NOTES FROM THE PRESENTATION TO THE PORTFOLIO COMMITTEE ON FINANCE BY TREVOR MANUEL, FINANCE MINISTER, ON SOUTH AFRICA'S ROLE IN THE MULTI-LATERAL DEVELOPMENT FINANCE INSTITUTIONS

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The Finance Minister, Trevor Manuel, accompanied by Treasury official, Anthony Julies, made a presentation to the Portfolio Committee on Finance in Parliament detailing the roles that the International Monetary Fund and World Bank played in many developing countries.

He pointed to the fact that hardly any countries in Africa (South Africa is a strong exception) have access to private capital markets, and that many are therefore reliant on raising capital through the Bretton Woods Institutions.

This reliance comes in the context of extreme poverty in developing countries: official estimates are that between 1.2. and 1.3 billion people worldwide live in under $1 a day. The divergence between rich and poor in the world has never been so great as it is today.

Manuel told the committee that it was ironic that many of the demonstrators who planned to come to Prague in September to demonstrate against the BWIs were largely from the north, and some represented protectionist interests.

The presentation dealt with the history of the Bretton-Woods institutions. It looked at the purpose of the IMF and the World Bank, specifically the purpose of its five affiliate institutions.

Apart from lack of access to capital markets, the presentation pointed out that many poor countries are faced with declining development assistance and a dramatic debt situation: for instance, Africa's external debt stood at US$319 billion at the end of 1998; and its total debt to GDP ratio stood at 57.6%.

The presentation also detailed World Bank funding to South Africa's, as well as Article IV consultations by the IMF with South Africa, as well as technical assistance from the Fund.

The Minister, in his presentation was critical, particularly of the unequal representation within the Bretton-Woods institutions. For instance, 43 African countries in two constituencies share 4.38% of the shareholding (and vote) in the Fund, whereas the G7 countries between them have a 47.69% shareholding and vote. "The biggest fault-line is in the decision-making process," he said. "The constitution requires that a number of decisions require 85% of the shareholders to back it. This gives the US and Europe an effective veto—no US, no decision. No Europe, no decision."

He gave as an example the release for resale of some of the gold held by the IMF to fund the HIPC initiative. "It requires a US decision to sell the remaining 5/14 of the gold. But Congress is in recess, Congress is in election mode, Congress doesn't care."

A review of the quota formula of the IMF is urgently needed, the committee heard. Reform in the World Bank is also necessary to enable poor countries to escape from systemic underdevelopment. Some key features of reform should be: broadening the pool of currencies that the World Bank lends in beyond the 5 OECD currencies; developing better risk models; and reviewing the type of cross-conditionality clauses that currently exist between the Fund and the Bank.

Manuel said that the Africa One constituency, which South Africa chairs, has hardly any meetings. The first meeting was in Maputo in July.

On the way forward, the committee heard that the G-20, which comprises the G-7 and 13 other "systemically significant" countries, including South Africa – may be an important forum to develop as it focuses on global economic issues and financial architecture.

Answering questions later, Manuel said that the G-20 would work better if the G-7 were to let go of other interests. A problem was that its meetings were too infrequent. "But no forum is too unimportant. We've got to get our voice heard."

The full slide presentation to the Portfolio Committee has been posted on the National Treasury website.

Discussion

Answering questions from members of the committee, Manuel made the following points:

- Cross-conditionalities were important to challenge. For instance, the World Bank had approved a loan to Zimbabwe recently, as had the African Development Bank (part of the family of development banks), but because of that country's non-performance in terms of the IMF-package, the Bank could not release its funds.

- On Horst Kohler, the new MD of the IMF, he said that, as a former senior civil servant in Germany, he understood that the micro-management of economies, which the IMF sometimes tried to do, was not workable in democracies. It sometimes took up to two years to approve relatively minor changes in legislation, and the IMF needed to understand such micro-management effectively undermined democracies.

- He raised the question of the role South Africa should play when it goes (as chair of the Board of Governors) to the IMF annual meeting in Prague in September. "IN a world that is as imperfect as the one we live in, with the chasm between rich and poor, with the fact that many countries cannot access capital markets, what role should we play? Should we go to the annual meeting or should Ben Turok (an ANC MP) and I go toyi-toyi outside. Because small as we are, we will probably punch above our weight at such a meeting."

- Both Ben Turok and fellow ANC MP, Rob Davies, agreed that South Africa should be at the annual meeting to raise the issues of world, and particularly African, poverty. Davies asked how Manuel saw the debate about poverty and inequality given the policy packages that imposed conditionalities by the IMF. He also warned, however, that we shouldn't "discount mass movements forming in civil society outside of government. The NGO constituency is raising some issues quite powerfully."

- Manuel replied: "Part of the difficulty is that when you access money, what do you do in return…. It's hard to understand why people would make agreements when they know they can't perform against them. Partly it's the human condition…What we need to do is not whinge about it. My plea is that we put our heads together and work out what we need to do.

- On the mass movements, he said: "We all know that the mass movements are against, but we're trying to understand what they're for. We can't understand at all why someone's dressed like a turtle today, because if you ask him, he might say, the rabbit suit I wore yesterday is in the wash. 'Tomorrow I'll only have black clothes, so I'll join the anarchists'." Manuel said the idea to close down the IMF and World Bank had also come from protectionist, right-wing interests such as those represented by the Meltzer Commission which basically argued that the taxes of first-world people such as those in the US shouldn't go to others in poorer countries. He said South Africa was cognizant of the fact that many poor countries relied on the IMF and the World Bank for capital, which was necessary for development. However the problems and inherent inequality in both institutions continued to prejudice poor countries. "Thus," he said, "we need a voice that is a little bit different."

- South Africa, and its constituency, were not asking for debt relief for middle-income countries, but for discretionary relief for the HIPC. "We're asking whether we can look at representivity differently. Can we construct a credit union as the BWIs were in 1944.".

- On the role of the most powerful country in the world, the United States, Manuel quoted Fund officials as saying there had never been a legislature "so selfish as this one…Part of it is the end of the Cold War…because now they don't need to support anyone…they just keep the money at home."

Please note: this is an edited report of the proceedings