THE IMF AND SOUTH AFRICA

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Southern Africa is in turmoil. The central cause of instability in the region is the impending necessary but difficult transition from white minority rule in South Africa toward a more open and democratic political system which will give the black majority a share of political power. The struggle in South Africa has come to involve in one way or another Angola, Namibia, Zimbabwe, and other regional states. Despite Reagan’s overtures to South Africa, the stated policy of the U.S. government has been to support transition rather than the status quo within South Africa and to oppose South Africa’s illegal occupation of Namibia.

Opponents of apartheid have advocated international economic tactics to encourage change within South Africa. These tactics generally involve interruptions of financial flows to and of trade flows to and from South Africa. The U.S. government has never supported efforts to interrupt flows of private funds or of trade. It has, however, taken some limited economic actions against South Africa. All channels of bilateral official aid from the U.S. government to South Africa have been cut off. Nevertheless, official aid continues to flow to South Africa from the U.S. and from other creditor countries through the International Monetary Fund as an intermediary institution.

1982: South Africa Turns Again to the IMF

Beset with a large and rising trade deficit, the government of South Africa has turned once again to the International Monetary Fund (IMF) for aid. In early February, 1982, it announced a drawing of $122 million from its reserve position in the Fund and declared its intention to borrow an additional $132 million through the Special Drawing Rights (SDR) account. When completed, these transactions will leave South Africa with a net debt to the Fund of some $250 million through the SDR account (see table 2 on page 3 and note defining net debt to the IMF). Given South Africa’s large trade deficit together with regional tensions that inhibit lending from foreign bankers, South Africa will likely seek more credits from the IMF later in the year. Just how much South Africa may want to borrow from the IMF is hard to say. In the mid-1970’s, when South Africa’s current account deficit averaged $2.1 billion for three years running, it borrowed over $500 million from the IMF. In 1981, South Africa recorded a current account deficit of $4 billion (see table 1). Under the Fund’s current rules, maximum IMF-to-South Africa loans could exceed $5 billion.

The International Monetary Fund, a Washington-based multilateral organization, collects contributions from and extends loans to member governments. The main lever of American public influence over this international organization is the requirement that the IMF periodically return to Congress for new replenishments. In 1980, the U.S. Congress voted a $5.3 billion increase in its share of support for the lending programs of the IMF. Although IMF and Treasury officials are vague on the subject, another multi-billion dollar U.S. contribution may be solicited from Congress in 1983 in connection with the IMF’s Eighth Quota Review. In this way, money from taxpayers in the United States—and in Canada, France, and other countries that are members of the IMF—continues to be channeled through the IMF to a white minority government whose entire fabric of law, institutions, and practices have caused it to be labeled the most racist government in modern times.

South Africa’s need for IMF funds continues to be governed by its large outlays for defense and by the insecurity felt by its foreign bank creditors. Bankers are sensitive to the domestic and international tensions generated by the policies of the South African government. Drawings from the IMF in early 1982 demon-
Table 1

South Africa's Current Account Balance, 1974-1981
(in $ billions)

<table>
<thead>
<tr>
<th>year</th>
<th>current account balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1974</td>
<td>-1.6</td>
</tr>
<tr>
<td>1975</td>
<td>-2.6</td>
</tr>
<tr>
<td>1976</td>
<td>-2.0</td>
</tr>
<tr>
<td>1977</td>
<td>+0.3</td>
</tr>
<tr>
<td>1978</td>
<td>+1.4</td>
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<tr>
<td>1979</td>
<td>+3.4</td>
</tr>
<tr>
<td>1980</td>
<td>+3.6</td>
</tr>
<tr>
<td>1981</td>
<td>-4.0*</td>
</tr>
</tbody>
</table>

*estimated

Source: IMF, International Financial Statistics

Patterns of IMF Aid to South Africa

By extending credit to South Africa in early 1982, the IMF has continued a practice pursued by no other major multilateral organization. In 1976-77, the IMF extended $464 million in credits to the government of South Africa. In 1979-80, the IMF passed on $117 million in credits to South Africa through the Special Drawing Rights account. While loans are generally repaid to the IMF over a matter of three to five years, South Africa has sought new loans to replace the old ones and has remained in debt to the IMF almost continuously since 1975 (see table 2 on page 3). It has done so despite the fact that for much of the period it was experiencing good times fueled by high gold prices. Other African countries with comparable economic situations—Libya and Nigeria—have been large and consistent net creditors to the IMF.

IMF aid to member governments is provided in the form of potential as well as actual loans. Potential loans from the IMF provide financial security for member governments and thereby facilitate their access to other sources of international credit. Potential loans from the IMF are particularly significant to South Africa because the volume of its international receipts is highly unstable. South Africa relies on income from gold with its volatile price movements and on unstable inflows of private foreign investment and foreign bank loans. Foreign investors and bankers watch for changes in South Africa's export earnings, its domestic political situation and in the policies of major Western nations toward South Africa. Should they fear that they might not be able to get their money out in the future, they will hold back today. It is here that the IMF has its biggest impact in support of South Africa. Its $5 billion in potential loans to the country provide foreign investors and bankers with the security they need to maintain current flows of private funds to South Africa.

South Africa continues to borrow heavily on foreign private financial markets. To date, those working to stop such loans have organized campaigns against individual bank creditors and have lobbied governments of creditor countries to prohibit private loans to South Africa. With such tactics, however, opponents of loans to South Africa must be successful with all banks or with all major creditor countries if they are to be successful at all. If Chase Manhattan cuts loans to South Africa, Citibank could make up the difference. If the United States prohibits loans to South Africa from its private banks, British or Canadian banks could step in. On the other hand, action focused on the IMF has a global impact. The single most effective avenue to limit private foreign bank loans to South Africa is to restrict South Africa's access to loans from the IMF.

Political Issues in IMF Aid to South Africa

An international effort is currently under way—with the support of the UN General Assembly—to bring member governments in the IMF to vote South Africa ineligible for IMF aid. Many Western governments, including the government of the United States, have already cut off all bilateral official credits to South Africa. Cutoff of multilateral official aid through the IMF would increase pressure for change in apartheid and in the foreign policies of the South African government. Cutoff of official multilateral aid to South Africa is a logical next step before any trade embargo.

Major Western nations have resisted efforts to cut off IMF credits on the grounds that the IMF is an economic, not a political organization and should not pay attention to issues such as the internal racial policies of the South African government, the illegal occupation of Namibia by South Africa, or the belligerent policies of South Africa toward neighboring states such as
Angola. On the other hand, critics of IMF aid to South Africa see the decision to continue such aid not as an apolitical economic decision but as a highly political expression of support for the white minority government. They point out that South Africa needs IMF aid—and has used IMF money—to help pay for arms and to calm foreign bankers’ worries about racial strife in South Africa.

The charter of the IMF permits the IMF to declare a member ineligible for IMF money on the basis of some reasonably vague clauses discussing purposes of the Fund and obligations of the members. These clauses can be seen as internal evidence that when the Fund’s charter took shape during World War II, leading governments intended to design a system that would permit them to block credits to member governments for such behavior as Italy had demonstrated before the outbreak of World War II in the invasion of Ethiopia or Germany had demonstrated with its annexations of Austria and Czechoslovakia. Designed as a multilateral institution to work for international order, the Fund was not to be indifferent to behavior by member nations that threatened world order. Therefore a good case can be made that the Fund is not operating in accord with its intended role as it extends loans to South Africa despite impending racial strife within South Africa and despite the destabilizing impact of aggressive South African policies against neighboring African states.

### The Political Impact of IMF Loans to South Africa

In 1976-77, the International Monetary Fund extended $464 million in credits to South Africa through two programs, including the standard IMF loan program (in which borrowing governments are obliged to make changes in domestic and international economic policies as conditions for loans) and the Compensatory Financing Facility (in which the borrower is obliged to demonstrate a shortfall in export revenues as a condition for the loan). These loans coincided with two highly political developments—a massive jump in the South African defense budget and the Soweto riots with their disintegrating effect on investor confidence. IMF credits in 1976-77 just about matched the $450 million increase in the South African defense budget from fiscal year 1975-76 to fiscal year 1976-77. Although the IMF asked South Africa to hold the line on government spending and to restrain import expenditure as conditions for the major 1976-77 loan, nothing was said to limit the South African defense budget or to force cutbacks in arms imports. Moreover, in the aftermath of the Soweto riots, these 1976-77 loans gave a clear indication to foreign investors and bankers that despite increasingly violent repression of the majority black population, major Western governments would continue to provide the South African government with financial support through the IMF.

From internal IMF documents it is clear that decisionmakers at the IMF were aware of increases in defense spending and of the political genesis of South Africa’s economic problems. One IMF study noted “an increase of close to 40 percent in defense expenditures” in the 1976-77 budget. Another document reported that “high levels of spending on defense and strategic stockpiling” contributed to current account deficits during the mid-1970’s. In an elliptical reference to the Soweto riots, IMF documents reported that “private long-term capital inflow in 1976 was much lower than in 1975 . . . political considerations may have played a role.” Another document noted a “difficult period” for the South African economy “due to a number of factors including . . . political uncertainties at home . . .”

In 1979-80, the IMF channeled another $117 million to South Africa through South Africa’s net use of Special Drawing Rights (SDRs), a form of IMF script money. During this two-year period, South Africa had no apparent need for IMF loans, for gold prices soared, giving the country large trade surpluses. Since South Africa is obligated to buy back the SDRs in the future in a variety of situations to be determined by the IMF, net use of SDRs is tantamount to a loan from the IMF. Borrowing by South Africa in 1979-80 presumably

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### Table 2

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Debt (−) or Credit (+)*</th>
</tr>
</thead>
<tbody>
<tr>
<td>1974</td>
<td>+40</td>
</tr>
<tr>
<td>1975</td>
<td>−54</td>
</tr>
<tr>
<td>1976</td>
<td>−421</td>
</tr>
<tr>
<td>1977</td>
<td>−536</td>
</tr>
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<td>1979</td>
<td>−243</td>
</tr>
<tr>
<td>1980</td>
<td>−14</td>
</tr>
<tr>
<td>1981</td>
<td>+2</td>
</tr>
<tr>
<td>End of Feb. 1982</td>
<td>−118</td>
</tr>
</tbody>
</table>

*Net debt or credit to the IMF is figured as use of Fund credit by the IMF definition, plus net use of SDRs, less a country’s reserve position in the Fund (using end-of-year data except for end of February data for 1982). Net use of SDRs—which leaves a nation with holdings below allocations—is equivalent to a loan through the IMF. This equivalence is clear from several sections in the IMF’s Articles of Agreement. Net use of SDRs gives the member nation a net financial obligation to the IMF to the extent of the SDRs payable whenever a member leaves the IMF (see Article XXIV, Section 2(b)) or whenever the SDR department is dissolved (see Article XXV, Subsection (a), and Schedule I). Under such circumstances, each member owes the IMF the value in convertible currencies of the SDRs it has been allocated. Similarly, the IMF owes convertible currencies to each member up to the value of the SDRs held by each member. Nations which are net users of SDRs have net debts to the IMF while nations which are net receivers of SDRs have net claims on the IMF through the SDR account.
helped South Africa to conserve on gold sales so as to maintain a high world gold price.

Although South Africa reduced gold output and sales, gold prices fell and a large trade deficit opened up in late 1981. This reduced the strength of the government in the face of mounting domestic and foreign opposition to its policies. Pressed by financial and political difficulties, it turned to the IMF in early 1982.

**UN Investigation into IMF Relations with South Africa**

The International Monetary Fund began operations in 1947 and shortly thereafter negotiated an agreement defining its status as a specialized agency of the United Nations. Through this agreement, the United Nations recognized the role of the IMF as an international lending agency, while the IMF agreed to pay attention to the opinions of the United Nations on matters of mutual interest. Although the agreement is in no way binding, the possibility that the United Nations could cancel the agreement and thereby sever formal relations with the IMF does put pressure on the IMF to respect UN wishes.

Beginning in 1967, the UN General Assembly has adopted a series of resolutions calling on the IMF and other specialized agencies within the UN system to withhold financial, economic, technical, and other assistance from the government of South Africa until such time as South Africa abandons its apartheid policies at home and restores to the people of Namibia their right to self-government and independence. These resolutions have grown increasingly critical of IMF relations with South Africa.

IMF loans to South Africa in 1976 and 1977 were investigated at the United Nations in hearings by the Special Committee Against Apartheid. On February 1, 1978, Jim Morrell and David Gisselquist of the Center for International Policy testified before the Special Committee Against Apartheid that the IMF “helped to finance the South African government’s policy of belligerent confrontation towards those opposed to its internal racial policies.”

Three years later, in March 1981, Jim Morrell made another trip to the United Nations in New York to tell the Special Committee Against Apartheid about new loans for $117 million from the IMF to South Africa. A UN press release extensively reported his testimony: “... no factor [is] more important in facilitating South Africa’s access to private bank loans than its continued utilization—and abuse—of the resources of the IMF. It had generally been assumed that IMF loans to South Africa ended in 1977, when South Africa drew down the last installments of its stand-by arrangement of August 1976... However, research done by the Center [for International Policy] had uncovered new IMF loans worth $100 million since 1979. The loans came out of the special drawing rights (SDR) account.

The new loans from the IMF to South Africa that were discussed in testimony before the Special Committee Against Apartheid drew interest from another committee of the United Nations. The Subcommittee on Petitions, Information, and Assistance of the Decolonization Committee also wanted to hear what the IMF had lately done for South Africa. The Decolonization Committee is charged with investigating the conditions and the progress toward independence of colonized peoples, including the people of Namibia. On May 4, 1981, the subcommittee heard testimony by David Gisselquist and Jim Morrell reviewing the history of IMF collaboration with South Africa and detailing the new loans given to South Africa by the IMF:

The government of South Africa has had a close and profitable relationship with the International Monetary Fund from the time it began operations in 1947. This relationship has become increasingly important to the South African government as a bulwark against international pressure for change.

In the period 1979 through 1980, South Africa was able to use (in net terms) an amount of SDRs worth about $118 million [actual figure: $117 million]. The government of South Africa borrowed this sum through IMF channels during a period when it had no apparent need.

One week later, the IMF’s Special Representative to the United Nations, Mr. Jan-Maarten Zegers, appeared before the same group and denied that any new loans had gone to South Africa. A follow-up letter to the subcommittee from Mr. Zegers reiterated this denial, attacking earlier testimony that had described recent IMF-to-South Africa loans. In the letter, the IMF’s Special Representative offered “to correct some inaccuracies which found their way into the statement of Fund relations with South Africa.” He went on to assert that “the facts do not provide any support” for the assertion that South Africa borrowed $117 million from the IMF in 1979-80.

The UN subcommittee took a close look at the facts and concluded that earlier testimony was accurate while the testimony of the IMF’s representative had been misleading. The subcommittee in its report on the proceedings showed deep concern with continued IMF support for South Africa.

The Sub-Committee deeply deplores in particular the continued collaboration between the International Monetary Fund and South Africa in disregard of General Assembly resolution 35/29 of 21 November 1980 and other relevant resolutions of the General Assembly. The Sub-Committee is also of the view that South Africa’s continued membership in the Fund, and its consequent ability to borrow money from it when necessary, not only flies in the face of repeated General Assembly resolutions but also enables South Africa in turn to borrow more and on better terms in private international financial mar-
kets, thereby playing a key role in buttressing the racist minority regime and in enabling it to pursue its illegal occupation of Namibia and its acts of aggression towards its neighbors.

The subcommittee also called for an in-depth study on the relationship between the IMF and South Africa.

Within the UN structure, the next level for action was the Decolonization Committee. On August 12, 1981, this committee issued its report, citing "persistent collaboration between the International Monetary Fund and South Africa" and calling on the IMF "to put an end to such collaboration." The committee recommended that the General Assembly ask the board of governors of the IMF (under authority granted to the United Nations in the 1947 UN-IMF agreement) to reexamine IMF aid to South Africa.

**Working for a Cutoff of IMF Aid to South Africa**

On November 24, 1981, the UN General Assembly voted 84 to 22* with 29 abstentions to ask the board of governors of the IMF to put on its agenda the issue of IMF relations with South Africa. Despite this lopsided vote against South Africa in the UN (where each nation has one vote) it will be an uphill struggle to get a vote against South Africa out of the board of governors of the IMF (where votes are weighted roughly according to the economic strength of nations). Each member of the IMF—and there are currently more than 140 member countries—appoints one governor to the IMF. The governor representing the United States wields 20 percent of total votes, nearly three times the voting strength for the United Kingdom—the country with the second largest vote in the Fund—and nearly three times the voting strength for all black African nations together (with the exception of South Africa). Of the twenty-two votes against the General Assembly resolution, most were cast by countries with large votes in the Fund.

Typically, votes of governors in the IMF are controlled by the treasury departments of the governments they represent, and the votes and other actions of governors are not widely discussed within their governments. This means that governors at the IMF often exercise the banking and business biases of treasury officials without respect for opinions and positions more widely held within the governments or populations they represent. Among the group of countries against asking the IMF to put South Africa on its agenda are many which in other situations have taken forthright positions against the white South African government. They might well be receptive to arguments for cutting IMF aid to South Africa if such arguments were brought to their attention.

Within the IMF's board of governors, a cumulative total of 50 percent of weighted votes would be sufficient to declare South Africa ineligible for IMF money. This total could be made up of some 20 percent for the weighted votes of non-oil, less developed countries, 10 percent for oil exporting countries, a little over 3 percent for the Scandinavian countries, plus some votes from other European countries. France, with the fourth largest vote in the Fund, a socialist government, and an outspokenly critical position on South Africa, could be a key country.

Even if efforts to declare South Africa ineligible for IMF funds fail short of support by 50 percent of weighted votes, the process of reviewing South Africa's relations with the IMF effectively raises doubts that South Africa will be able to go to the IMF for loans. The IMF periodically asks for injections of more funds to pay for its expanding lending programs. To get more funds, approval by the legislatures of member governments can be a difficult hurdle; this is particularly true for the United States, where bills to inject new money into the IMF faced some skepticism in Congress in 1978 and 1980. With an increase in public awareness of the facts and implications of IMF aid to South Africa, the U.S. executive branch and IMF officials will have to weigh the risk that an unpopular loan to South Africa could jeopardize future funding increases for the IMF. Consequently, any success in organizing public opposition to IMF loans to South Africa serves to discourage such loans even if South Africa is not formally declared ineligible.

Insofar as the IMF is put on notice that it cannot quietly slip one or two billion dollars to South Africa, private foreign investors and bankers will see that their investments in and loans to South Africa are not automatically protected by the IMF. Success in getting the IMF to declare South Africa ineligible for loans is, hence, not an all-or-nothing proposition.

As long as the IMF stands behind South Africa with billions of dollars in potential loans, the major Western nations with large votes in the IMF effectively signal their support for the status quo in that country. South Africa's defense expenditures are not likely to lessen in the near future; and if gold prices remain at their present level, large trade and government deficits will prompt the South African government to apply for still more aid in 1982 and 1983. Whether the IMF approves these requests, as it has in the past, will depend, in part, on the protests of apartheid's opponents throughout the world. Effective pressure could force a withdrawal of IMF support; and this, in turn, would make private banks less willing to extend credit. The South African government would then have to cut back its imports of arms and other goods. Such cutbacks would reinforce internal political pressures for change.

*Those opposed were: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Federal Republic of Germany, Greece, Iceland, Italy, Japan, Luxembourg, Netherlands, New Zealand, Norway, Paraguay, Sweden, United Kingdom, United States, and Uruguay.