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THE IMPACT OF THE INTERNATIONAL MONETARY FUND ON THE DEVELOPMENT OF SOUTH AFRICA

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A DISSERTATION IN PARTIAL FULFILMENT OF THE REQUIREMENTS OF THE MASTERS IN INTERNATIONAL RELATIONS

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ABSTRACT

This paper looks at the relationship between the (International Monetary Fund) IMF and South Africa (SA) between the 1950's and 1980's. South Africa was still under apartheid rule with racial discrimination of the black majority. The IMF did assist SA during this period despite this human rights violation on black people. The main variables that will assist in bringing out the impact of IMF on SA are unemployment, balance of payments, fiscal and monetary policy. This thesis brings out the effects of the policies on the majority of South Africans during the period in question. Information used in this paper was mainly from journals and textbooks. A brief history of the relationship with Zambia and the IMF is also included in this study. This paper shows that the IMF policies had more negative outcomes than positive outcomes on South Africa.

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DEDICATION

This paper is dedicated to my parents, Professor L. Gwanzura and Mrs. C. Gwanzura.

LIST OF ACRONONYMS USED

BOP	**BALANCE OF PAYMENTS**
CFF	**COMPENSATORY FINANCING FACILITY**
COSATU	**CONGRESS OF SOUTH AFRICAN TRADE UNIONS**
IFI	**INTERNATIONAL FINANCIAL INSTITUTION**
IMF	**INTERNATIONAL MONETARY FUND**
NP	**NATIONAL PARTY**
SA	**SOUTH AFRICA**
SAP	**STRUCTURAL ADJUSTMENT PROGRAMME**
SDR	**SPECIAL DRAWING RIGHT**
UK	**UNITED KINGDOM**
UN	**UNITED NATION**
US	**UNITED STATES**

CHAPTER 1

1.1 TOPIC: THE IMPACT OF THE INTERNATIONAL MONETARY FUND ON THE DEVELOPMENT OF SOUTH AFRICA

1.2 INTRODUCTION

This paper seeks to establish the impact of the International Monetary Fund (IMF) on the development of South Africa. Is the IMF the answer to many developing countries problems? Does South Africa (SA) need IMF assistance? This study will highlight the economic, social, and political aspects of South Africa which are relevant to the study and how the IMF has helped or hindered South Africa's development.

1.3 BACKGROUND

This section will include details of the IMF and will highlight some policies made by the IMF for (SA) South Africa.

"The IMF is an international organization that oversees the global financial system by following the macroeconomic policies of its member countries through the impact on exchange rates, balance of payments as well as offering financial and technical assistance to its members."[1]It should be noted that macroeconomics concentrates on the behavior of entire economies for

[1] www.imf.org - International Monetary Fund – Wikipedia, the free encyclopedia.

example the overall price level, unemployment rate and inflation. These indicators will be included in this study to link the IMF and SA.

"The IMF was established in 1944 to act as the policeman and manage the Bretton Woods System after the Second World War. Using funds contributed by member countries, the IMF aimed to build economies in the world affected by the war. This was done especially to countries that were running low on reserves by providing loans to them."[2]

Baumol and Blinder indicate that, the role of the IMF has changed from the police officer of fixed exchange rates in the Old Bretton Woods system to a general purpose international fire and rescue squad. It usually examines the economies of all member nations on a regular basis and when a country runs into serious financial difficulties, it may turn to the Fund for assistance. The IMF provides loans, but with many strings attached. For example, if the country has a large current account deficit, the Fund will insist on contractionary fiscal and monetary policies to restrain the country's appetite for imports, but this often leads to recession. Some critics complain that the Fund sets strict conditions on its client states, requiring them to cut their government budgets and raise interest rates in a recession and this worsens the situation.[3] A cut in government budgets leads to an increase in the unemployment level due to cuts in civil service, a decrease in government ownership of services through privatization of water and electricity services.

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[2] www.imf.org – International Monetary Fund

[3] William J. Baumol, Alan S. Blinder, 2001, Economics, Principles and Policy – Eighth EDITION, Harcourt College Publishers, p765

According to Carol Welch (1998), "the IMF was created to solve short-term, external imbalances in debtor country economies, but it has moved beyond its original role. The IMF does not have the expertise to provide the far-reaching policy prescriptions that it ties to its loans. The institution has also discussed ways it can have credentials to judge good governance, telling countries to become more transparent and efficient even though the IMF still maintains a high level of secrecy."[4] Only if a member consents does the IMF publish the article to the public.

In 1948, Afrikaner Nationalists in South Africa came to power, with a racial rule which was called apartheid. They were determined to ensure white supremacy and to destroy the black population segregating their residence, employment and education. In the name of apartheid, more than three million people were uprooted from their homes to satisfy government planners and many were imprisoned for acting against the rules of the government of SA (Martin Meredith; p117, 1988). This brief background of SA showed that the white population had benefited more than the black population, as they had freedom to have the best homes, jobs and education.

"The International Convention on the Elimination of All Forms of Racial Discrimination (CERD) of 1965 is on of the oldest of the six core instruments of the United Nations on the protection of human rights. The Convention prohibits any discrimination on the basis of "race, color or national origin". The two International Covenants on human rights adopted by the UN General Assembly one year later expand the prohibition of discrimination and prohibit unequal treatment on the basis of "race, colour, sex, language, religion, political or other opinion, national

[4] Carol Welch –October 1998, The IMF and Good Governance – edited by Tom Barry and Martha Honey, Foreign Policy in Focus, Volume 3, no. 33.

or social origin, property, birth or other status."[5] Although some members of the IMF were members of the UN, and had agreed on the terms of the above declaration, they continued to loan SA, despite the racial discrimination occurring in the country.

In addition, Gay J. McDougall is of the view that the General Assembly had condemned the aggressive acts done by South Africa against neighboring States and confirmed "that the policies and actions of the apartheid regime constitute a threat to international peace and security." An example one may refer to is resolution 34/39 A adopted by the General Assembly in 1979. The Security Council, in its resolution 387 (1976), had condemned the aggression committed against the People's Republic of Angola.[6] South Africa had been convicted by the General Assembly and the Security Council of the United Nations of having committed serious violations of international law because of its institutionalized system and policy of racial segregation and racial discrimination, which constitutes a gross violation of the principles of equality and self-determination, and the barbaric acts of terror which are committed on a mass scale against the black majority in order to maintain the system, constituting a massive violation of fundamental human rights.[7] Although SA had committed the above international crimes, this thesis will show how the IMF continued to assist the country ignoring the UN mandate not to loan SA until it had removed its apartheid policies.

"Under certain conditions, SA can borrow its total quota from the Fund under normal Fund policies, subject to the implementation of certain prescribed macroeconomic policies. In 1998, SA had no borrowings outstanding from the Fund. As a member of the IMF, SA had the right to

[5] Principality of Liechtenstein, www.liechtenstein.li- The UN Convention on Racial Discrimination (CERD) of 1965, p1
[6] www.anc.org.za – Gay J. McDougall, Apartheid, South Africa and International Law Part 7, p4
[7] Ibid, p9

be represented on the Executive Board of the Fund which consisted of 24 Executive Directors representing all members. The country joined the English speaking group of twenty African countries for this purpose and is given the opportunity on a rotation basis amongst the members of the group to appoint an Executive Director to the Fund." Therefore South Africa had a better position than most African countries. The 24 executive directors of the IMF are responsible for the Fund's general operations. They exercise all the powers delegated to them by the Board of governors. They meet as often as business requires them. Five of the directors are appointed by the countries having the largest quotas namely the United States, Japan, Germany, France and the United Kingdom and the other nineteen are elected by regional groups of the remaining members. [8]

Patrick Bond (2001) sees most southern African countries as being pressurized into implementing IMF programmes which affect employment and standards of living. He goes on to say that the relationship between SA and the IMF should protect the domestic policy formulation and promote the interests of the South African population and economy. But this had not been the case. During an interview at the Daws World Economic Forum in 2001, George Soros confirmed that "*SA is in the hands of international capital*." SA is being controlled by the activities in the international arena and some of the IMF members mainly the (US) United States and (UK) United Kingdom were keen on providing loans to SA. The South Africa government had promised its people a national project that would make their lives better by providing them with basic services such as electricity and water in all areas including black townships such as

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[8] Mr. Chris Stals -04/02/09 - Mr. Stals reviews the 1998 IMF and World Bank annual meetings presentation by the Governor of the South African Reserve Bank, to the Portfolio Committee on Finance in Cape Town, South Africa

Soweto. This did not happen as the government embraced globalization with a new zeal as they concentrated on infrastructural development to lure foreign investors, and how their currency was performing on the international market. This resulted in the rich getting richer and the poor getting poorer.

The IMF institute has affected South Africa's economic policy formulation. The Minister of Finance, Trevor Manuel raised questions relating to the internal governance structure of the IMF and the access of developing countries to IMF resources.[9] Manuel in 2000 in Washington "told a press briefing that he would push for structural changes within the IMF arguing there was need for change in the shareholding, the shaping of the constituencies and the operations of the institutions." He also noted that "poor countries are ignored and the ordering of the constituencies tends to weaken the voices of the poorest members. The selection of the Managing Director of the Fund was criticised for not being transparent and excluding the majority of the world's population."[10] In this paper more will be discussed on how the internal governance of the IMF affected loans to South Africa.

1.4 STATEMENT OF THE PROBLEM

The problem to be solved is whether the IMF has had an impact on the development of South Africa. The study will highlight the policies made by the IMF to South Africa.

[9] Brian Kahn – Bonn 2000;6 - Studies on International Financial Architecture – Debates over IMF reform in South Africa: IMF Special – Fredrich-Ebert-Stifung

[10] Ibid 2000;6

1.5 PURPOSE OF THE STUDY

This study seeks to explain the effect of the IMF on the development of South Africa. It will include the history of South Africa dwelling on the apartheid period when SA received most of the assistance from this institute.

1.6 RESEARCH QUESTIONS

a) What are the programs the IMF has introduced to South Africa?
b) What are the conditions the IMF has made for SA to receive loans?
c) Are there suggestions for the IMF to assist in certain areas of SA?
d) What are the results when there is a comparison of the impact of IMF on SA and Zambia?
e) Why has the IMF'S role been criticised especially in Africa? (that is its governance structure and conditions)
f) What are the history of IMF and SA?

1.7 DELIMITATIONS OR SCOPE OF STUDY

This study will concentrate on the period 1957 to the 1980's which was during the apartheid period, with some reference points to the post apartheid period in South Africa.

1.8 LIMITATIONS

Although the study will be comprehensive there exist some weaknesses. Limitations will arise in generalising the data from the various authors as they could be biased to a certain viewpoint.

1.9 RESEARCH METHODOLOGY

The research method will mainly be descriptive and historical in nature tracing the history of South Africa in connection with the IMF. The sample will mainly cover 1950's to 1980's.

2.0 DATA COLLECTION

The data used was mainly sourced from a review of previous studies done on the impact of IMF on South Africa and on literature that is relevant to the topic. This mainly originates from the internet as distance and resources are limiting factors to gathering data from the primary source. Relevant textbooks and journals are included as part of the collection of data. Therefore the data will be sourced mainly from desk reviews.

2.1 DATA PRESENTATION

The presentation of the data is descriptive with some analysis of facts cited in the text.

The paper starts with a literature review and then highlights the loan agreements between the IMF and SA. Research findings follow this chapter. There is a brief case study of Zimbabwe and Zambia and the last chapter consists of the conclusion and recommendation

CHAPTER 2: LITERATURE REVIEW

This section mainly consists of what theorists say about the impact of the IMF on South Africa and African countries in general and also show the path of prior research. Some theories and terms are defined which are used in this study.

> "According to Patrick Bond, the apartheid state received $100 million in world bank loans during the 1950s and 1960s which was used for the electrification of white households and another $100 million to construct railways upon which black workers were transported from their distant township homes to work in industrial sites. When the apartheid regime began experiencing economic and political problems during the 1970s, the IMF was quick to lend a helping hand – more than 2 billion in balance of payments support was received. By 1983, the U.S. anti-apartheid movement put a stop to any further lending, but during the 1980s, these loans were repaid by society as a whole, even though black South Africans were by no means their beneficiaries."[11] This author brings out the positive impact of the IMF loan to SA. The loan had assisted in the construction of roads, infrastructure and industrial sites. This created employment for the population and attracted foreigners to seek employment in SA up to this date.
>
> Although the majority of South Africans suffered during the apartheid period, the IMF loans assisted in the development of the infrastructure and economy of the country. Vishnu Padayachee "identifies SA as one of the 29 countries that signed the IMF Articles

[11] Patrick Bond, Article in Left Business Observer no. 95, November 2000, Africa the IMF and Bank are gone

of Agreement on 27 December 1945. This author also has the view that SA's development was mainly because of the flow of international capital and technology. SA had also opened its economy to the world, increasing trade with other countries. In the 1960's there was a significant increase in foreign investment to SA which contributed to the growth of the economy. It seemed that the IMF regarded SA as the key to its plan for the economic development of Southern Africa. The aim of the Fund was to influence these nations to have open economies and increase business transactions with SA. In 1980, Zambia was asked to reopen its trade routes to SA in return for IMF assistance." (Vishnu Padayachee; 1987) Therefore if Southern African countries increase business transactions with SA, they would be mainly importing the finished goods as SA was at a higher level of development than most countries. Countries would opt for importing goods as they did not have the required funds to develop their industries. This also creates a dependency on SA for most goods, which can be seen even in the 20th century.

"The IMF was originally formed to promote steady growth and full employment by offering unconditional loans to economies in crises and establishing mechanisms to stabilise exchange rates and facilitate currency exchange. Pressure from the US government made IMF start offering loans based on strict conditions. Critics have said these policies have reduced the level of social safety and worsened labour and environmental standards in developing countries. IMF's conditions focus on monetary and fiscal issues. They emphasise programmes to address inflation and balance of payment problems, often requiring specific levels of cutbacks in total Government spending."(www.imf.org – International Monetary Fund).

> According to Charles Mutasa, the Executive Director of AFRODAD (African Forum and Network on Debt and Development, March 2007), "when countries in sub-Saharan Africa became independent, the state dominated the provision of utilities. However, in the 1980s the debt crisis and the ensuing contraction of budgets prompted a reappraisal of public sector provision. Donors began lobbying for the restructuring of public services; by the 1990s, they were demanding full scale privatisation. Many African governments in the name of good governance, competition and deregulation were forced to comply in exchange of balance of payment support and that it was a way to lure private investors..."

Mutasa (March 2007) goes on to cite the International Financial institutions "as responsible for the development set back and its consequences. They owe the affected a form of recompense. Cancelling debts and mere policy shifts are not enough. Most of the public providers of utilities in sub-Saharan Africa need substantially more financing, especially for investment in extending service provision. They are trapped in a vicious circle of deteriorated infrastructure, high system losses, high costs and low revenue." Looking at most African countries the governments are struggling to provide basic services to the local people as they cannot raise enough income from taxes.

Professor Adedeji observes that, "The designers and proponents of SAPS (Structural Adjustment Programmes), most of them from the Western industrialised market economies and distinguished senior executives of International Financial Institutions, are primarily the victims of their lack of proper understanding of the nature of underdevelopment in general and the African political economy. This superficial understanding has led them to the error of extrapolating, globalising and universalising the experiences of their own societies and economies. SAP is a disjointed combination of IMF and World Bank programmes, with consequential disjointed character."[12] This view of SAP programmes is quite true as SAPs introduce stringent conditions to countries such as a decrease in fiscal expenditure affecting the general development of the country.

During the 1980s and early 1990's, the IMF introduced conditional lending to African states in return for a commitment to prescribed economic governance reforms. The IMF conditionality's focussed primarily on economic reforms, with very little attention given to the political governance of the states in receipt of the IMF loans and packages. [13] However, in the mid-1990's, it had become apparent that the SAP's were in the majority of cases failing to have the desired impact on economic growth and development because:

a) "One reason put forward for a lack of economic and social development based on structural reforms was that the implementation of the SAPs was never fully and properly implemented, and in some cases was actively resisted by the government and state institutions" (Thomas 2001). This viewpoint is supported by theorists who argue that the fundamental adjustments sought by the Bretton Woods institutions never materialised in practice due to poor implementation and resistance to the SAPs.[14]

[12] Prof Adebayo Adedeji: Africa and Orthodox Structural Adjustment Programmes: Perception, Policy and Politics.
[13] APRM Toolkit – EISA – 2007, Literature review
[14] Thomas M., " Getting Debt Relief Right" in Foreign Affairs 80(5), September/October 2001

b) An alternative hypothesis regarding the failure of the SAPs to stimulate the desired economic rejuvenation in African states is that they focused on the wrong priorities in attempting to achieve this aim (Chazan et al 1992)."[15] As can be seen in most states including Zambia and Zimbabwe, after the SAP programmes were implemented there was a negative effect as unemployment increased, industry was affected as it was difficult to save and invest in, due to the unstable economic environment. IMF seems to be giving the wrong policy advice to developing nations and seems to be creating a dependency syndrome that Africa will not be independent.

Mercantilists advocate increasing a nation's wealth by encouraging production, increasing exports and holding down domestic consumption. IMF policies to country's that access these loans are often given conditions similar to the mercantilists view. "The Dependency approach of Andre Gunder Frank (1967) emphasise the dependency of peripheral states on core states. Daniel Chirot (1977) argues that core countries affect the policies peripheral economies decide on."(Stephan Andreasson; 2001).

"The major argument in the Liberal economic theory is economic liberalisation which will assist in the increase of flow of foreign investment into the developing countries, as a result of the easing of trade and exchange restrictions. This theory's main aim is to create a market society on a global scale with every member in the international community playing a part; to improve trade balance and encouraging a net capital inflow. The IMF and the World Bank for example, make the provision of finance or in this case debt, to developing societies conditional on their

[15] Chazan, N Moritmer, R, Ravenhill, J and Rothchild,D, " Africa and the World Economy" in Policy and society in contemporary Africa, 2nd Edition, Boulder: Lyne Reiner, 1992

acceptance of free market rules for their economies, the conditionality of the so called – structural adjustment programme (SAP). [16]Just as in day-to-day life when an individual gives certain colleague money or any form of capital resource, that individual will have power over the friend for that period. The borrower will either tend to always assist the lender to ensure that the individual will always help in times of need. Therefore countries that receive loans are at the mercy of the IMF conditions to ensure they always have the organisation to assist them."

According to imperialists, advocacy for democracy of colonies by imperial powers or developed powers is still a continuation of colonialism as these colonies still depend on their imperial masters as they purchase their agricultural and mineral produce, determining the level of technology and development of the country. The IMF and World Bank are largely controlled and owned by the development nations such as USA, Germany, UK and Japan. "The US for example controls 17 to 18 percent of the voting right at the IMF. When an 85 percent majority is required for a decision, the US effectively has veto power at the IMF.[17] For an IMF loan to a country, there would be a structural adjustment of their economies, meaning the economic direction of each country would be planned, monitored and controlled in Washington."[18]

"The neoliberal agenda of IMF reforms and the dismantling of 'legitimate African institutions and frameworks' for development has also been advanced as reason for the continents

[16] Thomas D. Lairson and David Skidmore, International Political Economy, The Struggle for Power and Wealth, Third Edition, Thompson – Wadworth, USA, 2003, p254

[17]Stefan Andreasson, Divergent Paths of Development: The Modern World-System and Democratisation in South Africa and Zambia, Journal of World Systems Research,VII, Fall 2001, p2
[18] Ibid, p2

underperformance. African commentators such as Samir Amin, Claude Ake, Adebayo Adedeji and others have argued that the reforms pressurised onto African governments under disadvantageous circumstances by the IMF eroded the likelihood and capacity for regional cooperation between African states in an attempt to solve their shared development issues"(Keet 2002). They contended that if structural reforms were to have any value, they needed to take place within the context of regional cooperation between African states. They further argued that the fundamental relationship between Africa and the donor community needed to be restructured to ensure African stakeholders had a greater say in the solutions to their own problems. [19]

According to the African anarchism webpage, "neoliberal policies seek to reduce state control over the national economy in favour of private capitalists or 'free-market'. These policies have been mostly applied in Africa as the policies promoted by the International financial institutions (IFI's), the World Bank, IMF and WTO (World Trade Organisation). African countries have to borrow money to finance the public sector and to service their existing debt, which they receive from the IMF but with conditions attached to the loans. In the 1990's, neoliberalism can be seen in SA in the privatisation of state owned corporations such as electricity, water and transport, which has led to price increases thus making it difficult for the poor to access these services. In South Africa, electricity and water cuts have become common in the townships of Soweto. The IMF also promotes policies for a flexible workforce, meaning that large scale subcontracting of labour and a reduction in worker's rights, wages and conditions. Workers at Wits University in

[19] Keet, D, The New Partnership for Africa's Development and the African Union: Unity and Integration within Africa or Integration of Africa into the global economy, 2002, Alternative Information and Development Centre, Reprinted 2004

Johannesburg saw their salaries cut by almost seventy percent and lost all their benefits under a restructuring plan."

Most theorists see the IMF as having a poor track record in the area of economic growth,[20] a mixed record on inflation [21]and consistency shows success only in the area of balance of payments.[22] Martin Weiss (October 30, 2008) in the CRS Report for Congress, in an article titled 'The Global Crisis: The Role of the IMF', cites Trevor Manual, the South African Finance Minister as saying, "one has to start from the fundamental view that if you accept public policy and you accept the interconnectedness of the global economy, then you need an institution appropriate to its regulation."[23] He was advocating for the regulation of state's activities in the international arena since a country's actions will affect the whole system.

Imperialists point out that there is inequality of income due to the presence of international financial institutions. The workers cannot purchase much due to low wages. The capitalists have excess income for not only luxuries but also investment. The balance of income can be solved through social reform, higher wages and more public services to avoid most workers from Africa going to look for work in Western countries. According to Paul Baran in the book "The political Economy of Growth (New York, 1957), third world countries were underdeveloped due to the drain of resources by advanced countries. Andre Gunder Frank, Samir Amin and

[20] Przeworski and Vreeland (2000), Hatchison and Noy (2003), Bamand Lee (2005), Dreher (2006)
[21] Stone (2002) reviews 22 studies of the effect of IMF programs in inflation.
[22] Pastor (1987a,b), Gylfason (1987), Khan (1990), Killick, Malik and Manuel (1992), Conway (1994), Haque and Khan (1998), Bird (2001b)
[23] Camilla Anderson, 'Future of IMF Debated as Financial Crisis Takes Toll,' IMF Survey Online, October 16, 2008.

Immanuel Wallerstein supported the idea that imperialism crated distorted, stunted and dependent structures in Third world countries**.** [24]

“The modern impositions of the IMF are imperialist especially when they are economic means of control of credit and technologies being imposed on weaker nations while the giant states dominate the world market and determine prices of commodities from developing nations.”[25]

The definition of neocolonialism is outlined in one of the first books to use this term, Nkrumah's *Neo-Colonialism, the Last Stage of Imperialism* (1965). The work is self-defined as an extension of Lenin's *Imperialism, the Last Stage of Capitalism* (1916), in which Lenin argues that 19th century imperialism is predicted upon the needs of the capitalist system. Nkrumah, the first president of Ghana argues that, "In place of colonialism as the main instrument of imperialism we have today neo-colonialism....Neo-colonialism, like colonialism, is an attempt to export the social conflicts of the capitalist countries." He continues that:

‘‘The result of neo-colonialism is that foreign capital is used for the exploitation rather than for the development of the less developed parts of the world. Investment under neo-colonialism increases rather than decreases the gap between the rich and the poor countries of the world. The struggle against neo-colonialism is not aimed at excluding the capital of the developed world

[24] Martin Thomas, Marxism and imperialism, 11 July 2008, p4
[25] Martin Thomas, Marxism and imperialism, 11 July 2008, p 30

from operating in less developed countries. It is aimed at preventing the financial power of the developed countries being used in such a way as to impoverish the less developed."

"The concept of economic neocolonialism was given a theoretical basis, in part, through the work of Dependency theory. This body of social science theories, both from developed and developing nations, is predicted on the notion that there is a center of wealthy states and a periphery of poor, underdeveloped states. Resources are extracted from the periphery and flow towards the states at the center in order to sustain their economic growth and wealth. A central concept is that the poverty of the countries in the periphery is the result of the manner of their integration of the 'world system', a view to be contrasted with that of free market economists, who argue that such states are progressing on a path to full integration. This theory is based on the Marxist analysis of inequalities within the world system"

Critics of neocolonialism portray the choice to grant or to refuse granting loans particularly those financing otherwise unpayable Third World debt, especially by international financial institutions such as the International Monetary Fund (IMF), as a decisive form of control. They argue that in order to qualify for these loans, and other forms of economic aid, weaker nations are forced to take certain steps favorable to the financial interests of the IMF and World Bank but detrimental to their own economies. These structural adjustments have the effect of increasing rather than alleviating poverty within the nation.[26]

"Critics of the IMF have conducted studies as to the effects of its policy which demands currency devaluations. They pose the argument that the IMF requires these devaluations as a condition for

[26] Wikipedia dictionary, Neocolonialism, P9

refinancing loans, while simultaneously insisting that the loan be repaid in dollars or other First World currencies against which the underdeveloped country's currency had been devalued. This, they say, increases the respective debt by the same percentage of the currency being devalued, therefore amounting to a scheme for keeping Third World nations in perpetual indebtedness, impoverishment and neocolonial dependence."[27]

[27] Wikipedia dictionary, Neocolonialism

CHAPTER 3: IMF POLICIES TOWARDS SOUTH AFRICA

3.1 INTRODUCTION

South Africa (SA) is one of the founder members of the IMF and has a network of international trading and financial relations. This country was the only member of the IMF which had legislated racial discrimination. But after the 1983 workers' struggles which had been fueled by the 1973 strikes and 1976 Soweto uprising, there was need to lobby for a more stable political and economic environment. This situation had western interests not only in South Africa but in the whole of Southern Africa. Western interest groups began seeking ways to influence the direction of political development in SA to ensure the continuation of the country's place within Southern Africa.[28]

Why so much interest? It could be because the Southern part of Africa is rich in minerals such as gold, asbestos, and has rich fertile land and favorable weather to ensure a rich harvest of agricultural products, which the Western countries require to develop their countries. This chapter will dwell first on how the IMF has affected or changed the policies of South Africa (SA). It will also discuss the decision making process for the loans to be approved by the IMF.

According to the International Financial Statistical Yearbooks (1985; 1986), the loan amount to SA decreased from 1968. From 1971 to 1974, there were no borrowings from the IMF by SA.

[28] Vishnu Padayachee, Apartheid South Africa and the International Monetary Fund, Transformation 3, 1987, p39

From 1975 the amount rose up to 1978, coinciding with the Soweto uprising. The loan rose in 1982 to the highest level of SDR 902.2 but decreased in the 1980's to SDR70.0.[29]

3.2 IMF LOANS TO SOUTH AFRICA

SA received its first loan in 1957 and 1958 of 46.2 million special drawing rights (SDRs) and it was given to them in one transaction although most loans from the IMF were given in certain portions;[30] without any conditions (Gissalquist, 1982:206), although other countries in Latin America were being given tough conditions. "The country returned to the IMF in 1960 (SDR12.5 million) and again in 1961 receiving a loan of SDR25million."[31]

This relationship between SA and the IMF has continued throughout the history of apartheid. According to Siedmans (1978:75) "by 1972 the IMF provided about 60 per cent of all short-term non-direct investment funds available to SA from the central government and banking sector. The IMF seemed to always assist SA and assisted in correcting the balance of payments deficit which was crippling SA." In the mid 1970s and in 1982, Payer (1974) and LAB (1983), Adballa (1980) have noted the relationship between the IMF and SA and saw the western capitalist interests increasing in SA as they were the controllers of the IMF. They also noted that some

[29] Ibid, p40
[30] Cyrus Rustomjee, Pathways through Financial Crisis: South Africa, Global governance, 2006, p5
[31] ibid, p5

IMF member countries receive friendly and lenient treatment from the fund acting as the channel of Western capitalist interest.[32]

3.3 IMF LOANS FROM 1975 to 1977

The IMF provided SA with credits of SDR 91.2 million in 1975, SDR 390 million in 1976 and SDR 162 million in 1977. These loans were in support of SA government programmes to strengthen the country's BOP (Balance of Payments) position. A loan amounting to SDR 160 million was from the Fund's Compensatory Financing Facility (CFF), with respect to an export short-fall experienced by SA during the 12 month period ending August 1976. The US policy depressed the price of gold in the mid-seventies negatively affected SA gold exports and it's BOP. SA had tried to reduce its gold production to counter the falling gold price but it was led into a recession (Johnson 1977; 110).

On the 21st of January 1976, at the Executive Board meeting in Washington DC, the first loan application for that year was opposed on economic grounds by the Executive Director for Belgium, Austria, Luxemburg and Turkey who argued that SA with the largest gold stocks to back up its currency reserves might not need the Fund's assistance and could be considered a net contributor to the Fund and not to seek aid. He was also critical of SA's conservation policy of 'cutting back' production every time the world price decreased and of 'keeping gold off the market' rather than selling it at lower prices to cover the BOP deficit. He concluded that 'it

[32]Vishnu Padayachee , Apartheid South Africa and the International Monetary Fund, Transformation 3, 1987, p43

would be argued that the current account deficit expected in 1976 was not entirely beyond the control of the authorities.' (CIP 1978; 2)[33]

The application was also opposed by A.W. Tameogo, the executive director representing seventeen West African nations, who stated that SA could raise the money it needed by using its gold as collateral. Tameogo said that SA's problem was long-term and structural, its treatment of the Black population whose education was not free and whose wages and salaries are very low relative to those of whites. The distribution of income and of opportunity in general was biased towards the white population. This would affect the future when SA needed increasingly skilled and literate workers to compete in the world markets as it would not have them (CIP, 1978:2). But the application for the loan was backed by (United States) US and (United Kingdom) UK. Peter Bull from the UK Labour government stated at the January meeting that the standby arrangement "would give the SA authorities …some feeling of international support which they deserved" (CIP 1978; 5), and the request was approved.[34]

In November 1976, SA returned to the IMF after the Soweto uprising, under the CFF (Compensatory Finance Facility). It should be noted that the CFF is an IMF facility that provides shortfall credit, with low conditionality and of three to five years' duration, to compensate countries from a sudden decline in their foreign exchange earnings from their major exports. SA argued that its BOP problem was caused by factors outside its control. An IMF staff analysis of SA's export performance supported SA's request for aid. The staff analysis was severely criticized by some of the Executive Board directors at the IMF meeting. Executive Director Dini, representing Italy , Spain, Portugal and Malta, accused the IMF staff of rigging the

[33] Ibid, p44
[34] ibid, p44

funds own statistical formulas to favour SA's case. He found the analysis 'suspect' because its estimate of export earnings shortfall happened to coincide with the maximum amount SA could request from the CFF. The West German delegate, Pieske, also found that coincidence remarkable and stated that the projected shortfall had been 'tailored to the size of the requested drawings' (CIP 1978; 3). However, the US Executive Director found the staff's handling of the statistics was 'entirely reasonable' and SA got its loan with US and UK support.[35]

> "Over the forty year history of the IMF it was extremely rare that applications for loans that reached the Executive Board of the IMF were debated. Any request that reached the Executive Board was assured of approval (CIP 1976; 3). The IMF support for SA in 1977 was controversial as on the one hand, the then Carter administration was castigating the 'white supremacist' SA regime in public but on the other, quietly greasing SA's palm (CIP – Centre for International Policy 1978:3)."[36] Thus, the US would pretend to be criticizing South Africa in the public but would vote for the country to receive a loan.

According to the Economist "the loan should have come with conditions attached. Unfortunately, in its anxiety to avoid trouble the IMF was tempted to pretend that apartheid is economically speaking an irrelevance….An IMF that feels obliged to tell other borrowing member countries to raise food prices as in Egypt; to devalue currencies as in Sudan and temporarily to reduce living standards should not remain silent about labour market rigidities in SA."[37]

[35] ibid, p44
[36] ibid, p45
[3737] The Economist on 16.10.82

Some members of the Executive Directors of the IMF "argued that the SA loan did not meet the standard of conditionality imposed by other borrowers, and they also did not see the necessity of the loan as they predicted the SA's economy could perform well on the international capital market." Korner notes that it was likely that the "SA regime was primarily interested in international approval which was depicted by the approval of IMF loans and this would thus demonstrate to critics at home and abroad how UN boycott calls were ineffective" (Korner; 1986).

> It was also argued at the Board meeting of the IMF, that the South African government received 80 per cent of its $1.1 billion before fulfilling any conditions. The issues leading to its balance of payments problem were that it "had exercised inadequate budget restraint, through meeting the needs of its heavy defense expenditure; there was insufficient monetary control seen with the subsidies to white farmers; the distortions and artificial barriers to employment and job mobility created by apartheid had to be among the conditions set by the IMF before it approved the loan; and that the decline in SA's interest rate shortly before the meeting and more by SA Reserve Bank to lower reserve requirements for commercial banks were contrary to the restrictive monetary policies that the IMF would normally insist upon."[38]

According to some western representatives on the board, "SA should have undertaken structural adjustment to labour market rigidities but the directors differed on whether or not this should be a condition of the standby loan". Altogether seven Executive Directors, representing 68 countries, refused to support the loan and nine called for a postponement. However, executive

[38] Vishnu Padayachee , Apartheid South Africa and the International Monetary Fund, Transformation 3, 1987, p48

directors, representing the USA, Canada and Western Europe backed the loan. This latter group votes added up to 51.9 per cent of the IMF total and the loan was approved.[39]

There was a debate at the US Senate and House of Representatives Banking committees and subcommittees and after this, an anti-apartheid amendment to a Bill authorizing an increase in the US quota to the IMF was agreed upon. "The US law then required that the US oppose SA loans unless the Secretary of the treasury certified in person before the banking committees that the loan conditions would reduce the distortions caused by apartheid. On request of either the House or Senate Banking Committee, the Treasury would demonstrate: that the loan would bring about a substantial reduction of the laws on the geographical mobility of labour and South Africa could not raise the money elsewhere. The administration would have to give a three-week public notice of another IMF loan to South Africa (CIP, 1964:7). But the amendment had not entirely prevented the US from approval of the loan.

3.4 IMF LOAN IN 1982

"A change in tone occurred in 1982 under the Reagan administration. The apartheid regime seized the opportunity to request an IMF loan approved on the grounds that the Fund had to be politically neutral in spite of some countries who were trying to isolate the South African government. "[40]

[39] ibid, p48

[40] Goliath Business News, Pathways through financial crisis; South Africa – Global Governance, 1 October 2006

In the House of Lords sitting in UK in 1982, there was a debate on the issue of the loan to South Africa. The Parliamentary Under-secretary of state in the department of health and social security, Lord Tregarne answered the question of their views about the loan by the IMF of 1 billion dollars to SA in relation to its nuclear programme, answered by saying the United Kingdom (UK) supported the SA application and there was no provision within the IMF's articles for declaring a member ineligible to use the fund's resources unless it failed to fulfill any of its obligations under the articles. SA was not in this position with regards to the performance criteria related to macroeconomic variables namely credit to the government and total credit to the banking system were usual. Lord Cledwyn of Penrhos advocated for conditions to be set for the loan to SA since this country had a negative attitude to Namibia, it had nuclear programmes and it was violating human and civil rights in the country. He went on to say that the South African Government was a hateful, oppressive and the worst government in the world. Others agreed with him but also saw other governments as being similar to SA's government. Another speaker saw the IMF as being selective politically and ideologically as not all countries had conditions imposed on them whilst Zambia and Tanzania loan application required a reduction in Government expenditure."[41]

"In 1982, the National Party (NP) government, accepted a loan from the IMF with conditions similar to the neoliberal way" (Marcus 1998:105). Neoliberalism in this context could be defined as consisting of IMF conditions that would promote fiscal discipline, trade and financial

[41] Lords Sitting, South Africa : IMF loan, HL Deb 08 December 1982 volume 437 cc 171-4

liberalization, tax reform, privatization, and controlling public expenditure. The conditions to this loan led the NP to introduce duty –free import provisions for the clothing industry therefore import volumes of clothing began to grow (Sellars 2000, 492; Altman 1993, 89). There was an introduction of trade liberalization in the 1980's cascading into the 1990's. In 1989 the NP government's Structural Adjustment Programme (SAP) opened SA economy more to international competition. Imports were over forty per cent of the local market between 1989 and 1991.[42] These imports included second hand clothes and they increased by more than 64 per cent between 1989 and 1990 (Altman, 1993: vi, 15.95, 115).

3.5 DECISION MAKING OF IMF ON THE LOAN TO SOUTH AFRICA

In 1966, the General Assembly called on the World Bank to cease loans to Portugal and South Africa because of their colonial and apartheid policies. The Bank defied the General Assembly and Secretary General U Thant, lending ten million dollars to Portugal and twenty million dollars to South Africa. The bank said that its charter excluded political criteria, but shortly thereafter found good technical reasons to confine its loans to Third World countries. The potential turned to actual in 1976 when the IMF approved three loans to South Africa totaling \$464million – all but 93 million of them after the massacre at Soweto. The British executive director in approving the initial \$93 million, noted the loan would give the South African authorities 'some additional room for maneuver and some feeling of international support, which they deserved.[43]

[42] Barbara Kalima-Phiri, South Africa's Trade Policy – Country Background paper for cut-citee's trade, development and poverty (TDP) Project, 23 September 2005
[43] Ibid, p2

In 1977 the Center for International Policy was reviewing various IMF decisions on Third World countries. The Executive Board discussed South Africa and immediately an undertone of concern crept into the discussion. A Belgian representative noted that SA had one of the largest gold boards in the world and might be expected to give to the IMF rather than take from it. At the end he approved the loan on the grounds that SA's gold reserves would be difficult to sell without bringing down the price. Actually the 'big powers' in the world determine the world prices of raw materials or minerals from Africa, which tends to benefit them as they usually peg low prices that even if a country sells, it still is dependent on foreign aid from institutions like the IMF and World Bank. The West German and Italian representatives also raised technical problems. They charged that the IMF management had tailored its estimates of South Africa's financial shortfall to match almost exactly the size of the loan Pretoria had requested. This discovery did not prevent them from approving the loan either, but the discussion was heating up.[44]

The executive directors also argued on South Africa in 1976. Antoine Yamego, one of the executive directors said the loan may have been justified, although SA could borrow the amounts it needed from private sources. Its gold at true market value equaled six months' reserves. He insisted South Africa's short-term problems could be handled.[45] During 1977 to 1981 South Africa's economy recovered and had no need for IMF loans. In 1980 to 1981, South Africa took

[44]International Policy Report, A Victory over apartheid-Story of the campaign to end IMF loans to South Africa, April 1984, p2
[45] International Policy Report, How the IMF Gave 464 million to South Africa

advantage of the IMF's Special Drawing Rights allocation scheme to collect over a million dollars.[46]

In July 1982 SA was making plans to apply for an IMF loan. The U.S. Embassy advised the South Africans to wait until after the next IMF-World Bank annual convention in September in order to avoid criticism, which SA eventually did. They also requested the IMF's managing director Jacques de Larosiere to keep the executive board in the dark about the negotiations. Professor Gisselquist briefed members of Congress and in September, twenty –two of them led by Representative Tom Downing of New York wrote the Secretary of the Treasury protesting the loan. On the 4th of October 1982, South Africa formally announced its application for $1.1 billion. SA's secret approach to the Fund had kept the opposition off balance. The announcement came while congress was in recess. Under the Fund's rules, the Executive Board would consider the loan in one month. It seemed that SA did not really need the money, but it would mean their house was in order through the lifting of sanctions. The delay of the month, worked for them since they had timed their loan just a month before the IMF would go to congress to ask for a record high $8.4 billion loan. This was the only time congress or any legislature had leverage over the IMF. The Center learned that the IMF would approve the loan. It prepared a research memo which the New York Times reported as '$1 billion loan to SA Reported to get IMF approval.[47]

[46] International Policy Report, A Victory over apartheid-Story of the campaign to end IMF loans to South Africa, April 1984, p2
[47] Ibid, p4

> "In December 1983, the IMF congress passed a bill and President Reagen (US President) signed a bill that would restrict future IMF loans to South Africa. South Africa was given a billion dollar loan by the IMF. It was the first anti-apartheid legislation passed in five years, and it set a hopeful precedent for other measures now before congress: a ban on any more U.S. bank loans and private investment beyond the fifteen billion dollars already there and tougher export controls on police equipment such as electric shock batons which the Reagan administration shipped to South Africa in 1982."[48]

It would seem that SA had the backing of the most powerful countries in the decision making body of the IMF as they were successful in their loan applications during the apartheid period.

[48] International Policy Report, A Victory over apartheid-Story of the campaign to end IMF loans to South Africa, April 1984, p1

CHAPTER 4: RESEARCH FINDINGS ON EFFECTS OF THE IMF LOAN ON SOUTH AFRICA

4.1 INTRODUCTION

This chapter will discuss the effects of the IMF policies on SA.

4.2 EFFECTS OF THE IMF POLICIES ON SOUTH AFRICA

According to the IMF survey, "the current account of SA's BOP (Balance of Payments) had weakened from about 1974 as a result of the decline in the price of gold, the prolonged recession in SA's main trading partners, increases in the cost of imports because of inflation in the West, the increase in oil prices."[49] "SA had defended or put up the reasons for the loan requirement as lagging exports, declining reserves and deterioration in the BOP. But they did not mention the other cause of the BOP deficit, which was mainly due to the increases in defense expenditure which led to budget deficits and increases in money supply leading to inflation and weakening of the rand leading to BOP problems."[50]

The two decades following the oil crisis were, mainly negative in terms of South African economic performance. An average Gross Domestic Product (GDP) growth rate of 6 percent in the 1960's declined to an average of 1.8 percent in the 1980s and then became negative to about -1.1 percent in the early 1990s. The South African economy in the 1980s and 1990s had decreasing gross fixed investment, high rates of capital flight, and low rates of private savings

[49] ibid, p43
[50] ibid, p43

leading to plant under utilisation and declining competitiveness, low levels of private savings, very high unemployment, and chronic balance of payments difficulties.[51]

"The IMF usually influenced economic policies, undermining the national sovereignty of most developing nations. The IMF also has the power to influence prospective foreign investors to SA, which can be seen since the 1980s when SA was successful in attracting large amounts of foreign investors into speculative stock and bond markets. This resulted in the SA rand to be firm against other currencies on the stock exchange, it assisted in the booming of large monopolies; it enabled the country to update their technology creating jobs and products for consumption in the local market."[52]

The loans included a $100 million in Eskom electricity credits which were to improve the services of electricity in the country. But the apartheid government provided power to white areas, while black townships were without electricity until the 1980's.[53] This showed that the loans were assisting SA positively in some aspects but the government would then decide on the use of these funds. These loans could also be seen as illegitimate loans as they mainly improved the lives of white South Africans, while the black population suffered from increased poverty and unemployment. This led to increased crime amongst this population which is seen even in this century. Therefore the IMF loan could be seen to contribute to the social inequality in SA.

[51] Stefan Andreason,2001, Divergent Paths of Development: The Modern World System and Democratisation in South Africa and Zambia, Journal of World Systems Theory, V11,
[52] TWN Third World Network – Why South Africa should say NO to IMF policies.
[53] M.P. Gigose, Apartheid Debt As Illegitimate Debt, Speech by Trevor Manual, March 1997

Some of the policies of the IMF affected SA negatively in its development process, because instead of a country improving industry or constructing factories to produce goods such as clothing, there would be an option to import cheap second hand clothes from overseas countries. This also shows why most third world countries are concentrating on producing raw materials such as cocoa and mineral ores. This same country will then import the finished product such as chocolate or steel bars at a price set by the first world countries. The earnings also from their raw material production will be greatly influenced by world prices set by big powers in the international arena. This creates a lot of dependence between developing countries on developed countries. This also has a negative effect on employment levels in the developing country; while jobs are plentiful in the developed nation.

During the late 1980s, when the apartheid regime began to sell state assets to white-owned conglomerates and raised interest rates to the highest levels in their history, the IMF was prodding it do to do so. The Western countries were acquiring land to farm their produce and also areas rich in minerals for their own benefit. The IMF consistently argued that South African workers were overpaid, and that South Africa should implement a Value Added Tax to shift the burden of tax payment further to lower-income people. The apartheid regime generally followed this advice and was applauded by the IMF for doing so.

One of the conditions given to the apartheid government was to revise the labour legislation. The basic sources of physical labour were black South Africans but their salaries were low for them to afford to send their children to school. But IMF conditions could stipulate this for many developing countries, but there were structures in place to follow up on the legislation process in all countries that received loans. The policies are not people centered, that is they don't consider the conditions that the majority of the people would face.

> Kohler and Bruce-Brand (2002) "explain changes in the competitiveness of South African manufacturers in terms of cross-country differences in labour requirements. They also recognize the shortcomings of focusing on a single factor of production that is labour, such as overlooking the important contributions to overall productivity of capital, technology and factors such as scale economies. Labour costs per unit of output were a highly significant determinant of trade competitiveness in South African manufacturing from 1970 to 2000. Organised labour, business and government policymakers need to restrain wages unless accompanied by higher productivity. High wages jeopardize SA's ability to compete internationally in manufactured goods, especially in labour intensive sectors were the wage bill is a significant proportion of costs."[54] It did not address the Balance of Payments problem of SA as imports were more of cheaper products compared to locally produced goods. Exports were limited because the industry development had been negatively affected by cheap labour imports.

In the annual review of the South African economy, the Washington-based lender said that South Africa's resilience reflects "an improved macroeconomic policy environment, gains in international competeveness and export diversification, and a further reduction in the central bank's shorter foreign currency exposure."[55] They also praised the economic performance of SA which boosted by a sound fiscal policy.

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[54] University of Pretoria, Gouws, A.R., Trade theories: A survey of the determinants of exports. 2005, chapter 3
[55] South Africa: info – The official gateway, IMF praises SA economy, Tuesday, 19/09/08

The SA Finance Minister, Horwood, reported at the annual IMF-World Bank meetings that the SA's economy was performing well and that the IMF loans had turned around the 1974 to 1076 BOP deficit. During the 1970's SA experienced industrial growth and inflow of large amounts of foreign capital, therefore they were able to process their raw materials making their exports more competitive in the region and worldwide. SA has developed more than most African countries creating jobs for the locals including foreigners.

Liberalism follows the concept of 'free markets and trade,' and it believes in the "power and efficacy of markets. All participants in this system of free markets and trade are benefiaries. Liberals "worship markets and their views often have the effect of rationalizing the interests of powerful groups; and liberals almost never understand the role of politics and power in creating and conditioning markets. They tend to have a negative and even hostile view of government. They see government spending as harming economic efficiency and reducing liberty. And they often see the state as composed of self-seeking individuals who use power only to promote their own narrow ends", that is individuals are selfish and introduce programs they would benefit from. Neoliberals agree with the above ideas and look at the impact of markets, international interdependence and the possibilities for cooperation nations.[56]

This concept was seen in SA, through not only trade with other countries, but through the availability of trade credits and the Reserve bank urged importers to use foreign credit during the difficult foreign exchange period during the 1980s in SA.

[56] David Baldwin: Neoliberalism and Neoliberalism: The Contemporary Debate; New York: Columbia University Press; 1993: and Peter Evans, Embedded Autonomy cited from:
International Political Economy; The Struggle for Power and Wealth, Third Edition; Thomas D. Lairson Rollins College and David Skidmore, Drake University; Thomson Wadsworth 2003.

In addition, citing the post apartheid period, structural reforms were the central policy challenge for South Africa, the IMF advocated for job creating economic policies. The IMF focused on speeding up government's privatization and trade liberalization plans. The lender also stressed continued labour market reforms, and a substantiated effort to address the HIV/AIDS pandemic, as crucial to South Africa's economic wellbeing. The IMF noted that the implementation of the programme for restructuring public enterprises that was launched in 2000 had been slow, but Telcom, the state telecommunications company, was expected to be divested by March 2003, and the restructuring of DENEL, the State Defense Corporation was ahead of schedule.[57]

The IMF also advised the South African government to adopt a privatization programme in SA for provision of water to one of the mulitinational companies. This resulted in most areas not receiving clean water. Juskei River parts of Alexandra suburb were identified as cholera zones, and instead of resuming water supplies, the authorities evacuated the area and placed the residents in areas without adequate sanitary infrastructure. They had not improved the services of water supplies as they had promised. The IMF was also planning to continue water privatization. These private firms aimed at cost cutting but also maximizing profits. This has made water less accessible and not affordable to the majority of the population in low-income countries.[58]

[57] South Africa: info – The Official gateway, IMF praises SA economy, Tuesday 19/09/08

[58] SAMWU, Globalisation Challenge Initiative and Afrol archives, South Africa – Protests over water privatization in Johannesburg

4.3 CHAPTER SUMMARY

This chapter has been a discussion of the effects of the conditions of IMF loans between the 1950s and 1990's. It seems there are more negative effects on the country that what they have gained from the policies. The main variables looked at in this chapter are employment, fiscal policies including privatization of states assets and controlling government expenditure.

CHAPTER 5: A BRIEF CASE STUDY OF ZAMBIA AND SOUTH AFRICA WITH THE IMF

5.1 INTRODUCTION

This section will briefly compare the relations of the IMF in Zambia and South Africa and try to find out the impact of these relations between studies of the IMF and Zambia.

5.2 ZAMBIA

There is evidence that the poorer countries in the world, in desperate situations have stringent conditions put on their backs to carry their effects and implement them. Zambia is an example of a country that had borrowed from the IMF and was subject to certain conditions. In 1973, Zambia negotiated for a standby credit facility to cover the perceived short-term shortfalls in revenues due to the drop in copper prices on the international markets. This loan had a few conditions.

Zambia's relations with the IMF date back to 1973, nine years after independence, which was in 1964. That year, Zambia negotiated a stand-by credit of 19 million Special Drawing Rights units (SDRs) to cushion the fall in revenues from copper following the fall in copper prices and reduced production volumes. In 1976, another stand-by facility was arranged in the same amount. The facility carried three conditions: a reduction of subsidies; freezing the wages of public service employees and diversification of the economy from dependency on copper. This is a contrast with the arrangement between the IMF and South Africa was there were no stringent conditions drawn.

In 1978, a two-year stand-by credit facility for SDRs 250 million was concluded with conditions that included the devaluation of the Kwacha by 10% and rising of producer prices of agricultural products. Due to continued deterioration in the economic conditions in the country, an extended fund facility of SDRs 800 million was obtained in 1980 with more comprehensive conditions aimed at fiscal and monetary reforms. The 1983 facility for SDRs 211 million carried conditions which included the devaluation of the Kwacha by 20%.[59]

During 1984 to 1986, the Government obtained SDRs 226 million, which carried conditions including the introduction of a flexible exchange rate through auctioning. The difficult conditions attached to the facility, particularly the auctioning of the Kwacha, led to general discontent. This prompted the Government to repudiate the agreements with the IMF and World Bank. The Government unilaterally restricted debt servicing to 10 % of the due annual debt servicing amounts in 1987. It is notable that during this period of the Zambian economy actually recorded growth for the first time in over a decade. However, the period of estrangement from the IMF and World Bank was short-lived and Zambia was soon back with the IMF.[60]

According to Gabriel Band, Zambia was helped to improve the education and shelter sectors by the Bretton Woods institutions. In the 1980s structural Adjustment policies dealt with opening up Zambia's economy through privatisation, liberalisation and commercialisation of finance.[61]

Due to trade liberalisation, Zambia's manufacturing industries had not developed to employ people who are no longer able to make a living from farming. Manufacturing has been hard hit

[59] African Forum and Network on Debt and Development (AFRODAD), A Case Study The Impact of Wrong Policy Advice on Zambia, 2007, p12

[60] African Forum and Network on Debt and Development (AFRODAD), A Case Study The Impact of Wrong Policy Advice on Zambia, 2007,P12

[61] Gabriel Band, The Post Newspapers Zambia- IMF, the negative machine, Friday 12 March 2010

by trade liberalisation for employment in the formal sector manufacturing fell by 40% in a period of 5 years following trade liberalisation. Trade liberalisation is slowing down the process of development in Africa as those nations resort to a few agricultural products whose prices have been declining for the past 50 years. This condition had driven the poor people out of the domestic markets thereby increasing poverty as they have no income. Development had stalled as industries have collapsed and imports of capital goods fallen (Claire Melamed, 2005).

A report by the World Development Movement was of the view that the reforms forced on Zambia by the IMF, had directly resulted in making tens of thousands unemployed, destroyed key industries, caused extensive social unrest and increasing poverty. The report 'Zambia: condemned to Debt' charts in detail how sweeping trade liberalisation, deregulation, and privatising some firms under the public sector had led to a drop in Zambia's UN human development rankings from a 130 to 163 in 2001.[62]

When the Zambian economy collapsed, the IMF conditions were more intense. The conditions became more severe until 1992 as the IMF took advantage of the economic conditions in the country and a weak and inexperienced government to impose and implement conditions that are now credited with the severe poverty that has led to corruption, malnutrition and disease in the country.[63]

"Despite the 18 years of structural adjustment under the close supervision of the IMF, World Bank and the international community, by 1991, the Zambian economy had all but collapsed, leading to civil strife and political instability. 1992 was a year of transition, with all the

[62] Sanjay Suri, Development – If the IMF could do this to Zambia, London, May 24, 2010
[63]African Forum and Network on Debt and Development (AFRODAD),A Case Study The Impact of Wrong Policy Advice on Zambia, 2007

attendant uncertainties and even dangers that such change entailed. The strong industrial base that had been created through the public sector was destroyed. At the same time, there was massive capital flight and disinvestments leading to loss of employment and poverty. The interference by the IMF, World Bank and donors in the management of the privatisation programme together with the fast-tracking of the programme had far reaching negative consequences on the economy of the country. As a result of the poor privatisation, the programme failed to achieve its objectives. In addition the country lost revenues due to under pricing of public assets and enterprises; poverty rose sharply due to losses of employment and lack of markets for local agricultural and industrial products while the country lost technologies, acquired at high cost, due to liquidations of industrial and service sectors enterprises such as the Zambian Airways. On education, the reduction of subsidies to education at the same time that the country was attempting to meet the World Education for All targets resulted in a serious dilution in the quality of education at all levels. Attempts at increased enrolments without any infrastructural developments resulted in overcrowded classrooms without adequate teaching aids with de-motivated staff due to low salaries when prices of goods and services, including accommodation had been deregulated. The high costs in government schools forced poor parents to seek alternative facilities in community school were they only provide basic literacy lessons.[64]

During the 1990's, the IMF imposed a structural adjustment package on Zambia in return for its loans with the conditions of: liberalisation of Zambia's trade barriers, privatising its industries and cutting budgets for health and education. The trade liberalisation led to a flood of imports,

[64] African Forum and Network on Debt and Development (AFRODAD), A Case Study The Impact of Wrong Policy Advice on Zambia, 2007,P8

which were cheaper than the produce from the local farms and manufacturing sectors especially the textile sector. In 1992, Zambia's textile manufacturers were about hundred and forty but by 2002 they had reduced to only eight.[65] This also meant that the people employed in this sector had no jobs anymore, thereby increasing the level on unemployment. The IMF's objectives of improving the economic and employment growth had not been successful.

Loan repayments to the IMF by Zambia and other African countries seem to be draining the resources which could be used for the development process. In a study by the Overseas Development Council, Zambia in 1985 paid the IMF US$19 million more than they received and an estimated twenty-two African countries in 1986 paid $400 million more than they received[66] due to the high interest rates charged by the institution. South Africa was able to repay its loans to the IMF whilst Zambia was still in debt and unable to repay as its economy had been negatively affected.

There are few disparities on the relationship between the IMF and Zambia. Zambia had many conditions imposed on it to receive the loans from the IMF. The IMF required Zambia to follow the following some reforms which included reforming the civil service, as they believed to reduce the budget deficit of government they would reduce the employees of the government. South Africa had no conditions on most of the loans it was given by the IMF in the period under review.

On the other hand both countries were urged to liberalise trade barriers and privatising their industries, creating a market for the Big powers including the US and UK. Both countries were

[65] Michael Cebon, Who is responsible for Africa's poverty, Wednesday, 13 July 2005
[66] Clyde H. Farnsworth, The New York Times, I.M.F. Chief Challenges Criticism From Zambia, Thursday May 7, 1987

expected to repay their loans, but SA managed to repay its loan. Most developing nations including Zambia were unable to repay their loans as the stringent conditions and programmes introduced by the IMF resulted in the nations economy's not to perform well.

According to the International Financial Statistical Yearbook 1985, comparing Southern African countries obtaining loans from IMF, SA loans are marginally high followed by Zambia and Zimbabwe between 1947 and 1984. The statistics show that SA's share of IMF purchases amounted to nearly fifty percent of all purchases of IMF funds by Southern Africa states. The IMF regarded SA as the key to its plan for the economic development of Southern Africa. The fund had frequently attempted to influence other Southern African states to increase their dealings with SA. In 1980 Zambia was asked to reopen its trade routes to SA in return for IMF assistance.[67]

[67] Vishnu Padayachee, Apartheid South Africa and the International Monetary Fund, Transformation 3, 1987, p40

5.4 CHAPTER SUMMARY

This case study sighting how the IMF has affected Zambia shows that the country's improved in their economies but the lives of the poor who are the majority are made tough as their education, salaries and generally their living conditions are changed drastically.

SA managed to receive most of its loans with no conditions attached but Zambia had various stringent strings attached to its loans which included liberalisation of Zambia's trade barriers, privatising its industries and cutting budgets for health and education. But both countries were expected to repay their loans to the IMF.

CHAPTER 6

6.1 CONCLUSION

The main aim of this study was to see the impact of the IMF on SA between 1950 to the 1980s. The sources of the ideas used in this thesis were mainly from qualitative data on this subject from the internet. The IMF was established in 1944 to rebuild economies after the Second World War. Loans from the IMF came with certain conditions such as reducing government budgets, privatization and trade liberalization.

The government of SA had a close relationship with the IMF from its inception in 1947. This protected SA against international pressure to change from its apartheid policies. Although the IMF had signed an agreement defining its status as a specialised agency of the UN, in 1947, the IMF continued to offer loans to SA since the 1950s. In 1967, the UN General Assembly decided to withhold financial, economic and technical assistance from the government of SA until this country changed its apartheid policies and restored the independence of Namibia. Despite the UN decision not to loan SA the IMF continued to assist this country throughout the 1960s, 70s and 80s.

The IMF had assisted SA, even though the UN had condoned its apartheid policies which included racial discrimination. According to this study, SA received its first loan in 1957 and 1958 of 46, 2 million. In 1972 the IMF also provided sixty percent of all short term non-direct investment funds. The loans were to correct the balance of payments deficit in SA. In 1975 SA received credits of SDR 91.2 million, in 1976 SDR 390 million and in 1977 SDR 162 million. The relationship between IMF and SA continued throughout the 1980's. According to an IMF survey, the current account of SA's BOP weakened from 1974 due to a decline in their price of gold.

On the 21st of January 1976, the first loan application was opposed by the Executive Director for Belgium, Austria, Luxemburg and Turkey who had argued that SA could sustain itself as it had considerable amounts of gold stocks to support its currency reserves. SA therefore did not need aid from the IMF. Others who opposed SA application were against the racist policies of the South African government and its discrimination of the black population. Despite the protests from some of the executive members of the IMF, the US and UK approved the request of the loan. Throughout the apartheid period SA continued to receive loans from the IMF.

The loans assisted SA as infrastructure which includes roads and buildings were built. Electricity and water systems were developed, but all for the white population. The black population continued to live in shanty towns, unemployment was high among the black population while the white population had the white collar jobs. The local industries were affected as through trade liberalization, SA opened its market to the world receiving cheap products including clothing.

A brief case study of Zambia and South Africa has been included in this thesis. In 1973, Zambia received a 19 million standby credit facility from the IMF to lower shortfalls in revenues as a result of a drop in copper prices in the international markets. This country received the same amount in 1976. There were three main conditions given to Zambia: a reduction of subsidies, freezing the wages of public service employees and diversification of the economy from dependency on copper. Trade liberalization led to a large amount of cheaper imports than the goods produced locally thereby affecting the local industry negatively.

This thesis showed that the impact of the IMF is positive in some cases but to a greater extent negative as their policies have affected the lives of the majority in South Africa, although it has a booming industry and a stable currency.

Throughout the 1980's South Africa experienced one of the highest rates of economic growth in the world, coming second after Japan. Its mines produced considerable amounts of gold and other minerals, and factories were built. This resulted in foreign trade with western countries increasing with foreign investors from the United States, Britain, France and Germany who competed for positions in South Africa's new industry (Martin Meredith, 1988 p113). This could explain why the IMF continually gave SA loans since the 1950s as some of the countries with voting power in the IMF namely US, Britain, France and Germany, had financial interests in SA and hoped to earn more profits for the country by investing in SA.

This section will round up the discussion of this thesis. "Research done by Vreeland (2003) finds "that participating in IMF programs reduces growth and redistributes income away from the poor, and he concludes that the conditions are to blame. He argues that governments participate in IMF programs in order to shift the distribution of income to benefit owners of capital, regardless of the consequences for national economies. Another interpretation by Bird, Hussain and Joyce 2004 and Conway 2003, is IMF programs fail to promote growth because their conditions are not implemented or enforced. Repeated lending to poorly governed countries has created a tradition of dependency."[68] Therefore these theorists advocate for structures that enforce the policies given to a country by the IMF.

The political conditions in Africa interfere with the implementation of IMF programs; these are namely coup attempts between 1990 to 2000 estimated at 25 successful coups and 71 coup attempts and also civil wars for example in Sudan for more that a decade. While, quantitative studies of IMF programs have neglected political constraints a growing case study literature treats them as the central theme (Biersteker 1993, Haggard and Kaufman 1995).

However, there is no consensus that IMF officials consciously take political constraints into account. Most authors of case studies often find fault with the IMF for pursuing an undifferentiated, one-size fits all approach to economic reform and stabilisation that deliberately neglects political constraints. Political constraints theory assumes that domestic political conditions exercise their effects by preventing governments from implementing their agreements with the IMF. High constraints lead to more defections from agreements and therefore more and longer program interruptions. The strategic lender perspective theory assumes that the Fund adapts its lending decisions to domestic political conditions by waiving or modifying performance criteria when political constraints are intense, so that high levels of constraints may lead to shorter program interruptions.[69]

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[68] Randall W. Stone - University of Rochester, The political Economy of IMF lending in Africa; Volume 98. No. 4, November 2004 – American Political Science Review, p1

[69] Randall W. Stone - University of Rochester, The political Economy of IMF lending in Africa; Vol 98. No. 4, November 2004 – American Political Science Review, p5

Bond (2001) also cited the crime that the IMF committed during SA's apartheid era, as this organization supported SA during the apartheid era with more than $2 billion between the Soweto uprising in 1976 and 1983, when the U.S. Congress prohibited lending to Pretoria. The IMF loans to SA in December 1993 came with the conditions of wage restraint and cuts in the budget deficit. The IMF consistently sent messages to South African workers that their wages were too high and that unemployment can only be cured through labour flexibility.[70]

The conditions set by the IMF have received strong opposition in many aspects. Their insistence on economic efficiency as the criterion for their aid threatened the system of patriotism that underpinned the rule of most African leaders. Africa's bloated bureaucracies and systems of regulation were crucial political assets, the means by which elites provided jobs, contracts and other opportunities for gain for kinsmen and political supporters. As the economist Douglas Rimmer concluded in his study, The Economics of West Africa, published in 1984: Africa's political leaders, despite their protestations, had never been primarily concerned with economic growth but rather with the maintenance of political power and the distribution of wealth to themselves and their supporters.[71]

It can be argued that the policies given to developing countries are the wrong policy advice as they do not meet the needs of the people in a state. More consultation should be done with the developing country before decisions are made and baseline assessment of policies to be introduced, should be done to predict the effects to the country. It also seems that the IMF prescribes similar policies for all developing countries but I urge such institutions to be like a

[70] Patrick Bond, Reflections from South Africa: Breaking the chains of global apartheid, International Socialist Review Issue 19, July – August 2001
[71] Martin Meredith, The State of Africa –A history of Fifty Years of Independence, London, CBS COMPANY, 2006

doctor who first asks a patient what they feel is wrong, examines the patient and then prescribes certain medicine for the individual. Although South Africa has grown to be a success story, there is still need for the IMF to first, consult borrower nations to which aspects they need assistance. These countries would be in a better state than they are today.

In conclusion, this study has looked of the impact of the IMF on SA looked at the following aspects:

a. Service provision to the white community in SA led to social inequality.
b. Industry was negatively affected through trade liberalisation as a result of cheap imports of commodities. This also affected employment.
c. Government was urged to privatise
d. SA was urged to address the education and skill's defiance's and revisit labour laws especially of the black population in SA

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