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PRESENTATION TO THE PORTFOLIO COMMITTEE ON FINANCE

22 AUGUST 2000



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SOUTH AFRICA'S RELATIONS WITH MULTILATERAL DEVELOPMENT FINANCE INSTITUTIONS



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- 1. CURRENT INTERNATIONAL ECONOMIC CONDITIONS**
- 2. THE BRETTON WOODS INSTITUTIONS**
- 3. FINANCING DEVELOPMENT IN AFRICA**
- 4. MULTILATERAL DEVELOPMENT FINANCE AND SOUTH AFRICA**
 - SA RELATIONS WITH THE BWIs**
 - A CRITIQUE OF THE BRETTON WOODS INSTITUTIONS**
 - SOUTH AFRICA AND THE G20**
 - SA RELATIONS WITH THE AfDB**
- 5. SA'S DEVELOPMENT FINANCE INSTITUTIONS**



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CURRENT INTERNATIONAL ECONOMIC CONDITIONS



INTERNATIONAL EOCONOMIC CONDITIONS



- US 2nd quarter growth figures higher than expected at 5.2 percent;
- Economic recovery in Japan is continuing;
- Growth in the EURO area expected to average over 3 percent for the year;
- Growth in the emerging markets of Asia expected to drop to 5 percent (from 10 percent) in the 2nd quarter;
- Growth in the emerging markets of Latin America to slow down in the 2nd quarter after six strong months.
- Performance remains variable with wide divergences in inflation rates.

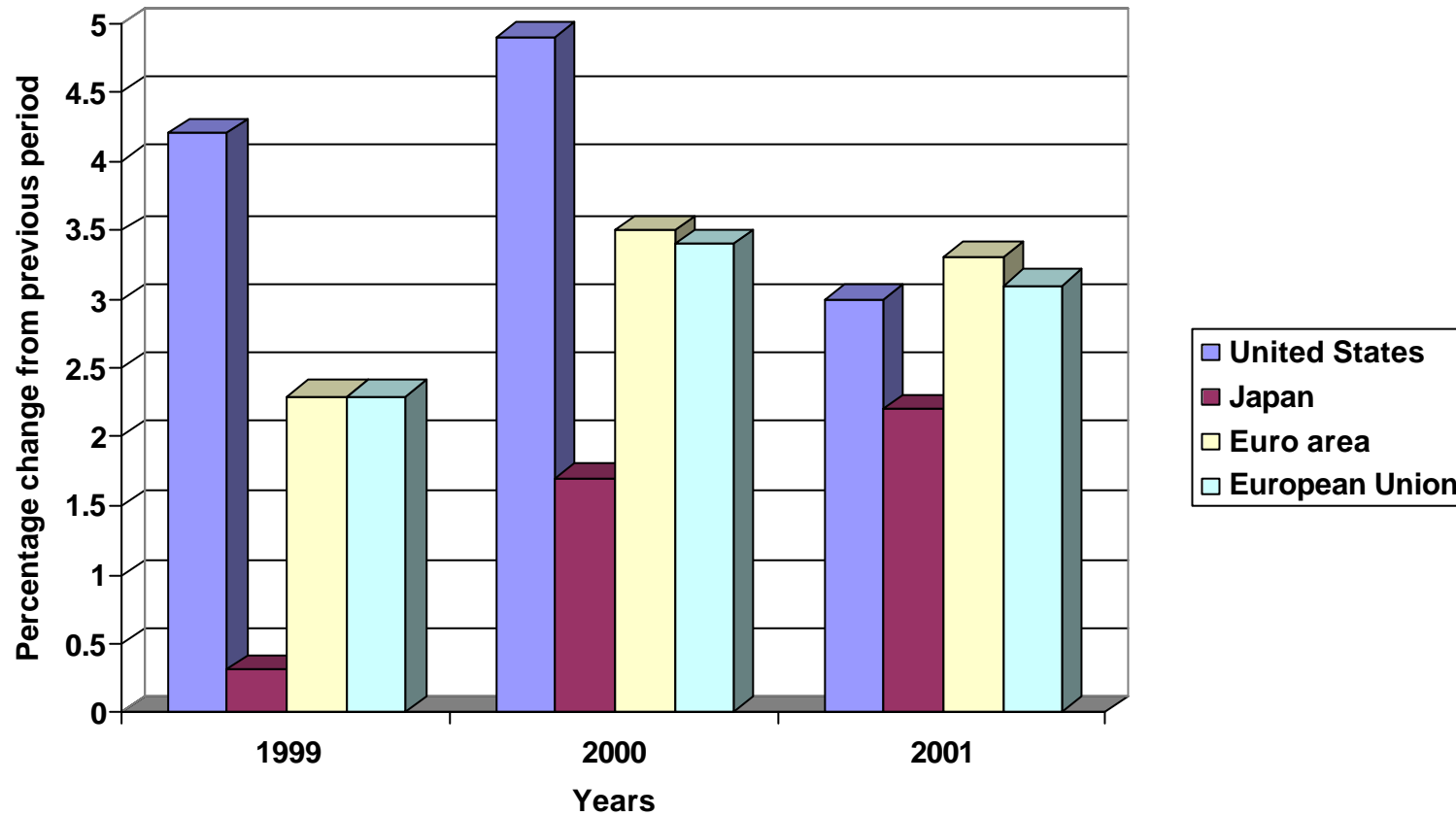


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Current International Economic Conditions: OECD Projections (Real GDP Growth)



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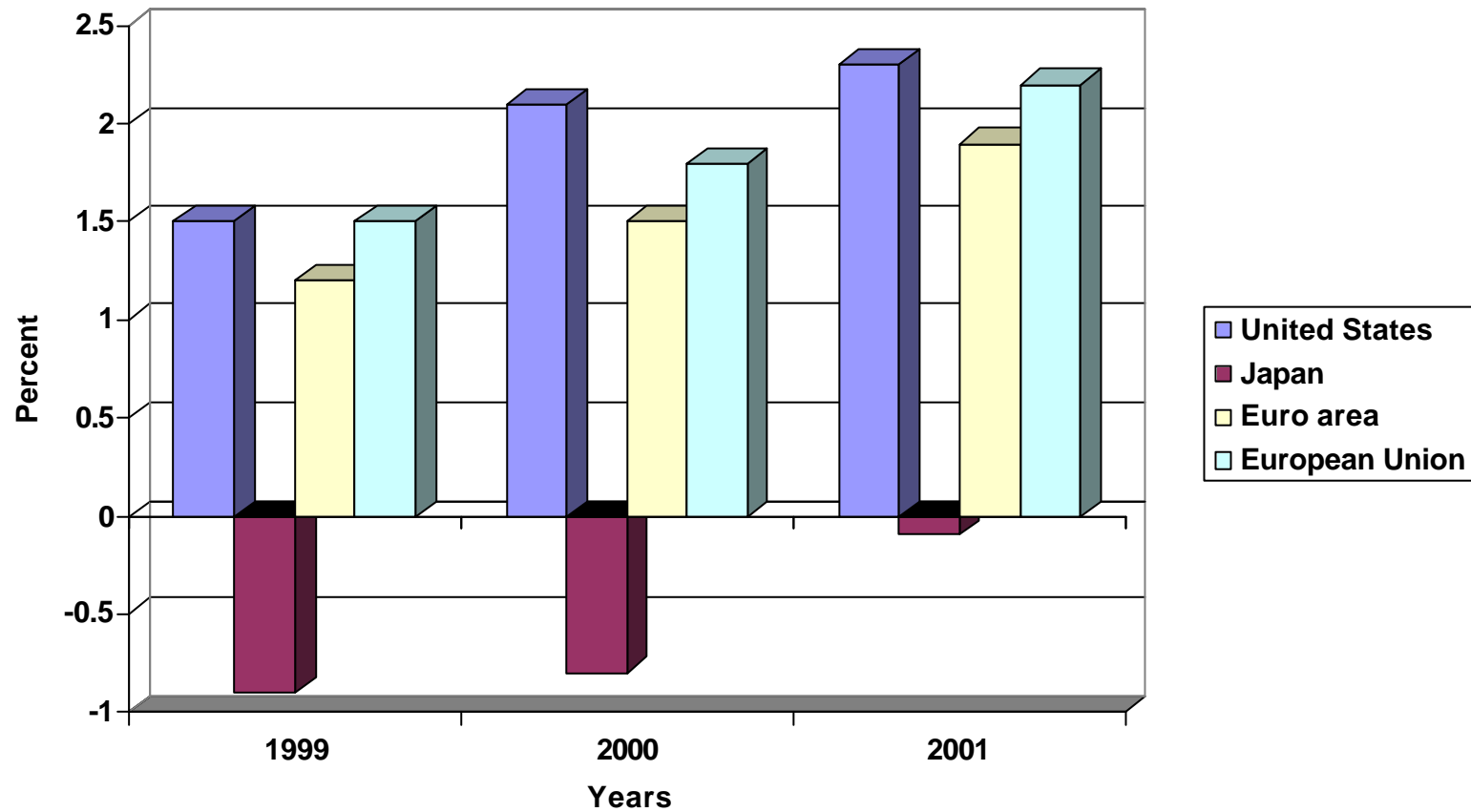


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Current International Economic Conditions: OECD Projections (Inflation)



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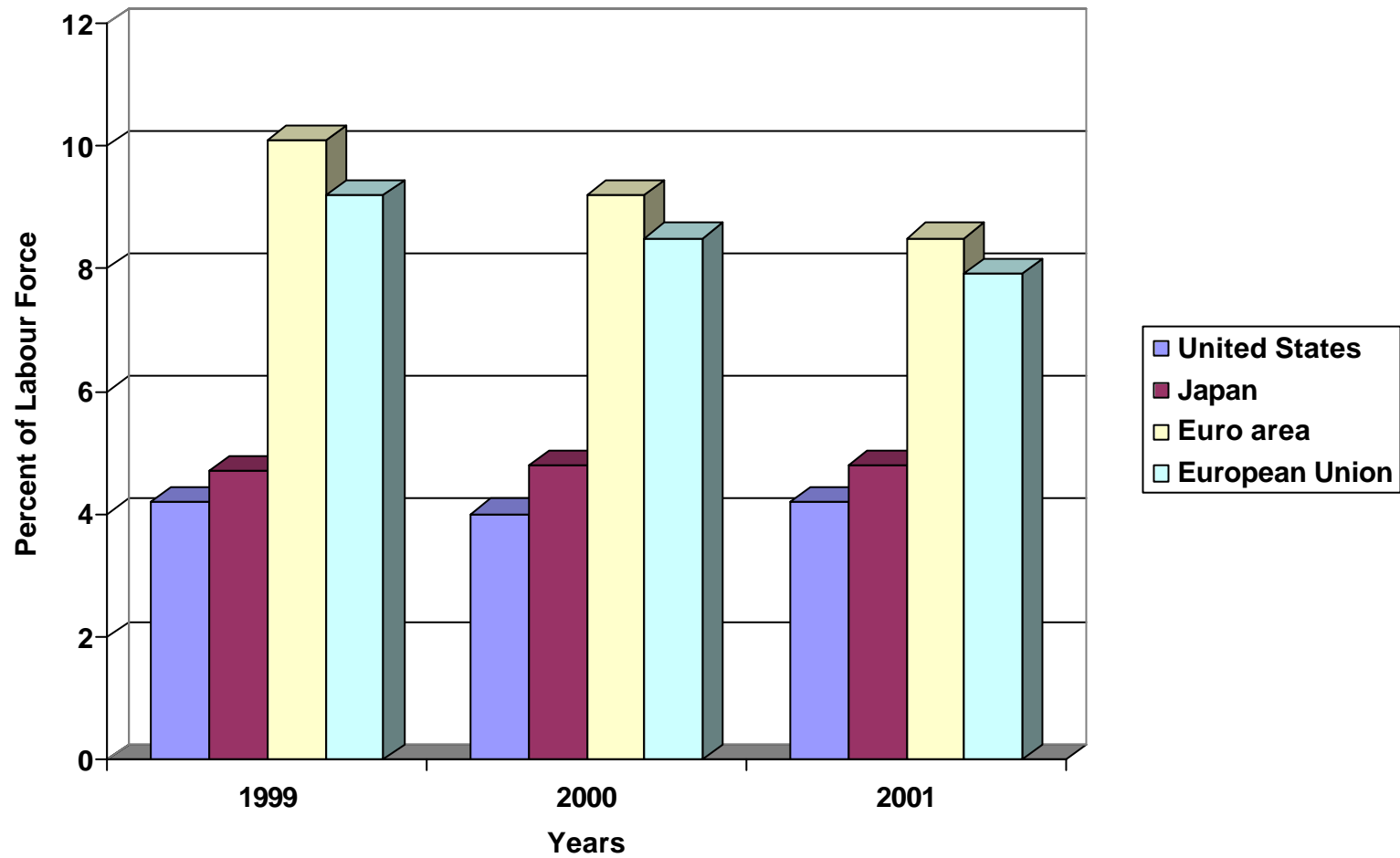


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Current International Economic Conditions: OECD Projections (Unemployment)



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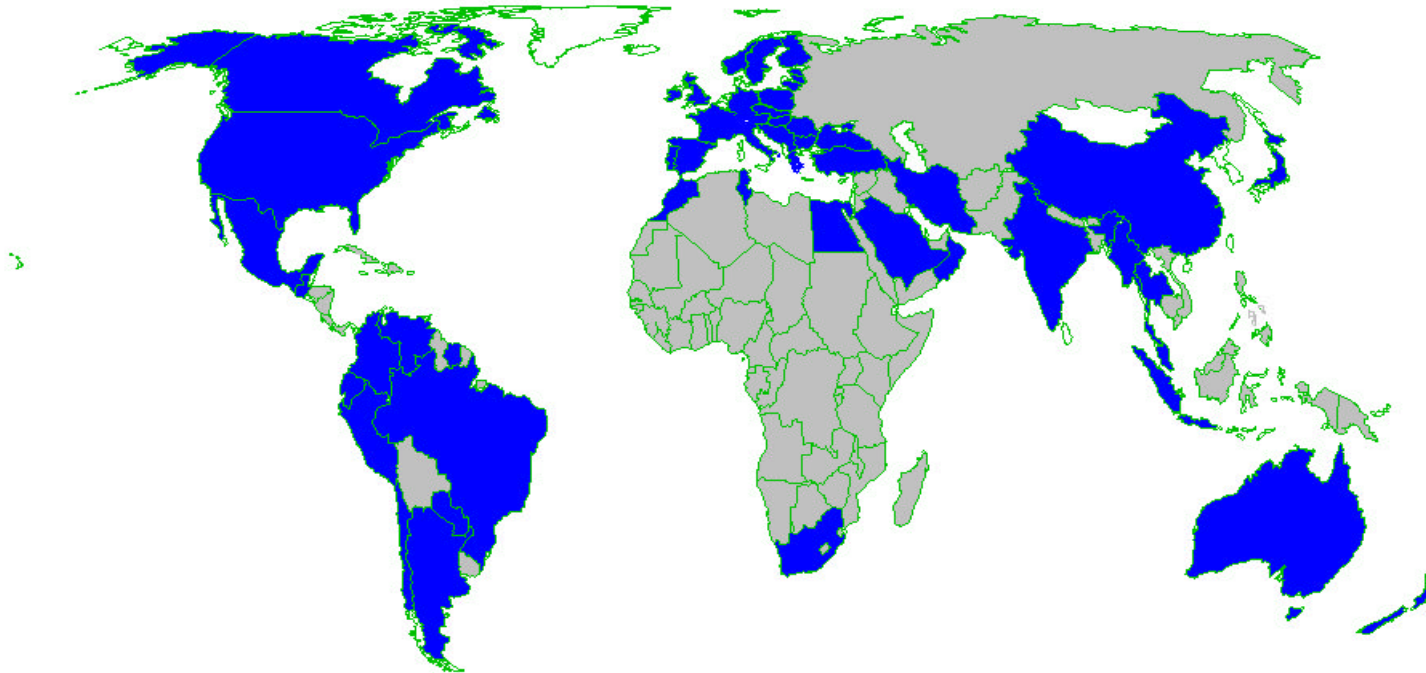



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CAPITAL MARKET ACCESS



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 Countries with Access to International Capital Markets

 Countries with No Access to International Capital Markets



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DEVELOPING COUNTRIES AND THE WORLD ECONOMIC OUTLOOK



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- The most recent World Economic outlook reports that overall, the number of very poor has remained roughly unchanged over the past decade;
- Between 1.2 and 1.3 billion people world-wide live on under \$1 a day;
- The level of real per capita income today is lower than it was 30 years ago;
- The divergence between rich and poor has never been so great as it is today.



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THE BRETTON WOODS INSTITUTIONS



BRETTON WOODS CONFERENCE



- BWIs were set up to finance the rebuilding of war-torn Europe; and
- To stabilise currency exchange rates between the developed nations;
- Throughout WWII the world markets were considerably chaotic;
- A need existed for freer international trade, sound external balances and financial stability;
- 44 countries initially met in Bretton Woods (USA) to sign the Article of Agreement of the BWIs in 1944;
- South Africa was a founding member of the BWIs.



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THE IMF

- About the Fund
- The IMF's Surveillance Function



ABOUT THE FUND



- Has a membership of 182 countries;
- *Established to promote:*
 - international monetary co-operation;
 - exchange rate stability; and
 - orderly exchange arrangements.
- *Its purpose is to:*
 - Facilitate the expansion of international trade;
 - Promote high levels of employment and real income;
 - Promote exchange stability;
 - Establish a multilateral system of payments;
 - Make available to its members general resources of the Fund under adequate safeguards



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THE IMF'S SURVEILLANCE FUNCTION



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- *The IMF prepares the WEO twice a year:*
 - To assess global implications of members' policies;
 - To review key developments in the international monetary system.

- *Article IV Annual Consultations that focus on members':*
 - Exchange rate policies;
 - Fiscal policies;
 - Monetary policies;
 - Balance of payments;
 - External debt developments;
 - Capital and financial/banking issues



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THE WORLD BANK

- About the World Bank



ABOUT THE WORLD BANK



- The World Bank has a membership of 182 countries;
- Its ultimate goal is to reduce poverty;
- It consists of five affiliate institutions, namely:
 - *The IBRD:* provides loans and development assistance;
 - *IDA:* provides interest-free loans to the poorest countries;
 - *IFC:* finances private sector investment and provides technical assistance;
 - *MIGA:* provides guarantees to foreign investors; and the
 - *ICSID:* provides facilities for the settlement of investment disputes.



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FINANCING DEVELOPMENT IN AFRICA

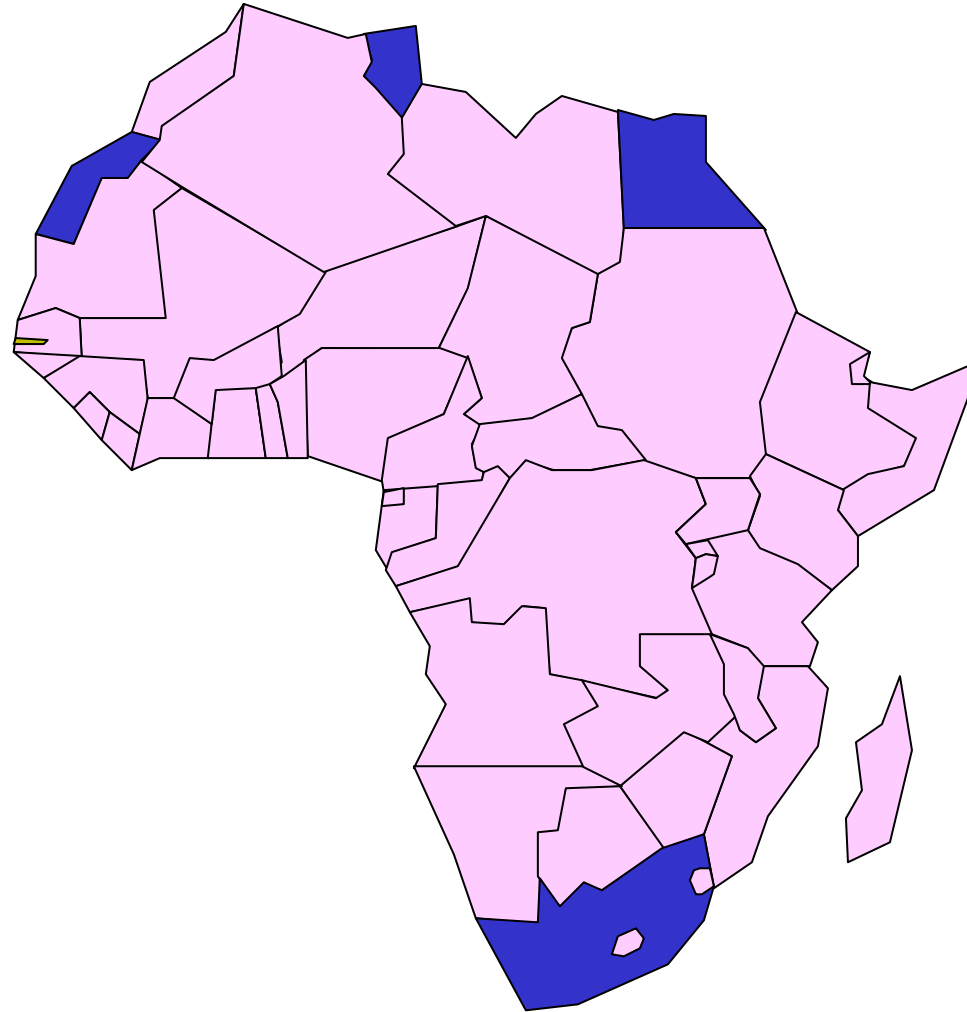


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CAPITAL MARKET ACCESS



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AFRICAN COUNTRIES WITH NO ACCESS TO INTERNATIONAL CAPITAL MARKETS



AFRICAN COUNTRIES WITH ACCESS TO INTERNATIONAL CAPITAL MARKETS

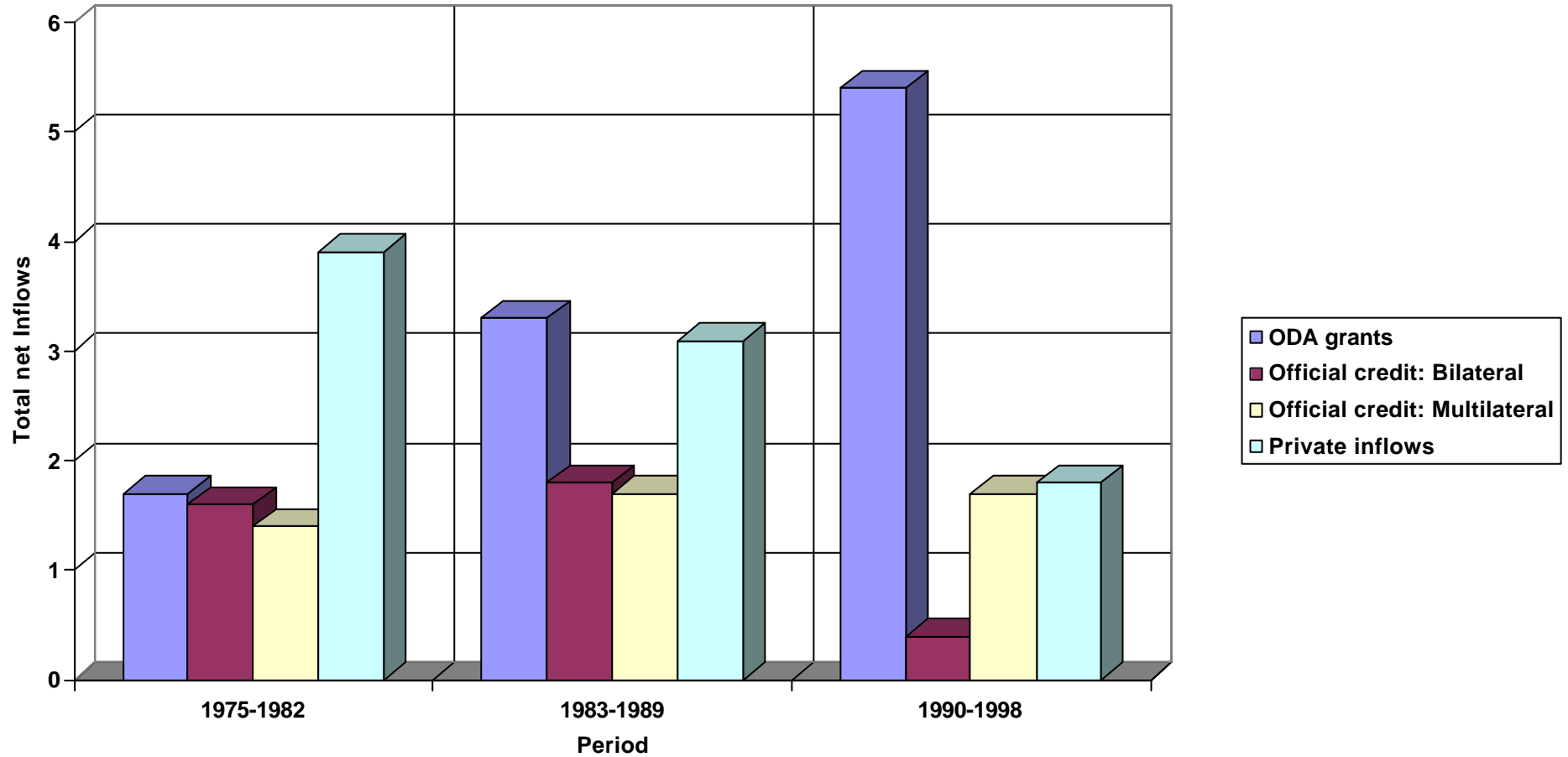


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Capital inflow of Sub-Saharan Africa by Type of Flow: 1975-1998 (Percentage of GNP)



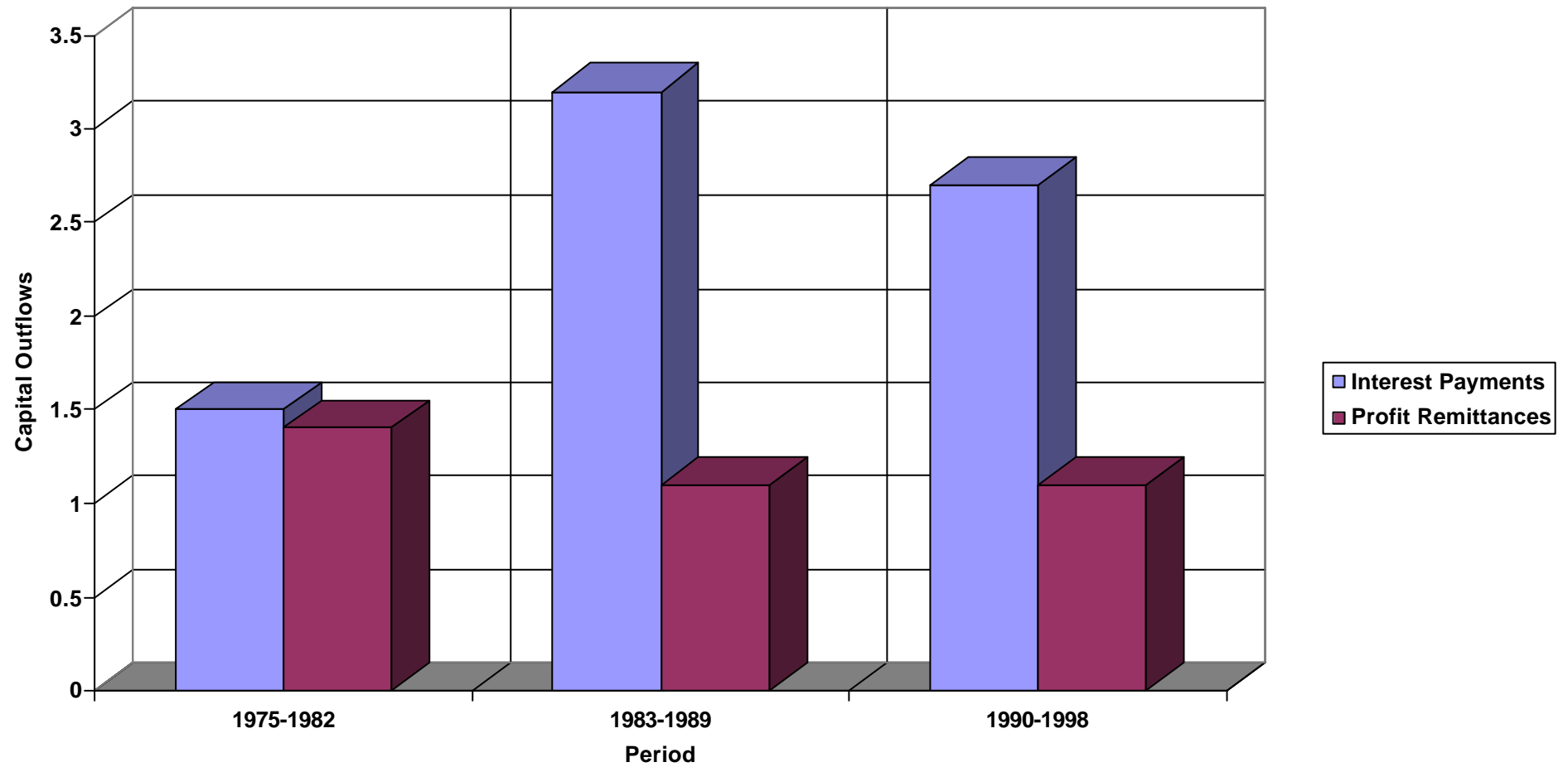


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Sub-Saharan Africa Capital Outflows: 1975-1998 (Percentage of GNP)





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FOR MANY DEVELOPING AND EMERGING MARKETS ACCESS TO THE CAPITAL MARKETS OF THE WORLD IS LIMITED



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- Official development assistance remains the main external source of development finance;
- Only four countries on the African continent, namely South Africa, Tunisia, Morocco and Egypt, have access to the Capital markets;
- The remaining 51 African countries, like most other developing countries in the world, rely on development finance from
 - International Financial Institutions (World Bank and IMF)
 - Regional Development Banks (AfDB, IADB, EBRD, AsDB)
 - Local Development Finance Institutions



MOST DEVELOPING COUNTRIES ARE FURTHER FACED WITH:



- *Declining official development assistance:*
 - The UN ODA/GNP target of 0.7 percent has reached a low of 0.22 percent in 1997;
 - IDA lending to Africa has declined from 40 percent of IDA 10 resources to 35 percent of IDA 11 resources;
 - IDA 12 seems to suggest a continuation of the IDA 10 and IDA 11 trends

- Developing countries are faced with *a dramatic debt situation:*
 - Africa's external debt stood at US\$319 billion at the end of 1998;
 - Africa's total debt to GDP ratio stood at 57.6 percent;
 - Africa's total debt to exports of goods and services at 215.2 percent;
 - Debt service payments for most developing countries far exceed ODA receipts



FUNDING TO AFRICA BY THE WORLD BANK



- The world's largest source of development assistance (US\$30 billion in loans to its client countries);
- 78 (of which 39 are African) countries are eligible to borrow from IDA;
- 66 countries (of which 11 are African) are eligible to borrow from the IBRD;
- 16 blend countries (of which 2 are African) can borrow from both the IBRD and IDA.

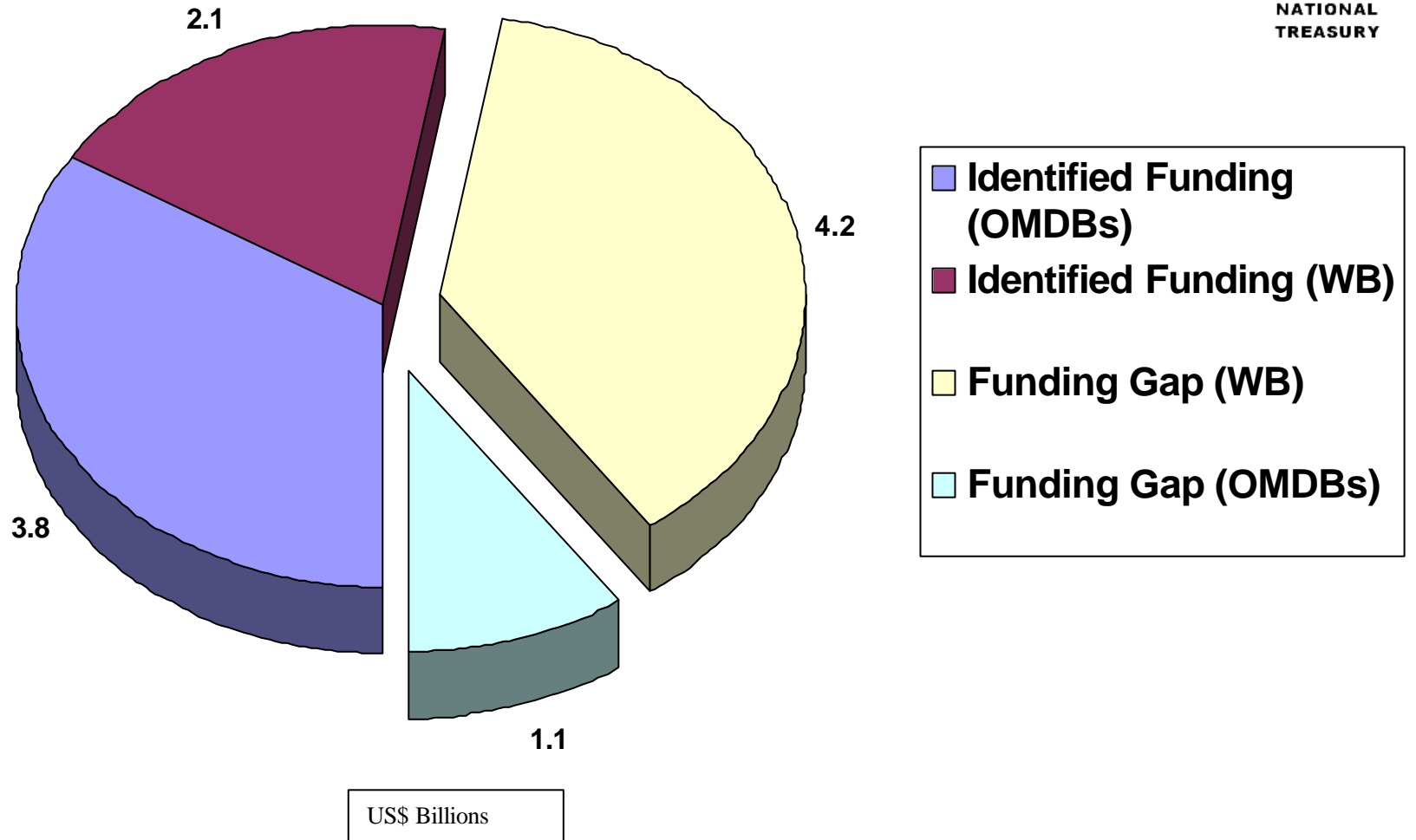


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The World Bank's and Other Multilateral Creditor's Funding Requirement and Funding Gap for HIPC



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Total Funding Requirement = US\$ 11.2 billion
Total Funding Gap = US\$ 5.3 billion

(WB) World Bank
(OMDBs) Other Multilateral Development Bank's

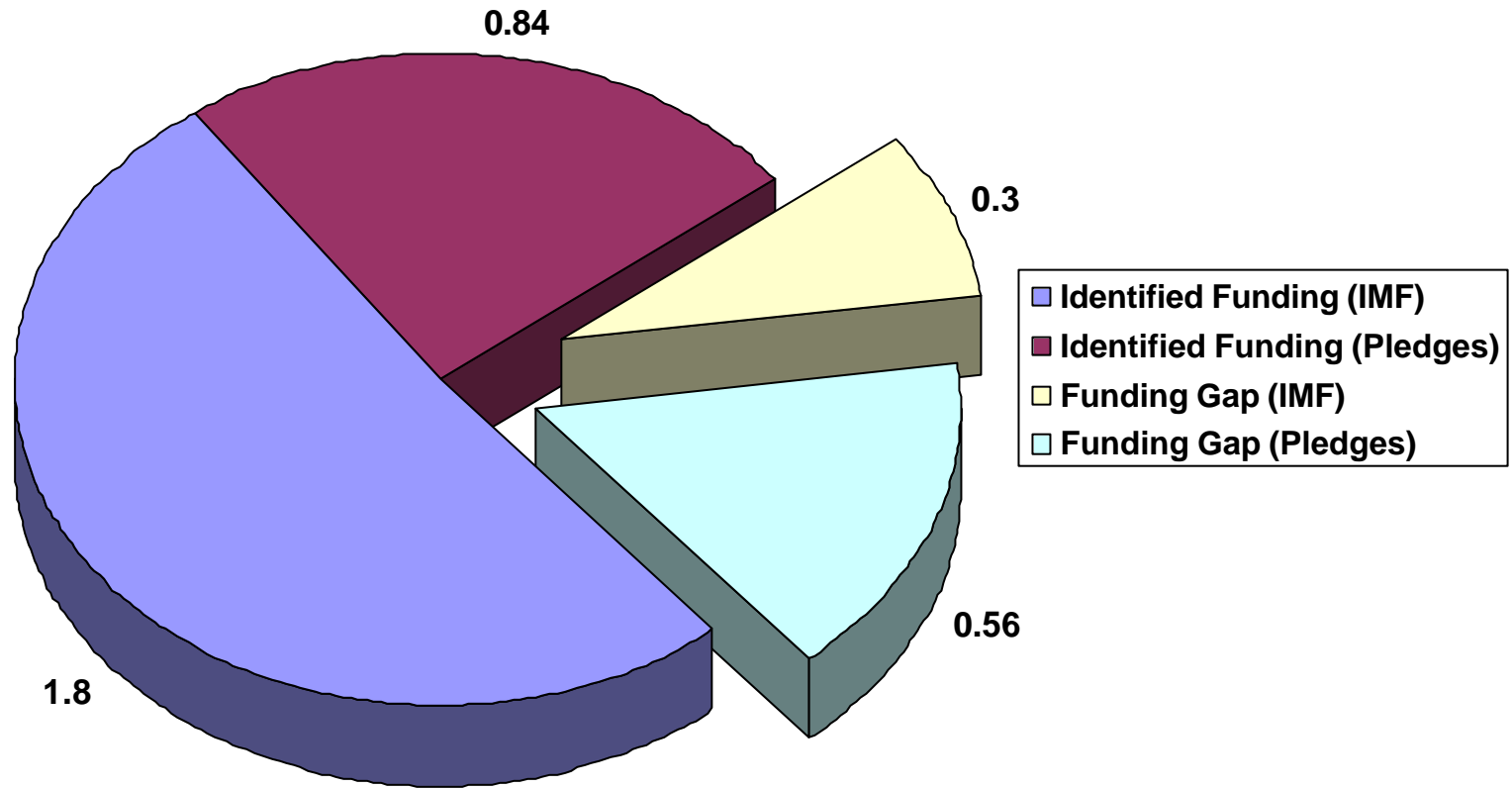


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The IMF's Funding Requirement and Funding Gap for HIPC



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US\$ Billions

Total Funding Requirement = US\$ 3.5 billion
Total Funding Gap = US\$ 0.86 billion
(IMF) International Monetary Fund
(Pledges) Pledged contributions by IMF member countries



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MULTILATERAL DEVELOPMENT FINANCE AND SOUTH AFRICA



SOUTH AFRICA AS AN IDA DONOR



- IDA resources are provided by donor countries
- IDA resources are replenished every three years
- South Africa has participated in all 12 IDA replenishments
- South Africa has contributed R50 million to IDA 12
- IDA's commitment is to allocate 50 percent of its resources to Africa.

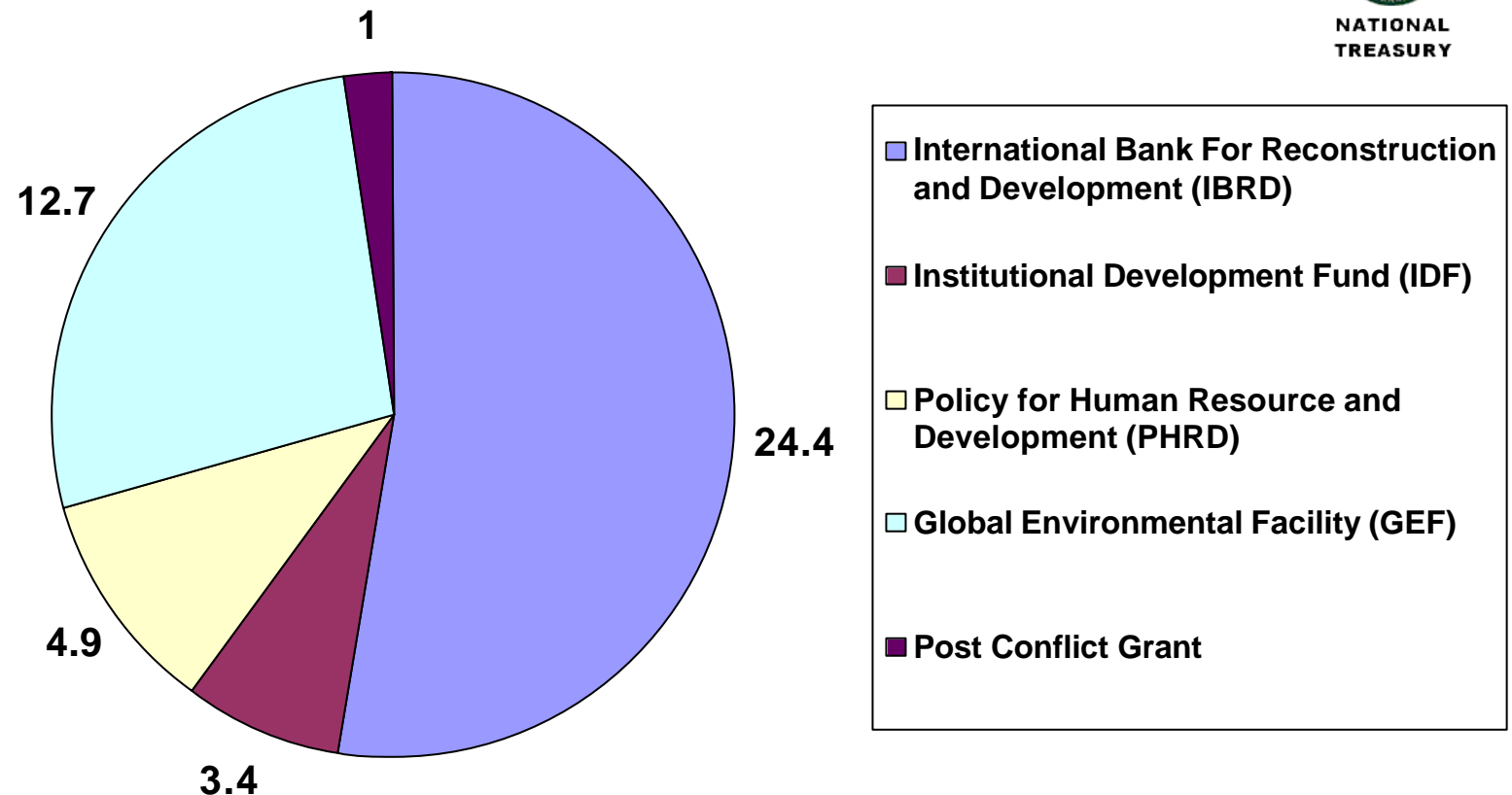


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World Bank Funding to South Africa



US \$ Million

Total funding provided by the World Bank is US\$46.4 million



ARTICLE IV CONSULTATIONS WITH SOUTH AFRICA



- *Highlights of 1999 Article IV consultations for South Africa:*

- SA authorities commended for strong fiscal performance during 1998/99;
- Agreement with authorities on a cautious approach to liberalise exchange controls;
- Authorities commended for its intention to use privatisation revenue to reduce debt.
- Authorities commended for conduct of monetary policy.
- Authorities called to speed up privatisation reform.



TECHNICAL ASSISTANCE FROM THE IMF



- *The IMF assists its members through:*
 - Providing courses at the Educational Institute;
 - Issuing a wide variety of publications;
 - Providing technical assistance in specialised areas of competence;

- National Treasury and SARB officials regularly attend courses at the IMF Institute;

- South Africa has recently requested technical assistance in the area of drafting legislation for capital gains tax.



A CRITIQUE OF THE BWIs

- The representation of developing countries within the BWIs;
- Review of IMF quotas
- Areas where the World Bank is in need of reform
- The need to review IMF facilities



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THE REPRESENTATION OF DEVELOPING COUNTRIES WITHIN THE BWIs



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- 43 African countries have a shareholding of 4.38 percent in the BWIs;
- The G7 countries between them have a 47.69 percent shareholding in the BWIs;
- In the two sub-Saharan African constituencies, each ED on average, represents 23 countries;
- On average, EDs from developed countries represent 3 countries;
- Constituency office should be restructured to achieve the maximum effectiveness of constituency representation

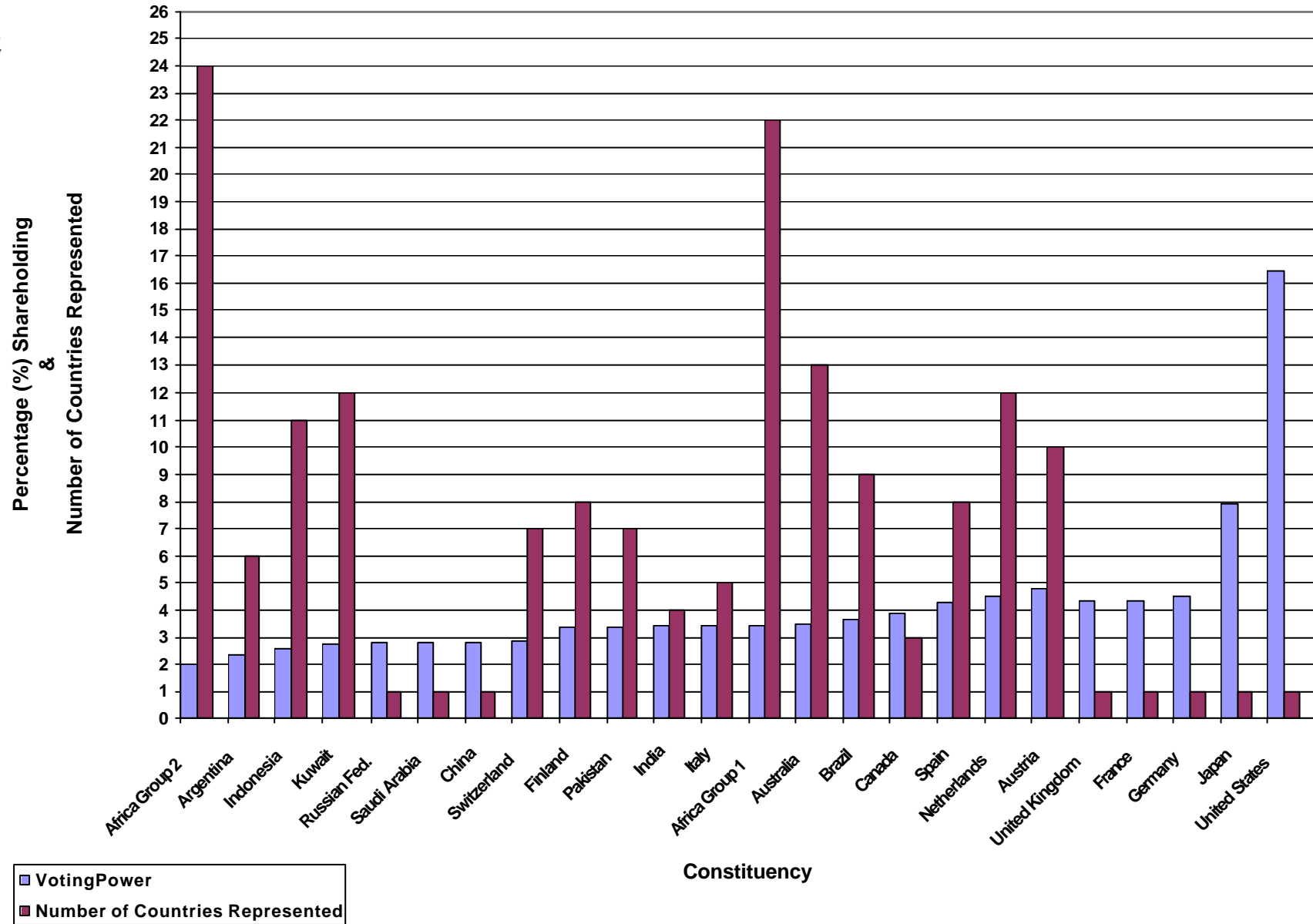


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Constituency Representation in the World Bank



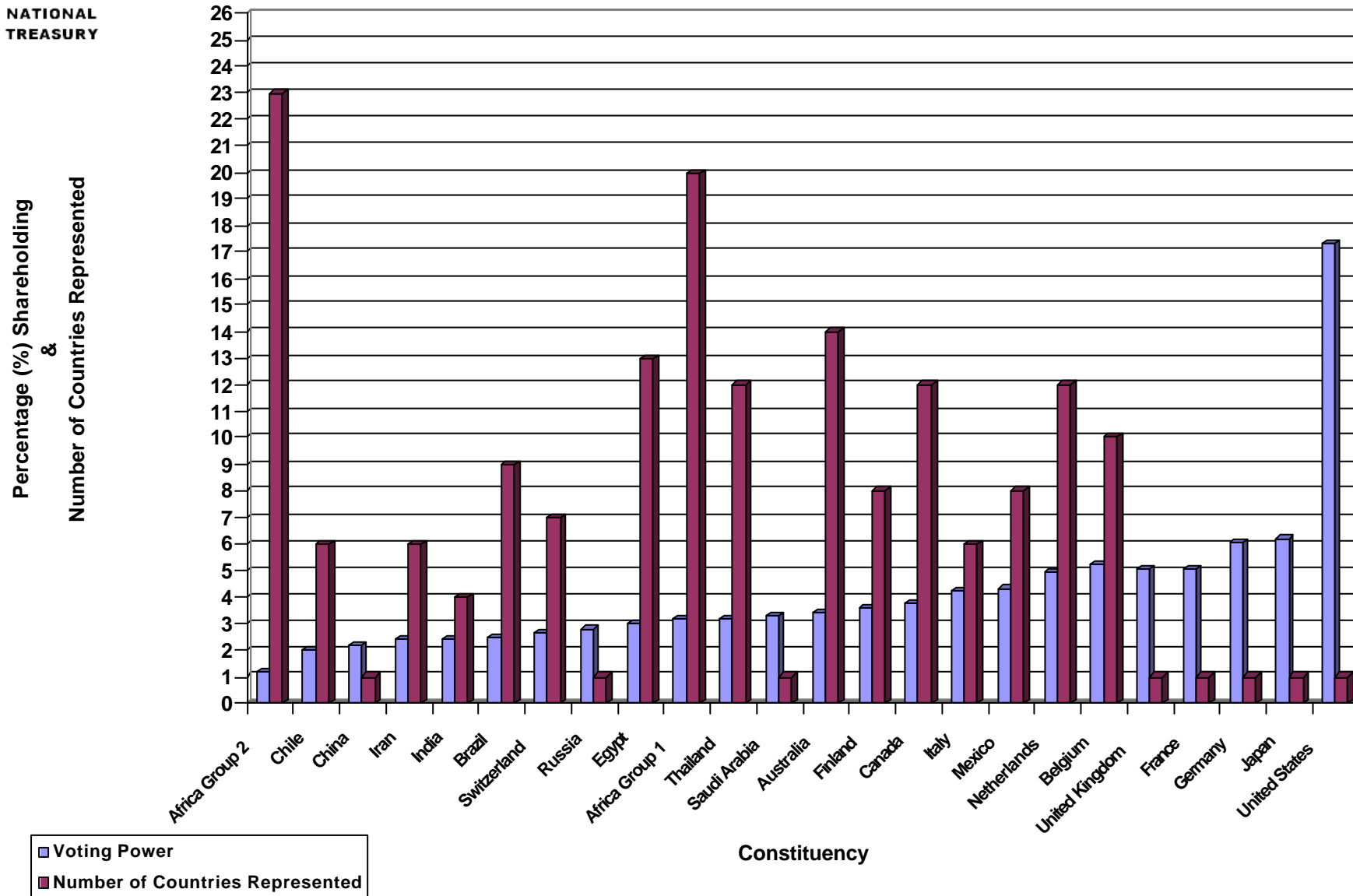


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Constituency Representation in the IMF



CONSTITUENCY REPRESENTATION IN THE WORLD BANK

CON. 1 (1)	CON. 2 (1)	CON. 3 (1)	CON. 4 (1)	CON. 5 (1)	CON. 6 (10)	CON. 7(12)	CON. 8(8)	CON. 9 (12)	CON. 10 (9)	CON. 11 (14)	CON. 12 (5)
United States	Japan	Germany	France	United Kingdom	Austria Balarus Belgium Czech Republic Croatia Hungary Kazakhstan Luxembourg Slovak Republic Slovenia Turkey	Armenia Bosnia and Herzegovina Bulgaria Cyprus Georgia Israel Macedonia Moldova Netherlands Romania Ukraine	Costa Rica El Salvador Guatemala Honduras Mexico Nicaragua Spain Venezuele	Antigua & Barbuda Bahams Barbados Belize Canada Dominica Grenada Guyana Ireland Jamaica St. Kitts & Nevis St. Lucia St. Vincent & The Grenadines	Brazil Colombia Dominican Republic Ecuador Haiti Panama Philippines Suriname Trinidad & Tobago	Australia Colombia Kiribati Korea Marshall Islands Micronesia Mongolia New Zealand Palau, Papua New Guinea Somoa Solomon Islands Vanuatu	Albania Greece Italy Malta and Portugal
% of Votes 16.50	% of Votes 7.2	% of Votes 4.52	% of Votes 4.33	% of Votes 4.33	% of Votes 4.77	% of Votes 4.49	% of Votes 4.26	% of Votes 3.87	% of Votes 3.62	% of Votes 3.47	% of Votes 3.43
CON. 13 (21)	CON. 14 (4)	CON. 15 (7)	CON. 16 (8)	CON. 17 (7)	CON. 18(1)	CON. 19 (1)	CON. 20 (1)	CON. 21 (11)	CON. 22 (12)	CON. 23 (5)	CON. 24 (24)
Botswana Burundi Eritrea Ethiopia Gambia Kenya Lesotho Liberia Malawi Mozambique Namibia Nigeria Seychelles Sierra Leone South Africa Sudan Swaziland Tanzania Uganda Zambia Zimbabwe	Bangladesh Bhutan India Sri Lanka	Algeria Ghana Iran Iraq Morocco Pakistan Tunisia	Denmark Estonia Finland Iceland Latvia Lithuania Norway Sweden	Azerbaijan Kyrgyz Republic Poland Switzerland Tajikistan Turkmenistan Uzbekistan	China	Saudi Arabia	Russian Fed	Bahrain Egypt Jordan Kuwait Lebanon Libya Maldives Oman Qatar Syria Yemen	Brunei Darusslam Fiji Indonesia Lao Peoples Dem Rep Malaysia Myanmar Nepal Singapore Thailand Tonga Vietnam	Argentina Bolivia Paraguay Peru Uruguay	Benin Burkina Faso Cameroon Cape Verde Central African Republic Chad Comoros Congo Dem Rep Congo Republic of Cote d'Ivoire Djibouti Equatorial Guinea Gabon Guinea Guinea-Bissau Madagascar Mali Mauritania Mauritius Niger Rwanda Soa Tome & Principe Senegal Togo
Africa Group 1											Africa Group 2
% of Votes 3.43	% of Votes 3.42	% of Votes 3.36	% of Votes 3.36	% of Votes 2.87	% of Votes 2.80	% of Votes 2.80	% of Votes 2.80	% of Votes 2.74	% of Votes 2.56	% of Votes 2.33	% of Votes 2.01



REVIEW OF IMF QUOTAS



- The Fund has undertaken a review of its quota formula for the following reasons:
 - The unequal distribution of IMF quotas, e.g.
 - United States quota allocation equals 17.52 percent;
 - Africa's quota allocation equals 5.57 percent;
 - SADC's quota allocation equals 2.03 percent; and
 - South Africa's quota allocation equals 0.88 percent
- The proposals of the Quota Formula review Group will not benefit developing countries
 - The group has refrained from recommending amendments to the Articles of Agreement;
 - No variable in formula that would advantage developing countries
- There is a need for an orderly process of reform to allow greater developing country representation



AREAS WHERE THE WORLD BANK IS IN NEED OF REFORM



- Must continue to provide a range of concessionary and nonconcessionary loan facilities

- Must undertake a comprehensive review of its existing nonconcessionary instruments:
 - Broaden the pool of currencies beyond the 5 OECD currencies;
 - Better risk models need to be developed;
 - Consider ways of rewarding good performers;
 - Must review the need for government guarantees;
 - Must review the nature of cross-conditionality clauses.

- IDA lending to Africa must reach the 50 percent target



THE NEED TO REVIEW IMF FACILITIES



- Facilities that no longer serve member needs must be eliminated;
- The stand-by arrangement is the core facility of the Fund;
- The relevance of the Contingent Credit Lines (CCL) in crisis still to be tested;
- The relevance of the Extended Fund Facility (EFF) in addressing BOP crisis still to be tested;
- Moral hazard must be limited in determining the application of the Supplemental Reserve Fund (SRF) in managing systemic crises.



SOUTH AFRICA'S PARTICIPATION IN THE ACTIVITIES OF THE G20



- The Group of 20 brings together G7 countries and thirteen “systemically significant countries”
- Generally the work of the G20 focuses on global economic issues and on issues of financial architecture
- South Africa, as a member, has played a leading role in developing its agenda;
- Issues on its agenda are, amongst others:
 - The challenges of globalisation;
 - Reducing the vulnerability to financial crisis



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REGIONAL DEVELOPMENT BANKS



REGIONAL DEVELOPMENT BANKS



- *The Asian Development Bank (AsDB)*

- Membership of 58 governments (42 from the region);
- promotes social and economic progress of the Asia-Pacific region

- *The European Bank for Reconstruction and Development (EBRD)*

- Established in 1991 to foster the transition towards open-market-oriented economies;
- It serves the developing countries of central and eastern Europe

- *The Inter-American Development Bank (IADB)*

- Established in 1959 to help accelerate economic and social development in Latin America and the Caribbean;
- It promotes the financing of SMMEs and investment reforms to stimulate private sector development



THE AFRICAN DEVELOPMENT BANK



- Established to mobilise resources towards the economic and social progress of all African countries;
- *At a country level, it promotes:*
 - Agriculture and rural development;
 - Human resource development; and
 - Private sector development
- *At a regional level, it promotes:*
 - Economic integration and co-operation
- *Cross-cutting issues include:*
 - The environment, and
 - Gender
- *A generic theme* in all the Bank's activities is that of governance



SOUTH AFRICA'S ENGAGEMENT WITH THE ADB



- South Africa's Country Assistance Strategy (CAS) with the ADB focuses on three sectors, namely:
 - Provincial and municipal infrastructure;
 - Medium scale enterprises in the private sector;
 - Multinational projects in promotion of regional integration

- South Africa has indicated a willingness to increase its shareholding in the ADB;

- South Africa contributes towards the ADF, the concessional window of the ADB.

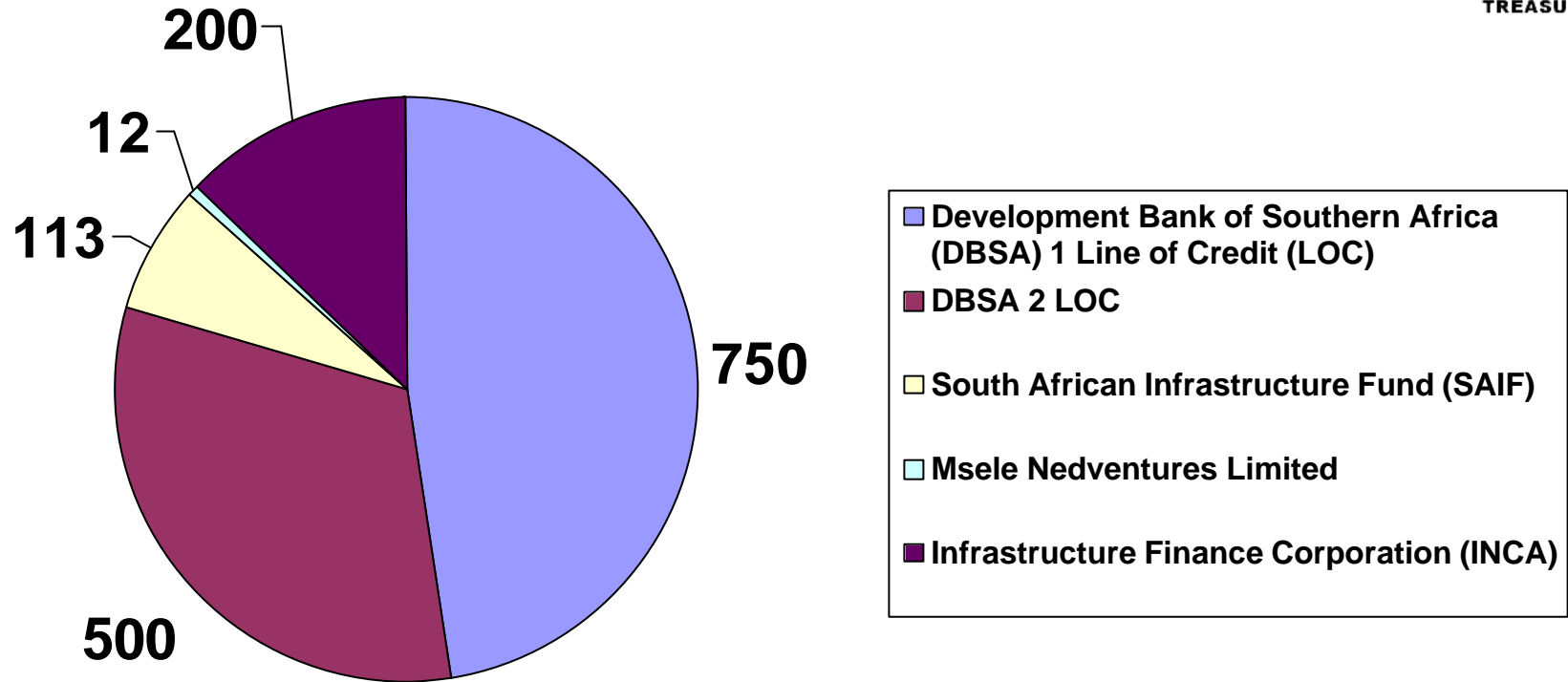


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Total AfDB Funding Approved for South Africa



R Millions

The AfDB has approved a total of R1,575 million in support of five operations in South Africa



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LOCAL DEVELOPMENT FINANCE INSTITUTIONS



THE DEVELOPMENT BANK OF SOUTHERN AFRICA (DBSA)



- *Its key purpose is to:*

- Address socio-economic imbalances in Southern Africa;
- To improve the quality of life of the people of South and Southern Africa;

- *Its mandate is to:*

- Invest in infrastructure;
- Finance sustainable development in partnership with the public and private sectors;
- Respond to development demands



THE LAND BANK



• It is a specialist agricultural Bank with a government mandate to promote rural development;

• *Its mission is to:*

➤ Promote Southern African economic growth through rural development;

➤ Promote rural development and social well-being through sustainable financing in agriculture;

• *Its objectives are to:*

➤ Provide finance to all sectors of the agricultural economy;

➤ Meet the needs of resource-poor farmers and the rural poor;

➤ Contribute to rural development that promotes stability in the rural sectors;

➤ Match financial sector norms for cost efficiency, effectiveness and customer service.



NATIONAL HOUSING FINANCE CORPORATION



- *Its mandate is to:*

- Search for new and better ways to mobilise finance for housing.

- *Its mission is to create housing opportunities for low and moderate-income families by:*

- Funding intermediaries to promote broader access to housing;
 - Building adequate and sustainable capacity within the organisations which it funds; and
 - Partnering organisations to pioneer new finance and housing delivery products.

- *Its vision is to*

- Facilitate affordable and suitable credit for low and moderate-income households in the region.



THE INDUSTRIAL DEVELOPMENT CORPORATION (IDC)



- *Its objectives are to:*

- Promote and sustain employment creation;
- Improve competition and international industrial competitiveness;
- Engage in initiatives aimed at spatial development;
- Develop and support industrial policies

- *Its mission is to :*

- Contribute to the generation of balanced and sustainable economic growth in Southern Africa;
- Promote entrepreneurship



KHULA ENTERPRISE FINANCE LIMITED



- It has been established to mobilise loan and equity capital;
- It serves the SMME market;
- Its mission is to increase access to loan and equity capital by:
 - Offering loans in a sustainable manner;
 - Offering guarantees and seed funds to retail enterprises.