SOUTH AFRICA FACES CUTOFF OF IMF LOANS

Developments both within and without the International Monetary Fund are converging in ways that may block South Africa’s access to future IMF loans.

On November 3, 1982 South Africa received a $1.1 billion loan from the IMF. That was the largest loan South Africa had received in its history, and included the largest compensatory financing facility loan ever made to any country.

The loan carried by a bare 52 percent of the votes within the IMF and stirred up more controversy within the Fund than any other loan it has made.

Since then, opinion has shifted within the Fund on the issue of South Africa. One measure of this is the critique of labor market immobility written by the IMF staff on May 19, 1983, described further below.

That study was cited approvingly by all the executive directors who spoke at the June 20, 1983 executive board meeting of the IMF, which was dedicated to a mid-term review of South Africa’s performance under the standby
arrangement.

But other developments outside the Fund have also conspired against easy access in the future:

--On August 3 the U.S. House of Representatives approved a bill that mandates U.S. opposition to IMF loans to "any country which practices apartheid." The measure stands a good chance of being accepted by the House-Senate conference committee that meets to iron out the differences between the two chambers' bills.

If the bill becomes law, then 19 percent of the votes will no longer be available for South Africa. Third World nations wielding 30 percent of the votes are already opposed. Loans require a simple majority of the IMF executive board.

--On March 28 Swedish foreign minister Lennart Bodstrom said that the Scandinavian executive director should criticize South Africa loan proposals in terms consistent with the statutes and precedents of the IMF.

--On May 20 Norwegian parliament voted that no IMF loans should be granted to South Africa.

--Anti-apartheid movements in Scandinavia, Holland, Belgium, and West Germany are focusing on the issue as the IMF quota increase goes before parliaments (except in West Germany) this fall.

1. IMF critique of labor market constraints.

An International Monetary Fund economic team reported on May 19 that South Africa must ease the impediments and restrictions governing the labor market in order to avoid serious imbalances in the economy over the medium term.

The team also recommended that the allocations of government
expenditure to black education and manpower training be stepped up sharply because they have been inadequately funded up to now.

The report by the team represented the IMF management's first criticism of apartheid.

Citing impediments on the geographical mobility of black workers as a serious problem, the study produced by the team said that in general this regulatory system is based on noneconomic considerations. The appraisal by the IMF concluded that there was no clear prospect of improvement in this area.

The IMF acknowledged progress in removing legal impediments to black promotions in industry. But it said that progress to a more racially diverse skilled labor force is impeded by a large discrepancy in existing skills and in government expenditure on education and training between race groups. It cited a 1979/80 estimate by the nongovernmental Institute of Race Relations showing a ratio of almost 13:1 between expenditure on white and black school children. There were also large discrepancies between race groups in terms of access to technical and vocational training. The study also reported slim prospects of reducing the gap in the foreseeable future.

The IMF team visited Pretoria last February and March. Their study represents a response to requests by several executive directors made at an IMF meeting last November 3, during which the executive board approved a $1.1 billion loan to South Africa.

The chief author of the study was Leslie J. Lipschitz, a South African now working for the IMF's European Department.

**Policy implications**

The study was cited approvingly by nearly all executive directors at
the June 20, 1983 mid-term review of South Africa’s standby program. Thus critical monitoring of two pillars of apartheid—pass laws and educational discrimination—is now likely to become a subjection of discussion between the IMF and South Africa in future annual consultations.

Furthermore, if South Africa ever approaches the IMF again for a new standby, progress in dismantling these aspects of apartheid is likely to be made a criterion of the program. It is certain that the conclusions of the study will be cited by executive directors, and that progress in implementing them will be considered one test of South Africa’s cooperation with the Fund.

This conclusion implies that South Africa may be found ineligible for future standby arrangements unless it is prepared to dismantle major elements of apartheid.

The Fund’s other major loan window, the Compensatory Financing Facility, is not subject to the same program conditions. However, the trend in recent IMF decisions is to link access to the CFF to the member country’s general pattern of cooperation with the Fund in an attempt to find solutions to the member’s economic difficulties. If there is no progress in implementing the findings of the IMF’s study, that may also be cited against a South Africa request for the CFF.

2. House passes anti-apartheid section of IMF bill

The U.S. House of Representatives on August 3 passed the funding bill for the International Monetary Fund, and retained in the bill the anti-apartheid section inserted last May 9 by the House Banking Committee.

The section says,

The Congress hereby finds that the practice of apartheid results in severe constraints on labor mobility and other highly inefficient labor
supply rigidities which contribute to balance of payments deficits in direct contradiction of the goals of the International Monetary Fund. Therefore, the President shall instruct the U.S. Executive Director of the Fund to actively oppose any credit drawings on the Fund or any of its facilities by any country which practices apartheid.

However, the House adopted an amendment adding "communist dictatorships" to the anti-apartheid section, greatly complicating the issue. The House leadership still expects to hold the anti-apartheid section in conference committee with the Senate and perhaps even shedding the communist dictatorships language.

The Gramm Amendment

Rep. Phil Gramm, the Democrat-turned-Republican from Texas, did not attack the anti-apartheid language directly. Instead, he said that its economic basis was important and should be extended to communist countries as well. The Gramm amendment was initially defeated by voice vote and then by a 35-to-12 show of hands of those members currently present on the floor. Then he succeeded in organizing twenty-five members to demand a recorded vote. On a vote that could well end up on conservative voting records, members feared being cast as soft on communism and the Gramm amendment passed by 242 to 185. Gramm won by a comfortable margin, despite opposition to his amendment from the chairman and ranking minority member of the House Banking Committee, Representatives Fernand St. Germain (R.I.) and Chalmers Wylie (Ohio), and the Republican leader of the House, Rep. Robert Michel (Ohio).

The House Vote on the IMF

Despite the adoption of the Gramm amendment, the proponents of the anti-apartheid provision ended the evening with strong leverage for keeping
their original language in the final version of the bill. The administration badly wanted this bill to pass, and the House adopted it by the very slim margin of 217 to 211. The Congressional Black Caucus, whose chairman, Rep. Julian Dixon (Calif.), has spearheaded this campaign, has put a high priority on winning this fight on South Africa. The caucus had informed House Speaker Tip O’Neill on July 18 that its votes on the IMF quota increase would be contingent on retention of the anti-apartheid provision. Now, the eleven members of the Black Caucus and a few white allies who provided the critical votes for passage of the bill are in a position to insist that they will switch their votes and defeat the final conference report unless the Senate conferees agree to accept the anti-apartheid language.

The Conference Committee

The next step is a conference committee between the House and Senate to iron out differences between their two bills, so they can send one bill to the president to sign.

The Reagan administration had always planned to defeat the anti-apartheid provision in the conference by having the Senate members refuse to accept the House-passed language. However, the House has established a strong legislative record on behalf of this provision that will be difficult for the Senate to turn back. The House Banking Committee held a successful hearing, adopted the provision in subcommittee and debated it favorably in full committee. The full House adopted the provision as part of the committee-passed bill, and the Black Caucus has made its retention an important priority.

House Banking Committee chairman St. Germain has promised the Democratic members of his committee that he will insist in conference that the anti-
apartheid language be saved; he told the New York Times that "the Senate will just have to swallow it."

The Senate passed its IMF bill in early June by a much wider margin of 55 to 34, so House conferees are in a good negotiating position. While the Senate never considered the issue of South Africa, it did reject two amendments introduced by Senator Gordon Humphrey of New Hampshire and one by Sen. Jesse Helms of North Carolina to require opposition to loans to communist countries. Therefore, the House conferees can suggest that the House drop the language on communist dictatorships and that the Senate accept the anti-apartheid language as it originally stood.

Although the conferees have not yet been formally appointed, it is likely that the following senators will be among them -- from the Foreign Relations Committee: chairman and ranking minority member Charles Percy of Illinois and Claiborne Pell of Rhode Island, plus International Economic Policy Subcommittee chairman Charles Mathias of Maryland; from the Banking Committee: Chairman and ranking minority member Jake Garn and William Proxmire of Wisconsin, plus International Finance and Monetary Policy Subcommittee chairman John Heinz of Pennsylvania.

### 3. Critical statement by Sweden

On March 28 Swedish foreign minister Lennart Bodstrom redefined Swedish policy as follows:

The Nordic executive director should criticize the proposals for loans to South Africa and use such arguments against them as are in accordance with the statutes and purpose of the International Monetary Fund.

This statement brought Sweden very close to the position since adopted by the U.S. House of Representatives—that legitimate economic grounds exist to oppose IMF loans to South Africa.
During the September 5-6 meeting of Scandinavian foreign ministers in Stockholm, the issue was again discussed. Some press reports indicated that the foreign ministers agreed on an anti-apartheid stance in the IMF. However, it was not mentioned in the communique.

4. Norwegian parliament vote and other European developments

On May 20, a majority in the Norwegian parliament (all the non-governing political parties with the exception of the conservatives) supported the proposal that no IMF loans should be granted to South Africa. At a UN meeting on June 1, the Norwegian delegate, Ann Gjestland, explained that Norway does not want to politicize the IMF but is considering whether economic grounds exist to oppose loans to South Africa.

Scandinavia casts 3.33 percent of the votes on the Fund’s executive board. It did not take a position during last November’s board meeting on the South African loan.

During that meeting, Greece, Ireland, and Malta were the only West European countries to oppose the loan, and since their representation is shared with larger countries such as Italy and Canada, their votes did not register. However if the Scandinavian chair moves towards a negative stance, that along with the United States will break the front of Western countries in favor of the loan.

5. Opposition on the IMF executive board

At the November 3, 1982 executive board meeting five executive directors lodged strong technical arguments against the loan and two more reserved their position. Altogether the representatives of sixty-eight countries refused to support the loan—the greatest show of opposition in IMF
The story of that meeting is told in the Center's April, 1983 report, "A Billion Dollars for South Africa." Saudi executive director Yusuf A. Nimatallah said South Africa "had the capacity to borrow further from the private capital markets—on both a short and long-term basis—without straining its economy, as its credit rating was favorable, its debt service burden remained very small, its reserve position was relatively strong, and its per capita income was relatively high."

Therefore, he charged, South Africa was "taking advantage of the Fund's cheaper resources" rather than borrowing commercially.

"No convincing case has been made for the need of South Africa to draw," said Mohamed Finaish, representing fifteen other Arab nations. He cited an IMF forecast of a South African trade surplus for 1983. (The forecast has come true.)

The $689 million compensatory financing facility loan to South Africa "was a serious cause for concern," said A.S. Jayawardena, alternate executive director for India, Bangladesh, Sri Lanka and Bhutan.

"South Africa's creditworthiness, low debt service ratio, and large reserves did not place it in the category of needy member countries," executive director Ghassem Salehkhou of Iran charged.

Since the November meeting, executive board skepticism has only increased. In response to that pressure as well as economic developments in South Africa, on June 20 South Africa's representative to the IMF, D. T. Brand, told the executive board that South Africa would repay its IMF loan ahead of schedule because of the country's improved balance of payments.

A recent IMF staff mission to South Africa had requested consideration of an early repurchase, Brand told the IMF executive board, and Pretoria
agreed to it.

The South African move thus corroborated the arguments of the executive directors who contended that South Africa never really needed the loan but was merely taking advantage of the Fund's lower interest rates.

If South Africa had not agreed to the early repurchase itself, a number of the Fund's executive directors were planning to raise the issue. Richard Erb, executive director for the United States, was one of those intending to press South Africa to agree to an early repurchase.

Erb welcomed the South African announcement at the meeting of the executive board, convened to carry out its mid-term review of South Africa's standby arrangement concluded with the IMF last November 3.

In another significant development, the representatives of the two African voting blocs spoke out strongly against the IMF's original decision to grant the loan.

E. I. M. Mtei, an alternate executive director from Tanzania who represents that country and sixteen other black African countries in the Fund's scheme of pooled voting, said that South Africa never really needed the loan and that the announcement that it would repay early only demonstrated that further. His critique was echoed by another black African alternate executive director, wa Bilenga Tshishimbi of Zaire, who also represents twenty-two other sub-Saharan African countries in the Fund.

At the November 3 meeting of the executive board, that approved the original $1.1 billion loan, both of the African speakers reserved their positions. That stance was widely interpreted as insufficiently resolute. Indeed, South African newspapers claimed that black Africa had "helped" South Africa get the loan, basing themselves on a report that appeared May 5 in the Wall Street Journal.
Also, A. Hasnan Habib, executive director for Indonesia, representing Indonesia, Malaysia, Thailand, Vietnam, Singapore, Burma, Fiji, Nepal and Laos, spoke out against the original granting of the loan. The Indonesian chair had been vacant at the November meeting.

All the executive directors who spoke referred to the economic costs of labor market rigidities in South Africa, using the IMF's standard formula for referring to apartheid.

They had in front of them the May 19 IMF staff report referring to economic inefficiencies arising from labor market bottlenecks in South Africa, and several of the directors referred to that text.

The Scandinavian representative, who was also silent in November, referred this time to labor market constraints, saying his delegation was keenly interested in studying this matter further.

South Africa is now expected to make the first repayment before the end of the year. It would otherwise have a four-year grace period before beginning installment payments on the loan.

IMF staff now forecasts a current account surplus for South Africa in the current year—the year for which it received a billion dollars from the IMF.

The IMF charter requires that a member country prove a bona fide balance of payments need before receiving Fund financial assistance.


Dixon is sponsor of the measure that cleared the House floor August 3 that would have the United States oppose future loans to any country practicing apartheid.