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**ENGAGEMENT  
IN SOUTH AFRICA:  
INTERNATIONAL  
MONETARY FUND  
INVOLVEMENT  
1990-92**

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*Please note that the opinions expressed in this Paper are the responsibility of the author and not of the SAIIA.*

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## INTRODUCTION

There can be little doubt that the financial sanctions imposed by the international community during the 1980s were instrumental in achieving what trade sanctions largely failed to, namely pressuring the apartheid regime through economic means to dismantle its system of racial segregation. The Gramm Amendment of 1983, effectively putting an end to South African access to International Monetary Fund (IMF) facilities, formed an important part of this process, and it is held that, both directly and indirectly, the veto has been one of the major restraints on economic growth in the country.

The release, in January 1992, of an occasional paper from the IMF entitled "Economic Policies for a New South Africa" seemed to mark a new era of IMF interest in the country after almost ten years without Fund assistance. In reality though, the paper represented just one part of an ongoing preoccupation since 1990 at the Bretton Woods institution with the affairs and future of South Africa. For the IMF has been actively engaging the country for an extended period prior to this publication with missions and discussion papers, and before that with the annual Article IV consultations (see also Section 1.4 following). *It must be remembered that despite the effective veto on South African access to IMF facilities, the relationship between Pretoria and 19th Street has always been a healthy one. A founding signatory of the Bretton Woods treaty, South Africa has maintained a favourable position at the institution, meeting her quota commitments annually.*

This is not to say of course that the occasional paper was not of consequence. Quite the contrary in fact, as it proved to be of two-fold importance to the still-nascent economic debate in the country. Firstly the paper helped to refocus the attention of the major players onto economic issues, and secondly it moved the debate into the centre ground. Both of these points will be explored in detail later in this paper.

In addition to these points this paper aims to elucidate the goals of the IMF in South Africa and the impact of its engagement in the country. Whilst the main focus of this article is on the Fund, mention will also be made of the activities of the other Bretton Woods institution, the World Bank (IBRD). We shall begin with a brief history of South African-IMF Relations, the debt standstill and South Africa's financial relations, before moving on to an analysis of recent IMF activities in the country, the substance of Occasional Paper 91, and its impact on South African society. Before concluding, we shall evaluate the implications of the IMF's actions for international relations and our understanding of international organisations (IO) in the global arena.

The case of the IMF's role in the transition process in South Africa is one that is quite unique in its opportunities and processes. For the IMF has rarely before had an equivalent chance to influence future economic policy in a country without the implementation of a Structural Adjustment Programme (SAP), and the harsh economic measures that such programmes usually entail. It has been an opportunity to engage the principal actors of a nation at a crucial time, to alter its destiny through governments, present and future. Moreover it is a chance to enter the fray before radical economic solutions are the only recourse available, thus removing the excuse that the situation was beyond help when the IMF was called in. This is not to imply that the Fund has been without success in Africa, but it has certainly acquired a somewhat tainted image. South Africa presents an almost "clean slate" to the IMF, and could possibly be used as a show case for the rest of the continent.

For all these reasons the IMF's actions in South Africa provide us with a somewhat unique insight into an international organisation at work, and the influence that such a body can exert over a society in transition. This case study highlights the work of an IO at both government and sub-government level rather than the usual interaction with the state alone, and thus raises the issue of domestic-international linkages. What we have attempted to achieve is to present an image of the Fund as an institution possessing more than just the usual two dimensions ascribed it by most political commentators, namely loans and structural adjustment programmes. This article hopes to add a third dimension to the widely held view of the organisation, one that shows the Fund as engaging domestic economic and political actors, of playing a facilitating role in securing the health of South Africa's economic future. Moreover, it is possible that the role played by the Fund in South Africa is a portent of a renewed international interest in the problems of the continent as a whole.

## **1. BRIEF HISTORY OF RECENT IMF-SOUTH AFRICAN RELATIONS**

Before beginning this summary it is perhaps worthwhile to clarify the official role and functions of the IMF. For it must be remembered that the Fund's money is not to be used for development programmes, that being the domain of its sister institution. The purposes of the International Monetary Fund are laid down in Article 1 of its Articles of Agreement and are concerned with issues of:

- a) international monetary cooperation;
- b) the expansion and balanced growth of international trade;

- c) the promotion of exchange stability;
- d) the establishment of a multilateral system of payments and the elimination of foreign trade restrictions;
- e) aiding member countries in the correction of balance of payments maladjustments; and
- f) shortening the duration and lessening the degree of disequilibrium in members' balance of payments.

These are of course strictly economic goals, and it is outside the Fund's mandate to become involved in matters of a political nature, but through its capacity to impose Structural Adjustment Programmes the Fund can fundamentally affect economic policy and thus politics within nations. In addition, because of the immense technical resources available to the IMF, it is able to affect domestic policy formulation through its influential Staff Reports and Occasional Papers. The Fund has also offered its training facilities to the bureaucracies of developing countries, an opportunity recently taken advantage of by the civil service in Mozambique.

### 1.1 The Gramm Amendment

In June of 1983, following the international outcry against the controversial approval of a 1982 application for an IMF standby loan of \$1.1 billion by South Africa,<sup>1</sup> there was a noticeable shift in attitude towards the country by the Fund. First came an IMF staff report critical of the policy of apartheid on economic grounds, and the trend was pursued with the decision by the US Congress in 1983 to "actively oppose any facility involving use of Fund credit by any country which practices apartheid"<sup>2</sup> which effectively put an end to South African access to IMF facilities. It was the first time that the Fund had become involved in the apartheid debate, though even here it was on the precept that such a system "results in severe constraints on labour and capital mobility and other highly inefficient labour and capital supply rigidities (sic) which contribute to balance of payments difficulties in direct contradiction of the goals of the International Monetary Fund".<sup>3</sup>

*It has been argued that South Africa had received favourable treatment at the hands of the IMF up to this point and that even the Gramm Amendment "left the US with enough manoeuvrability....that its support for IMF loans to South Africa was not entirely prevented"<sup>4</sup>, but there can be little dispute that it was an important step in the continuing isolation of the apartheid regime. Indeed *The Financial Times* of London described the Gramm Amendment as the "most*

important legislative sanction of all".<sup>5</sup> For South Africa was by this move excluded from the international lender of last resort, and compelled to alter her balance of payments policies accordingly. It would be a mistake to assume that the loss of the fall-back option of IMF assistance South Africa was an drastic blow to her relations with private creditors<sup>6</sup> but such a move was to come with the foreign debt crisis less than two years later.

## 1.2 The Debt Standstill 1985

From the beginning of the Eighties, South Africa had financed consecutive current account deficits by borrowing heavily from foreign creditors. Indeed the country had an enviable record of debt servicing that helped enable her to secure renewed access to foreign funds year after year. The events of August 1985 were to remove this option and change the country's position from being a net capital importer to one of net capital exporter. The debt crisis presented itself as the next step in the country's financial isolation, and as one of the most dramatic and far-reaching episodes in South Africa's economic history. Indeed it has been described as the "single most important external factor affecting the South African economy over the past five years".<sup>7</sup>

Beginning in July of that year with the decision by Chase Manhattan bank not to roll over the short-term loans owed it by South Africa, other major US creditors rapidly did the same and soon the country faced a crisis in which she found herself unable to repay most of the loans coming to maturity. It appeared that South Africa's debt was hopelessly badly structured and that the Reserve Bank had been too liberal in its attitude to foreign lending.<sup>8</sup> South African banks, it seemed, had long been engaging in "unsound financial dealings and practices."<sup>9</sup> At the end of August the foreign exchange markets were closed for three days, but by the beginning of the next month the authorities had come up with the idea of a "standstill net" in which \$13.63bn of the total foreign debt of almost \$24bn was to be held. Interest would continue to be paid on all debt, but the capital of the "netted" debt itself would for the time being remain unpaid. Interestingly, but perhaps not at all surprisingly, the debt to the IMF was left outside the net, and thus repayments continued to be made.<sup>10</sup>

There followed a series of "Interim Agreements", up to the present day (the third will expire in December 1993), in which conditions for the repayment of debt were negotiated and re-negotiated. Of course a complete stop came to bank loans to South Africa, a situation that was only reversed in 1991.<sup>11</sup> Indeed for the two years following the debt standstill (1986 and '87) South Africa made no borrowings at all on the international capital markets, and was excluded from long-term borrowing until 1990.



### 1.3 Effects

It is not difficult to imagine the constraints that these two developments placed on the South African economy, but as Garner and Leape write, the implications were "symbolic and legal"<sup>12</sup> as well as economic. The economic implications centre on South Africa's balance of payments. With neither the option of IMF assistance nor of private foreign borrowing, the government had to run a constant current account surplus to finance continuing capital account deficits. For, as we have said, South Africa changed from being a net capital importer in the early part of the decade to being a capital exporter. To finance these capital account deficits the government was forced to implement restrictionary measures to curb imports, particularly in times of economic expansion, which thus constrained growth.<sup>13</sup>

Quite apart from the effect that the debt standstill and IMF veto had on the balance of payments, the capital stock in South Africa obviously suffered drastically too. It has been estimated that the lack of access to foreign savings "lowered the growth of the capital stock from 3 percent per annum.....to 1 percent per annum, the growth in capital stock achieved since 1985".<sup>14</sup> This restricted capital growth has of course held back investment and economic growth in the country, being described in 1989 as "the single most important factor restraining growth in South Africa".<sup>15</sup> The ramifications of Gramm have continued up to the present day, for renewed access would provide an impetus, though limited, to international re-investment in South Africa. Indeed, "without such access, and the commercial bank lending that it might bring in its wake, growth....must remain severely constrained".<sup>16</sup>

The symbolic aspect of the debt standstill and financial sanctions was that it was another step in the designation of South Africa as a pariah state. The pressure behind the US banks' refusal to roll over loans came largely from the private sector, and from the pension funds, that invested their money with them. This reinforced the notion that it was no longer politically correct to deal with the country on any level. Moreover, this exclusion from private funds was seen as further removing South Africa from any chance of renewed access to official (IMF) credit. South Africa's 1991 public bond issue (the first since the debt standstill) has been cited as being "not only a critical next step in South Africa's rehabilitation in international capital markets, but also a crucial part of the government's campaign for renewed access to the International Monetary Fund".<sup>17</sup>

## 1.4 The Article IV Consultations

This is perhaps an appropriate point to mention the major part of IMF-South African relations in the post-Gramm Amendment period, the annual Article IV consultations. Under Article IV, Section 3 of the Articles of Agreement, which deals with surveillance of exchange agreements, member countries of the IMF are obliged to "provide the Fund with the information necessary for such surveillance, and, when requested by the Fund, shall consult with it on the member's exchange rate policies." In practice these consultations have come to include far more than merely exchange rate policy matters, and touch on most macroeconomic issues.

The procedure of the consultations primarily involves a questionnaire that is disseminated by the recipient member government to important economic actors. The completed questionnaires are then collected by the Fund, and the data formed into a staff report which is officially of a confidential nature, although the information is quite often leaked in reality. This information, moreover, is of special consequence in South Africa, as it "is often not available from any other source".<sup>18</sup> The purpose of this staff report is three-fold. The first aim is to identify the current state of the economy and the major problems; secondly the report aims to discover what the government is doing to deal with these problems; and third there is a pejorative side to the report, in which an opinion is given as to the efficacy of these governmental responses.

It is said that much of what has been suggested in the Article IV report-backs has, in the past, found a strong echo in government economic policy in South Africa, and this is one of the ways in which we can see the indirect influence that the Fund can have. The importance attached by the government to their relations with the IMF should not be exaggerated, and it would be wrong to say that the two parties' views of the South African economy have always dovetailed. Indeed there have been notable areas of disagreement between the two, for example on the questions of the financial/blocked rand and tariffs, but it has been an ongoing commitment on the government's part to "play along" where at all possible.

If we are to look at the process of these consultations, we may see that South Africa presents a rather unusual case to the Fund. For in its Article IV surveillance, the IMF now consults not just with the government and bureaucracy, as is the norm, but also with other actors deemed to be of importance in future economic policy formation. This trend has become increasingly marked in recent years as the Fund has attached growing importance to seeking the input of the ANC and COSATU. And it is not just in the area of the Article IV that the Fund has introduced this feature. As we shall see, since 1990 and the release of Nelson Mandela, both the Bretton

Woods institutions have tried to foster links with extra-governmental groupings in South Africa.

## **2. ENGAGEMENT: THE FUND STRENGTHENS AND BROADENS ITS LINKS**

### **2.1 The Events of February 1990**

Little need be said about the international reception to the announcement of Nelson Mandela's release but we should mention the effect that it had on South Africa's relations with the IMF. From 1983 until that time, the South African representatives at Fund Headquarters in Washington DC had met only with the deputy managing director of the Fund, but on the release of Mandela access was immediately allowed to the managing director. A minor diplomatic difference it may seem, but it was a signal of a distinct change in the Fund's attitude towards the country.

In December of that year an IMF Working Paper appeared which attempted to estimate the detrimental effects of financial sanctions on output and employment in South Africa. Perhaps unsurprisingly it concluded that "financial sanctions had a major impact on South African economic growth" and predicted a rather gloomy future, with "inadequate growth in output and non-white employment".<sup>19</sup> Despite the ominous forecast, the paper was noteworthy in that it showed the interest the Fund held in the country.

However, South Africa was by no means now re-admitted to full membership of the IMF. It is vital to remember that the Gramm amendment remained in force, and the country was thus effectively barred from access to Fund loan facilities. But it would be fair to say that the IMF had moved into a different mode vis-a-vis South Africa. Prior to this, the Fund's executive committee had asked the Article IV delegations to focus on the labour market in South Africa and the effects of apartheid thereon. Hereafter the missions were to examine the entire economy, to produce a broad "macro-picture".

### **2.2 Article IV Surveillance 1991**

During 1991 the IMF conducted its usual surveillance operations in South Africa, but adopted the attitude of examining a country in transition. Already the possibility of renewed access to the Fund's facilities was attracting attention, in both the press and academia. The previous year's consultation had praised the changes of 1990, both political and social, and the redirection of spending priorities towards housing, health, and education. Now the Fund looked to

Pretoria to capitalise on that year's gains, to move still closer towards the country's rebirth as an acceptable member of the global community.

The parties consulted by the mission highlighted the Fund's recognition of political realities in South Africa. For the delegation met with a broad array of interested groups, from the Minister of Finance and Governor of the Reserve Bank to representatives from the ANC, COSATU, and Inkatha. The recognition that this consultation conferred on these associations should not be underestimated as it represented a positive step forward in their relations.

The content of the Staff Report emerging from the surveillance mission fulfilled not only the roles of other Article IV reports in the past, i.e. descriptive and pejorative, but also a quasi-prescriptive function. In addition to being highly critical of much of the government's economic policy,<sup>20</sup> it lay down various "scenarios" of what might happen to the South African economy under differing conditions. These scenarios later came to form the major part of an Occasional Paper that appeared in January 1992, and it is to this that we now turn.

### **2.3 Economic Policies for a New South Africa**

The title of this paper, it emerges, proved to be a little misleading. For the paper did not in fact prescribe policies for the government to follow. Rather it sought to show the consequences, good and bad, of adopting certain options under certain conditions, and of the various "trade-offs" available to economic policy-makers. The main conclusion centred on the question of redistribution, claiming "that poverty in South Africa is so severe that redistribution policies, which alone will not be adequate to counter it, must be supported by policies designed to place the economy on a higher growth path".<sup>21</sup>

Further analysis in the paper addressed questions of wages, taxation, government spending levels, priorities in health, education and housing, and the current state of the capital stock in the country. As we have said, it drew a large part of its substance from the previous year's Article IV report, but given the status and wide distribution of an IMF Occasional Paper, this information was immediately given more significance.

### **2.4 Reactions**

The release of the paper received widespread attention in the South African press, initially favourable although with some notable exceptions.<sup>22</sup> One headline, typical of the press response to the paper, described it as "An encouraging voice of reason"<sup>23</sup>, and it seemed that the Fund was achieving

success as far as mainstream politics was concerned. The economic theorising embodied in the paper was accepted as commonsense, but, as one article pointed out, coverage granted the paper by the South African press neglected some of the more important points (diplomatically speaking) such as the claim that the lot of South African blacks is not dramatically better than that of blacks elsewhere in Africa. There was a danger, the article claimed, that if these subtleties were not stressed "the ANC, Cosatu, and others will dismiss it (the paper) out of hand when it in fact provides a base for a fundamental discussion on South Africa's economic future".<sup>24</sup>

And indeed the left did not seem terribly impressed with the paper's findings. It is well known that until the beginning of 1992, relations between the ANC and the Bretton Woods institutions could best be described as acerbic, and the immediate reception to the occasional paper appeared to be a continuation of this tradition. The general perception in the left-wing press was that the paper presented little that was new, and focused too much on negative points, being a list of "don'ts" rather than "do's". Moreover it was seen as having set the parameters of the economic debate too narrowly. It was criticised by the ANC for being insensitive in its discussion of wages, which suggested that to ameliorate the current state of income distribution, a future government should look to improvements in employment opportunities, productivity, and training, rather than further narrow the white/non-white wage differential. The left was also highly critical of the Paper's conclusion that to increase tax in the white sector would be to provide further disincentive to investment. In brief, the paper was viewed as putting forward policies that, whilst perhaps working towards the long-term health of the South African economy, would in the short-term be at the expense of the poorer echelons of society.

*Although not representing the political left in any sense, Mr. Harry Zarenda offered one of the most critical evaluations of the occasional paper in an article produced for the School of Oriental and African Studies (part of the London School of Economics). In it he severely criticizes "the policy emphasis and major conclusions of the IMF occasional paper"<sup>25</sup>, and offered his own suggestions, although "merely tentative".<sup>26</sup> His most energetic attack falls upon the question of real wage growth, countering the occasional paper's claims and arguing that "rising real wages could constitute an integral part of a growth process in South Africa".<sup>27</sup>*

But what of the substance of the paper itself? As we have already indicated, it was in large part drawn from the previous year's Article IV Staff Report and some have thus seen it as being haphazard in structure. Indeed it was somewhat of a rushed endeavour. However when it is viewed as "a base for a fundamental discussion" on the economic choices in South Africa this criticism loses some of its validity. The paper may not have prescribed policies for a future

government to follow, but it set the parameters within which any successful mixture of policies will have to fall. As for these parameters being too narrowly defined, they are the parameters within which the major actors in the global economy work and therefore within which South Africa will have to work, and it was surely important for this to be stated directly in a document with the influence of an IMF Occasional Paper.

It is not the aim of this article to dispute the arguments presented by Mr. Zarenda. Indeed there is a body of thought that would agree with what he has written. However to criticize so vehemently the occasional paper in such a way is to fail to comprehend the purpose thereof. For, to counter Zarenda, the paper *does* "make a serious contribution to the debate", by way of the fact that it has inspired that debate. Ironically Zarenda himself has proved the occasional paper's value by adding his own contribution to these questions by way of response. As an ANC economist put it, the Fund "put facts and figures on the table, around which the debate can take shape".<sup>28</sup>

For the economic debate in South Africa up to this point had been in its infancy to say the least. Perhaps the most influential and important offering thus far had been an article by Terence Moll<sup>29</sup>, which addressed the question of future growth through redistribution, a policy then favoured by the ANC. Whilst recognising that a "major redistribution of income is certainly a desirable objective in South Africa", he called for a comprehension of the "trade-offs between desirable goals"<sup>30</sup>, and argued for supply- rather than demand-side restructuring. This theme was perpetuated and broadened by the Fund in *Economic Policies*, which served to intensify discussion of choices in the economic realm.

Of course such discussion and debate was helped to the fore by the lamentable stalemate in the political arena, with the breakdown of CODESA II, but it would be fair to say that the Fund's influence and timing were such that it had succeeded in bringing these questions to the attention of the main actors before the deadlock in the negotiations was reached.

## 2.5 Engagement in Washington

In April of 1992, the Fund got the chance to build on these foundations, this time on its "home ground". Invited by the World Bank to its 19th Street headquarters, representatives from the ANC (including members of its National Executive Committee), Cosatu, and the Kagiso Trust also spent two days across the street with the IMF.

At this point, we should perhaps make mention of the changing dynamics within the ANC's Department of Economic Policy (DEP). For there has been a significant change in the influence of certain, more business-oriented staff members, and the political ascent of such personnel has hastened the move away from more dirigiste economic policies. Several members of this ascendant cadre participated in the Washington visit.

Welcomed by the deputy managing director, they were given a broad overview of Fund activities and aims. The ANC delegation then met with the managing director, Michel Camdessus and engaged in extensive discussions concerning South Africa's future, focusing on the potentially conflictual goals of overcoming the social and economic legacy of apartheid and achieving macroeconomic stability. Camdessus also used this occasion to once again impress on the ANC the need for "sound economic policies and sustainable economic growth".<sup>31</sup> During this visit, the ANC delegation expressed a keen interest in Fund activities and particularly in IMF training facilities.<sup>32</sup> This is not to say that the visit was an unqualified success, as several delegation members left Washington largely unimpressed. However, the newly emerging cadre in the DEP were in the main receptive to the Fund's message, and it helped to confirm much of what the South African business sector had been telling them for an extended period.

The offer of training is something that promises to be of immense importance in the future development of ANC economic policy. A sceptical view would be that the Fund would be thus indoctrinating the ANC into the culture of an organisation that perpetuates North-South exploitation. A more enthusiastic approach is that such training will help the ANC to develop its economic research ability, as well as helping the organisation to learn the *lingua franca* of global economics. This is not to say that those who accept the offer of training should also accept everything that they are told verbatim. Indeed what they are taught must be adapted to the unique circumstances of South Africa, but such experience should be of great benefit to the DEP. This is of particular importance when we remember that the DEP has often made mention of its lack of technical resources and research ability.<sup>33</sup> Although of a highly controversial nature, the IMF has, as mentioned above, invested a substantial amount of time in similar training courses for selected Mozambican civil servants.

### 3. EVALUATION

#### 3.1 Impact on ANC Economic Policy

Few would dispute the assertion that there has been a fundamental shift in ANC economic policy since the unbanning of the organisation. To determine causality

is always a difficult matter, and mention has already been made of the rise of more market-oriented personnel in the DEP, but we contend that the Fund's contact and activities have had a moderating, tempering effect on the ANC in this regard, helping to direct the party towards the economic centre ground. Current ANC economic policy<sup>34</sup> is a far cry from the strongly interventionist formulae prescribed in the Freedom Charter and subsequent policy documents. Nationalisation, for example, has dwindled in importance so that it merits but a lone mention, and then only as a possibility. Indeed privatisation, an issue long contested by the ANC, is given implicit reference as an alternative in order to reduce the public sector.

More attention is now paid to the issues of macroeconomic stability and sustainable growth, as well as the need to exercise fiscal discipline in order to control inflation. Of special importance is the current ANC policy towards foreign investment, which holds that the most important way to promote it is to "establish a climate of political stability, economic growth and transparent, consistent economic policy".<sup>35</sup>

There is still considerable divergence of course - the ANC's attitude towards trade barriers and tariffs, for example, is not one that dovetails with the Fund's. However the same could be said to be true of the government's economic policy, and as we have already shown, Pretoria has maintained largely excellent relations with 19th Street. To build on this point, a comparison of contemporary ANC economic policy and the latest offering from the Economic Advisory Council of the State President<sup>36</sup> shows only minor differences in substance. Moreover, this latter policy document is one that can be seen very much as an "adjunct to Occasional Paper 91"<sup>37</sup>, and the similarity, in essence, between ANC and government economic policy may tell us even more about the shift that has occurred in the economic debate towards the centre ground.

Before leaving the discussion of Fund engagement, we should make note of the fact that the Fund's managing-director has given assurance that approval will not be granted to a South African loan application until the ANC has given its blessing. This appears to be another move in the overall Fund plan to build trust and confidence in their relations with the ANC.

## 4. EXPLANATIONS

### 4.1. IMF Aims in South Africa

What is the guiding principle behind the extensive efforts made by the Fund in South Africa? It has already been suggested that much of the Fund's activities has been directed towards inspiring the economic debate in South Africa and



towards building trust and confidence amongst those to the left of the political spectrum, but it is vital that this is seen as part of a bigger picture.

To inspire debate and to build trust and confidence have indeed been significant, but of far greater importance is the overriding objective of the Fund in its dealings with South Africa. For, as was suggested in the introduction, South Africa presents a somewhat unique opportunity to the IMF, a chance to influence future economic policy before radical and harsh measures are the only recourse available. In sum, the Fund has sought prevention rather than cure; action now by the Fund may prevent reliance on the Fund in the future.

The situation is perhaps best explained thus. By guiding the economic debate towards policies that encourage "long-term sustainable economic growth.....over those that aim for shorter term but transient results", the Fund is hoping to prevent South Africa from developing severe economic (and, more specifically, balance of payments) problems. To act now is hopefully to remove the need in five or ten years' time for a structural adjustment program that could have drastic effects on an already inherently unstable South Africa society. As an ANC National Executive Committee member noted, the IMF imposes SAPs on countries with severe economic problems, and "if you want to avoid structural adjustment programmes you have to avoid these pitfalls".<sup>38</sup>

#### **4.2 Why is the Fund So Interested in South Africa?**

Quite apart from South Africa's disproportionately high profile in the international press, it surprises some people to learn of the extent of the IMF's interest in South Africa. Despite South African government complaints about "the absence of firmer and more substantive commitments" from Washington<sup>39</sup>, this article has tried to show the extent of the Fund's involvement in the country. But from where does this interest stem?

If we look to the current position of the Fund we can find three main causes. First, there is the notion that South Africa, should she pass successfully through transition and remain a viable, functioning economy, would provide an ideal "show-case" for Fund prescriptions. It would show that the Fund, should its help be requested early enough, can help to put an ailing economy back on its feet. The idea that the IMF looks to South Africa as such a show-case should not be exaggerated, but this is certainly consistent with the aims of the current managing director, who hopes to improve the image of the Fund. To have a success in South Africa would lend legitimacy to much of the work the Fund is conducting in developing countries.

To further explain this interest we must also look to the make-up of the Fund itself. For the main shareholders in general, and the US, UK, and Germany in particular, have maintained strong links with South Africa throughout the years of supposed isolation. These links now stand South Africa in good stead. In addition the Fund is an integral part of the international financial community and financiers in all three countries mentioned above (amongst others) are already showing a willingness to lend to South Africa once more. It is surely in their interest to have a healthy, functioning South African economy.

Lastly the Fund is looking to South Africa to provide an economic impetus to the region. Whilst not a major preoccupation at the IMF, it would nonetheless be a welcome spill-over if South Africa could act as a form of economic "locomotive" for southern Africa. However, the work of scholars such as Cheru<sup>40</sup> teaches that far from being an engine for growth, South Africa may well draw already scarce resources away from other southern African states. The Fund would do well to take account of this fact in looking at the region.

## 5. SUMMARY AND CONCLUSION

In the course of this article we have traced the recent history of International Monetary Fund relations with South Africa until 1990, focusing on the Gramm Amendment and the annual Article IV consultations. Whilst recognising the severe constraints that the effective veto on access to IMF facilities placed on the South African economy, we have tried to stress the nonetheless healthy relationship between the organisation and Pretoria. Moving on to the transition period, we examined the Fund's attempts to engage important domestic political and economic actors (at both government and sub-state level), through consultation, the release of an occasional paper, and a formal introduction to the aims and activities of the organisation in Washington. We have looked at the IMF's offer of training for DEP personnel, and have warned that, while useful, this education must be undertaken with South Africa's unique circumstances in mind.

Whilst recognising the problems of determining causality, we have ventured to suggest that the Fund's activities and contact have had a moderating and tempering effect on ANC economic policy, and have contributed significantly towards narrowing the gap between the two organisations. The goals of the Fund have been highlighted as building trust and confidence, and inspiring the economic debate in South Africa. Both of these goals can be seen as building blocks towards a longer-term objective, that of securing South Africa's future economic health. As to the motivation behind the Fund's interest in South Africa, we have identified three main causes - the desire to improve the Fund's image; the interest (and interests) held in South Africa by important

international financial actors; and, the hope that a resurgent South African economy could serve as a "locomotive" for the region.

We have not touched on several areas of South Africa's relations with the Fund, in particular the question of which voting group she should join. If this article can afford itself the luxury of giving advice it would be that future South African governments always remember to negotiate any agreement with the IMF, and to adapt any Fund sponsored programmes to the peculiar conditions prevailing in the country. A future democratic government would do well to enlist the experience and negotiating skills of the current bureaucracy.

As was outlined in the introduction, South Africa has presented the Fund with a somewhat unique opportunity, and the organisation has responded imaginatively and purposefully. The Fund's activities highlight the interaction between international organisations and domestic actors, and demonstrate the important role that such bodies can play in influencing the future of states in transition. This interaction shows that although an organisation such as the IMF is legally only mandated to deal with governments, South Africa's current political circumstances have necessitated that the Fund engage a broader spectrum of political protagonists. Perhaps this is a stance that can also be applied to other African states in transition. Whether the necessary interest outside of Africa exists is doubtful. Yet if the ever growing marginalisation of Africa is to be halted, international organisations with the wealth, resources, and expertise of the International Monetary Fund must play a similar engaging, facilitating role. Only with the help of such bodies can the continent be brought into full participation as part of an increasingly disinterested and negligent international community. Let us hope that the experience of the IMF in the South African transition is a seed of concern that will grow into a more fully developed interest in Africa.

## ENDNOTES

1. It has been said that without this loan, South Africa would have been unable to continue the wars in Angola and Namibia.
2. The Gramm Amendment: Instructions to the US Executive Director of the IMF (1983), US Congress. The conditionality of the amendment was that access should be opposed unless "such drawing would reduce constraints on labour and capital mobility, or other rigidities in labour and capital resulting from apartheid, and would benefit economically the majority of people of any country which practises apartheid, and which is suffering from a genuine balance of payments imbalance that cannot be met by recourse to private capital markets".
3. *Ibid.*
4. Padayachee, Vishnu, "The Politics of South Africa's International Financial Relations, 1970-1990" in Gelb, Stephen, (ed), *South Africa's Economic Crisis*, Cape Town: David Philip Publishers (Pty), 1991, pp.89-93.
5. *The Financial Times*, London, 11/7/1991.
6. Garner, J. & J. Leape, "South Africa's Borrowings on International Capital Markets: Recent Developments in Historical Perspective", *London School of Economics Centre for the Study of the South African Economy and International Finance*, Research Paper No.5, p.23.
7. Leape, Jonathan, "South Africa's Foreign Debt and the Standstill, 1985-1990", *London School of Economics Centre for the Study of the South African Economy and International Finance*, Research Paper No.1, p.1. This is perhaps the best discussion of the debt standstill available.
8. Hirsch, Alan, "Sanctions, loans and the South African Economy", in Orkin, Mark, *Sanctions Against Apartheid*, Cape Town: David Philip Publishers (Pty), 1989, p.273.
9. Padayachee, p.98. These "unsound practices" are described as "borrowing short-term in New York at lower inter-bank rates and turning these credits into long-term loans in South Africa (often to the government and parastatals)".

10. It is important that we remember that throughout the period of the IMF veto, South Africa has maintained excellent relations with the Fund, the repayment of her debt to the Fund being an integral part thereof.
11. South Africa received a loan of \$60mn from the Export-Import Bank of Taiwan in January 1991. The country had, as Garner and Leape (1991, p.13) point out, returned to international capital markets at the end of 1988 with "a small private bond" placed by Swiss Banks.
12. Garner & Leape, p.24.
13. One of the most important ways in which import restrictions constrain growth is that the import of new technology is held back, thus delaying the introduction of modern, more efficient production methods.
14. Bayoumi, Tamim, "Output, Employment, and Financial Sanctions in South Africa", International Monetary Fund, 1990, unpublished, p.21.
15. *The Financial Times*, London, 4/9/1989.
16. *The Financial Times*, London, 11/7/1991.
17. Garner & Leape, pp.20-21.
18. Commonwealth Secretariat, *Banking on Apartheid: The Financial Link Report*, London: Commonwealth Secretariat, 1989, p.78.
19. Bayoumi, Tamim, "Output, Employment and Financial Sanctions in South Africa", Washington DC: International Monetary Fund, 1990, Working Paper, unpublished, p.21.
20. The Fund report adopted a tough stance towards issues of competition, off-budget spending, the finrand, and the possibility of "kick-starting" the economy.
21. Lachman, D. & K. Bercuson, (eds) *Economic Policies for a New South Africa*, Occasional Paper 91, Washington DC: International Monetary Fund, 1992, p.1.
22. Patrick Brown's article, "IMF Report: Shoddy and Predictable", in *Work in Progress*, No.81, May 1992, was one of the more vociferous offerings in this regard, which nonetheless showed the importance attached to the work and voice of the Fund.

23. *The Financial Mail*, 14/2/1992.
24. *The Finance Week*, 20/2/1992.
25. Zarenda, Harry, "An Evolution of the IMF Mission Document on Economic Policies for a New South Africa", preliminary draft, unpublished, p.1.
26. *Ibid.*, p.16.
27. *Ibid.*, p.11.
28. Interview with ANC economic adviser, Johannesburg, 26/8/1992.
29. Moll, Terence, "Growth Through Redistribution: A Dangerous Fantasy?:", *The South African Journal of Economics*, 59, 3, 1991, pp.313-329.
30. *Ibid.*, p.326.
31. *IMF Survey*, May 11, 1992, p.156.
32. In addition to the Fund's offer, in February 1992 Mandela met with World Bank president Lewis Preston and asked for technical assistance in the form of training facilities.
33. See, for example, "Economic Analysis and Policy Formulation for Post-Apartheid South Africa", Mission Report, August 1991, International Development Research Centre IDRC, Canada. The introduction to this document states: "There is currently a significant imbalance between the capacity of the establishment to formulate and implement economic policies and that of the prospective democratic government, particularly in the areas of policy-oriented research and skills in economic management".
34. "Ready to Govern - ANC Policy Guidelines for a Democratic South Africa", May 1992, pp.19-25.
35. *Ibid.*, p.23. This sentence can be seen as almost a direct echo of what is prescribed in a paper prepared in April 1992 by Witney Schneidman, consultant to the World Bank, entitled "OECD Perceptions of Direct Investment Opportunities in a Post-Apartheid South Africa".

36. "Revised Long-Term Economic Strategy", Economic Advisory Council of the State President, June 1992. Such a comparison also serves to prove the assertion of a very real imbalance between the government and the ANC in their abilities to formulate in-depth economic policy.
37. Interview with the Central Economic Advisory Services, Pretoria, 20/7/1992.
38. Gordhan, Ketso, "Should South Africa Get Involved with the International Monetary Fund and the World Bank?", in *What Has the IMF in Store for South Africa*, Braamfontein: Institute for African Alternatives, 1991, p.9.
39. Finance Minister, Derek Keys, quoted in *Business Day*, 24/9/1992.
40. Cheru, Fantu, "The Not So Brave New World! Problems and Prospects of Regional Integration in Post-Apartheid Southern Africa", Johannesburg: SAIIA, 1992.