role of the IMF in the international monetary system, as well as some governance issues.

Surprisingly there has been relatively little debate in South Africa concerning issues of reforming the international financial architecture, or indeed about reform of the IMF itself. Although there is a strong antipathy towards the IMF and the World Bank in certain circles -particularly labour movement and South African Communist Party circles and some constituencies within the African National Congress (ANC)-, this is usually expressed in terms of the influence, direct or indirect, that these institutions have on economic policy formulation in the country. As South Africa has not been a regular borrower from the IMF, nor has it had a structural adjustment programme, the issue of access to IMF resources does not weigh heavily on the domestic debate. The only recent explicit critique of the IMF has come from the government, in advance of the IMF spring 2000 meetings in Washington, with the Minister of Finance, Trevor Manuel, calling for internal changes within the IMF. The questions raised related to the internal governance structure of the IMF, and the access (or lack thereof) of developing countries to IMF resources. It appears that the focus is on championing developing country causes, rather than narrow South African interests. Other concerns related to the IMF revolve around the debt of HIPC countries, an issue which the South African Council of Churches, in conjunction with the Jubilee Initiative have embraced.

Why so little debate? South Africa's history in the IMF…

It is surprising that in an open economy like South Africa, there is so little debate about the role of the IMF. Perhaps the reason for the lack of debate about the structure of the IMF lies in the fact that during the sanctions period South Africa had relatively little direct or open contact with the international monetary system or its institutions. The

Summary

There is little if any debate about the reform of the IMF in South Africa. South Africa had until recently very little contact to the International Financial Institutions. Yet, there is significant opposition to the IMF and its influence on policy formulation in South Africa.

Government, albeit not pursuing a very active role, is favourable of structural changes within IMF and World Bank. Developing countries should have more voice inside both of the institutions. Long-term support measures for developing countries should be maintained and the HIPC-Initiative should be accelerated.

debates in South Africa at the time generally revolved around the sanctions issue. The issue then was whether banks (including the multilateral organisations) should or should not lend to South Africa. The financial sanctions culminated in the debt standstill of 1985 when all banks ceased lending to South Africa (apart from trade credits).

During the 1970s, South Africa had obtained three credits from the IMF, mainly to assist with balance of payments problems emanating from the weak gold price. However Padayachee[1] has noted that this was also a period of great political instability, with the incursions into Angola and the Soweto uprising. In 1981, the decline of the gold price and high imports resulted in a massive current account deficit. In mid-1982, when the financial sanctions debate was intensifying, the IMF granted South Africa a US$1.1bn loan, amid a great deal of controversy. This was to be the last loan to South Africa until the demise of apartheid, as in 1983 the Gramm amendment was passed in the US which prohibited the US Executive Director at the IMF from supporting loans to South Africa unless the Secretary of the Treasury certified in person to the US Senate and House Banking Committees that the loans would reduce distortions caused by apartheid. Even before the enactment of the Gramm amendment, South Africa had been expelled from the Australian constituency, so although it was entitled to access to Fund resources, it had no representation on the Board.

After the changes announced by the de Klerk government in the early 1990s, the IMF, along with the World Bank, began to increase its visibility in South Africa, with increasing numbers of, and more broad-based visits, including contacts with academics, labour movement and NGOs. It was clear at this stage that the IMF was concerned with the economic policies that would be followed by the new government. This was at a time of intense debate over future economic policy. The major debate revolved around the choice between redistribution before growth, or growth before redistribution. In 1992 an IMF Occasional Paper[2] on South Africa added to this controversy with prescriptions that were favourable to the latter point of view.

…and its current position in the Fund

After the successful transition to democracy, South Africa was allowed to resume full membership. In 1996 it joined the Anglophone group of African countries (Africa Group 1). Although South Africa has the largest number of votes in the group, it did not insist on having a permanent Executive Director. At the time, it was speculated that South Africa could insist on a permanent position with perhaps Nigeria (with the second biggest quota in the group) as the alternate[3]. However the South Africans felt that it would be inappropriate to assert their dominance within the group. All other constituencies are represented by permanent Executive Directors, and the advisory functions are rotating. In the Africa Group 1 constituency, the Executive Director position rotates, and the advisory functions are more or less permanent. It means that at times South Africa’s interests can be represented by countries with voting rights as low as 409, as in the case of Eritrea. South Africa has a permanent advisory position and the current alternate Executive Director is South African. In addition, Trevor Manuel is the constituency representative on the International Monetary and Financial Committee (IMFC), (until recently known as the Interim Committee).

Although South Africa has high level representation in the Fund (in the form of the current alternate ED and Manuel’s role on the IMFC), it would appear that it acts more as a representative of the developing countries, and Africa in particular. This is not surprising, as it is recognised that South Africa's future growth and development is intricately tied in with that of the rest of Africa, and if Africa does not grow, nor will South Africa. Thus the focus on official South African involvement is more of one of a champion of the developing country access to IMF resources, rather than on narrow South African interests.

Finance Minister calls for reforms

Before leaving for the IMF and World Bank spring 2000 meetings in Washington, the South African

[1] Padayachee, V (1997): ‘The Evolution of South Africa’s International Financial Relations and Policy: 1985-95’ in Michi J and V Padayachee (eds.) *The Political Economy of South Africa’s Transition, Policy Perspectives in the Late 1990s,* The Dryden Press, London.

[2] Lachmann D and K Bercuson (eds.) (1992): *Economic Policies for a New South Africa.* International Monetary Fund, Washington DC

[3] South Africa’s quota allows it 18,935 votes (or 0,88 per cent of the total number of votes) in the IMF. Nigeria has 17,782 votes. The next largest quota in the group is Zambia with 5,141 votes and Zimbabwe with 3,784 votes.

Finance Minister told a press briefing that he would be pushing for structural changes within the IMF and World Bank. He argued that changes were needed in the shareholding, the shaping of the constituencies and the operations of these institutions. He expressed concern that the main clients of the institutions, the poor countries, *are ignored and the ordering of the constituencies tends to weaken the voices of the poorest members*. Similarly the *cosy arrangement* for selecting the managing director of the Fund was criticised as being untransparent and excluding the majority of the world's population.

At a press conference he stated that *we will continue to argue for a review of the institutions and how they operate. Developing countries need to have voices and need to be taken account of. We will be pushing for this very strongly at the meetings, and the time is right now in the absence of any global economic crises, to implement changes.*

Similarly, Director General of Finance, Maria Ramos contended that South Africa would be leading developing countries in pushing hard for reform of the IMF and World bank. According to Ramos, *we hold the chair this year and we have a great opportunity to ensure that the developing world has a voice….For some time we have been calling for reform in [the IMF] shareholding.* She also rejected calls for the demise of the IMF and World Bank as these institutions are the only access to capital many developing countries have. She added however that *Where the IMF and World Bank have erred is that they have insisted on the level and detail of conditionality. It goes beyond what you would expect.* [4]

As chair of the IMFC, Manuel[5] was particularly strong on the issue of HIPC, and in contrast to the Meltzer report, which effectively called for a reduction of lending to developing countries he called for the preservation of longer-term support measures for these countries. With respect to the HIPC initiative, he was critical of the slow pace of delivery of debt relief, despite previous commitments to deeper, faster and broader delivery. The *promise of Jubilee is beginning to look like a broken promise* as only one of the retroactive HIPC cases had reached completion. Secondly, he was critical of the slowness of the Poverty Reduction Strategy Paper (PRSP), and thirdly he argued that pending matters on resource mobilisation for HIPC risks delaying further the processing of debt relief eligible cases.

On the issue of Official Development Assistance and market access, he noted with concern the downward trend in development assistance, and argued that unless the advanced economies opened their markets more extensively and more decisively to goods from developing countries than has been the case, the benefits of globalisation will by-pass Africa. *The global trading system needs to be more inclusive than it has been to date.* He did however caution against excessive zeal in promoting capital account liberalisation.

With respect to the Fund's facilities, he argued that it should seek to cater to the needs of the diverse membership, and to ensure that the rules for accessing Fund resources do not inappropriately exclude members' access.

Domestic debates about the IMF

As noted above, there is very little if any debate about the internal structure of the IMF. But there is significant opposition to the IMF and its influence on policy formulation in South Africa. The IMF occasional paper (mentioned above), despite its status, generated a lot of debate in South Africa. Similarly there was heated debate when South Africa applied for a loan in 1993, at a time when the country was run by the Transitional Executive Council (TEC). The financing facility was for US$850m, to support the balance of payments in the face of the prolonged drought. Although the letter of intent spelled out conditionalities that were in the normal 'neo-liberal' mould, the level of conditionality was fairly low, and also were not made public. Had that been the case, the opposition from the Left would have been more vociferous than it was, particularly in that the ANC, as a member of the TEC, was part of the decision to accept the loan, which was repaid by 1998. The letter of intent committed the new government to: *a reduction within a few years of the government budget deficit to 6 per cent of GDP; expenditure containment rather than tax increases; containing the civil service wage bill; a continuation of tight monetary polices of the past 4/5 years, and monetary targeting; policies to*

[4] I-Net Bridge, 20/4/2000.

[5] Manuel's statement to the International Monetary and Financial Committee of the IMF Board of Governors, April 16, 2000.

"couple wage restraint and training to foster investment and promote employment"; maintenance of the financial rand mechanism without the introduction of new exchange control mechanisms; and finally a simplification and rationalisation of the tariff system and the phasing out of import licensing and non-tariff barriers.'[6] (Padayachee, 1997 p32). These policies typified the IMF position on economic policy and are precisely the types of policy that are criticised by the IMF critics in South Africa.

Although South Africa has not been subjected to an IMF structural adjustment programme, criticisms have been levelled at the government for submitting itself to an IMF-type programme. Thus the government's Growth, Employment and Redistribution (GEAR) policy that was introduced in 1996 was criticised in various circles as being typical of an IMF structural adjustment programme[7]. For example, in a report prepared for the UNDP, the National Institute of Economic Policy, a left-wing think-tank argued that the GEAR strategy *closely resembled an IMF structural adjustment programme which prioritised budget cuts, liberalisation, deregulation, privatisation and tight monetary policy*[8].

The trade unions, in particular the Congress of South African Trade Unions (COSATU) have consistently been critical of the IMF and the functioning of the international financial system, but their opposition has stopped short of spelling out detailed alternatives. In particular, the lack of transparency and democratic participation is attacked. For example, Zwelinzima Vavi, General Secretary of COSATU, in his opening address to the ICFTU 17th World Congress in Durban (April 200) argued that the *Seattle and Davos protests by the social movement signalled the end to the cosy, secretive exclusive club comprising government and big business shaping our destiny without our participation. We have recorded the need for inclusivity, transparency and democratic participation in shaping a new economic order. The social partnership we are looking for is not akin to the chicken and the pig partnership, where the pig makes a total sacrifice and the chicken a partial sacrifice in order to create bacon and egg.*

Later on he called for the formulation of an alternative strategy including:

- The development of an alternative platform for a new trade and financial world order.
- Democratisation of international multilateral institutions such as the IMF.
- Building a social movement both in the South and the North which begins to articulate a new development path.
- The alternative agenda should be advanced in all international platform, in particular the United Nations systems.

An ensuing resolution of the ICFTU argued that consistent criticism of the IMF and World Bank policies had forced them to *show increasing concern about poverty reduction and changed their attitude to meeting and discussing their policies with unions.*' The resolution called for amongst other things: changes in views on fiscal targets; increased investment in social programmes and comprehensive debt-rescheduling programmes. The resolution also called for increased financial support for democratic countries that supported workers rights and geared social expenditure towards education, health and job creation.

Conclusion

Despite a number of currency crises since 1996, South Africa has not had to rely on assistance from the IMF. This factor probably explains the lack of detailed debate over the role and workings of the institution. Should the situation change however, and the government is put in a position where it has to rely on access to Fund resources, this will be a politically contentious move which would spark a more intense debate. Given the broad opposition within the ANC alliance to the current role and structure of the IMF, it is likely that any access to Fund resources at high levels of conditionality will only be considered as a very last resort

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[6] Padayachee *op.cit.* p32.

[7] Although the IMF had no direct input into the formulation of the GEAR strategy, there were two World Bank staff members in the team, an issue that was often used by the critics to point to the influence of the multilateral organisations.

[8] Independent online, 4/6/98.

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