Can South Africa ride the IMF tiger?

With the ANC and COSATU embracing the World Bank and the IMF, Joseph Hanlon asks if South Africas are being foolhardy in assuming they are a special case

"WE will be powerful enough to be able to tell the IMF what role we want them to play," COSATU general secretary Jay Naidoo told a recent meeting at the University of Durban-Westville.

In doing so, Naidoo joined a string of South Africans who argue that this country will be the first in the world to be able to successfully ride the IMF/World Bank tiger. They point out that the Bank and Fund are acting differently here, being more open and talking with the liberation movements, trade unions and non-government organisations as well as government.

Bank teams seem to accept the need to redress the heritage of apartheid, for redistribution and job creation, and for rapid improvements in health, education and housing. And there seems an amazing acceptance of popular participation in decision-making.

But Naidoo is also joining trade union leaders and politicians in many other countries who thought that they, too, would be the first to beat the IMF.

They all lost - and the Bank and Fund have continued to impose structural adjustment policies (SAPs) on all other countries because those institutions have become much more sophisticated in recent years. Three techniques are key.

- First, the bank is involved in so many aspects of the economy and such a range of projects that few participants have an overall picture. Decisions seem to be taken in many different places.
- Second, the Bank and Fund now follow the alternating soft and hard approach much used by interrogators: the subject is first softened up by the sympathetic partner and only later hit by the hard man.
- Third, the Bank and Fund mix openness with obsessive secrecy.

Soft hearts first

Thus, the Bank has learned to send the most sympathetic people to make the initial contacts and do the first sectoral studies. They often understand the needs of the poor, they consult broadly, and they often see participation as important. And they are technicians who have a strong commitment to improvements in their sectors - health, water, housing or whatever. But in the end, these sympathetic people have no power.

And it is the hard men in Washington - who negotiate in secret only with top government officials and ministers on the framework agreement - who override all other agreements. They also negotiate on the so-called macroeconomic issues like devaluation, free trade, and limits on government spending, debt and subsidy. There is no public discussion and no popular participation in these talks. Nor is there any representation from those involved in sectors such

Article courtesy of *Work In Progress, June 1993.* Article written by Joseph Hanlon, writer on foreign aid and author of *Mozambique: Who Calls The Shots* (James Currey 1991).

as health, either from the country or the Bank.

Only after those overriding agreements have been made do the colleagues of the soft men return. Although still friendly, they stress they are not bound by verbal commitments and even formal reports made by previous teams. They understand the need to spend more on health and education, but stress that spending must fit under the already agreed cap. Sectors are forced to compete, Health care can be improved only if money is stolen from education or food subsidies.

Participation will still be encouraged, but only at a very limited level. For example, people will not be asked if they want to pay school fees, but there may be discussion about the balance between secondary and primary school fees.

Sabotage!

Whole projects can be sabotaged by the financial cap. Thus, in Zimbabwe the Bank and the Fund did not oppose land reform. But a cap on the number of civil servants meant that essential surveyors, agricultural extension officers and other staff could not be employed, which effectively limited land reform.

In Mozambique, the Bank did not oppose universal primary education, but the spending limit meant that not enough teachers could be hired to allow all children to go to school.

New conditions appear, especially involving the use of the private sector. New stress is put on two-tier systems of social services where the private sector provides for those who can pay, and the public sector offers only a much diminished "safety net" for others.

As part of encouraging competitiveness, transnational companies are given preferred access to the country, weakening, rather than strengthening domestic capital. (It is notable that when Zimbabwe finally accepted a structural adjustment agreement, there was a sharp fall in share prices on the Zimbabwe stock exchange. Local labour and capital are both hit by the Bank's emphasis on open economies.)

Poor won't eat less

"Efficiency" arguments are used to direct funds to those who are better off and who can make " better" use of the money. Low income housing is transformed into middle income housing, because the poor are said to be "unwilling" to eat less so they can spend more on housing.

These changes take place bit by bit and in different areas, so that the overall impact is never obvious. Each step seems sensible and necessary in itself. But these changes will turn any reconstruction accord into a meaningless document without ever directly contradicting it.

And yet, the Bank and Fund cannot be ignored. Some agreement with them will be essential, not on economic grounds, but because political acceptance from the United States and its allies will not be forthcoming without it.

Three things are required to reduce the damage that the Bank and Fund will do, and to maintain the momentum of reconstruction.

- First is to avoid fragmentation. The Bank and Fund have country desk officers who oversee all aspects of negotiations and know how the pieces fit together, but they encourage separate ministerial talks on the ground. South Africa needs Bank and Fund desk officers, probably in the president's office, who can similarly keep tabs on the disparate negotiations.
- Second, money should be borrowed from the Bank only if absolutely essential. Housing can be funded from local borrowing, for example. Where foreign loans are needed, such as to import capital goods, the hidden costs of World Bank loans often make it cheaper and less politically constrained to borrow commercially, for example with Eurobonds, than to borrow from the Bank.
- Third and most important is humility. South Africa may be different - but it is not unique. South Africans should try to learn from the dozens of other countries with years of experience negotiating with the Bank and Fund.

South Africa could be the first country to "tell the IMF what role we want them to play", but only if it learns from those who have already tried and failed.

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