

WORLD BANK

9/6/75 — 21/12/81



WORLD BANK

(356)

## Silver-lined Clausen

PM 11/11/80

There could be no two more different men in style and attitude than outgoing bank president Robert S McNamara and his newly elected successor, A W "Tom" Clausen. McNamara, the emotional loner whose public tears conflicted with an icy manner with subordinates, has been credited with expanding the bank's capital strength to \$45 000m but in keeping the reins of power so tightly held that the institution is ill-equipped to handle the planned next step up in assets — to \$85 000m.

While Clausen's sponsors are at great pains to praise his "high standing" among Third World leaders, the truth is that his greatest contribution will be his ability to coax increasing amounts of money out of a thoroughly alienated US Congress. McNamara, who was used to dealing with hawkish military committees in the Congress, never deigned to answer critics on the various foreign aid committees.

In recent years anti-bank forces won embarrassing embargoes on bank funds to Vietnam and Cambodia and this summer cut \$400m from the Asian Development Bank and other smaller agencies while sitting on funds for both the bank and the neighbouring International Monetary Fund.

Clausen, a Republican with a world-class reputation as an international banker (chairman of the Bank of America), will be able to turn congressional relations around. Just as important, he will bring to the bank's decision making process the same tough yet collegial process that saw Bank of America swell to a \$110 000m institution in his 10 years as its chief

executive.

There is a final dimension to Tom Clausen that few World Bank staffers and fewer still in the international community appreciate at the moment. Clausen is only 57 and obviously not looking for a retirement base quite yet. He is sacrificing his \$600 000 annual salary for the \$78 000 World Bank salary because he believes he can make a contribution.

And while he fully backs the McNamara plan of expansion -- including the ambitious \$13 000m new energy development programme -- he is certain to ignite new sparks of controversy for his adherence to traditional banking standards. That means Third World demands for total concessionary transfer of resources from north to south will probably go frustrated.

In his only public comment on the nomination, Clausen (who takes office next June) said that the challenge the bank faces, "of keeping the lesser developed countries alive so we can effect long-term cures, is challenging and I think the next few years will be critical."

Whether Third World income-transfer specialists will be as grateful for Clausen's "cures" of their economic systems remains to be seen, but his words must produce a sigh of relief throughout the finance ministries and central banks of the industrial West, at least.



# Tough job for new World Bank chief

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The Star Bureau

NEW YORK — A W Clausen, the president of the Bank of America who has been chosen to be the next president of the World Bank, is a conservative banker like Robert S McNamara, the man he succeeds.

Clausen (57), has considerable international experience. His appointment by President Carter was applauded by foreign governments as well as by close advisers of Ronald Reagan and other leading Republicans.

Particularly important is his high standing with Third World countries.

His appointment to a five-year term beginning next June must be approved by the bank's board of executive directors, representing the 138 members of the bank.

Clausen joined the Bank of America as a trainee just out of the University of Minnesota Law School and rose to become president of the San Francisco-based institution 20 years later when he was 47.

Last year the Bank of America's assets reached 110 000m dollars, and its prominence in international banking has grown under Clausen's direction.

He travelled in underdeveloped countries for years, often making

speeches in support of their causes. At times he got into trouble with the American authorities.

In 1973, when the United States stood alone at a meeting of the World Bank in Kenya in opposing a link between aid to developing countries and the creation of a new international order, Clausen made a speech which appeared to contradict the American stand.

Though he has been increasingly critical of recent economic measures, Clausen has been considered for several top jobs in the Carter administration, including Secretary of the Treasury.

Clausen admits that the new job will need a great deal of patience and diplomacy. Asked if he thought any special qualities were called for by the post he laughed nervously and replied:

"I can sort out the issues and separate the wheat from the chaff."

He is known as a good listener and for dealing well with people, a quality many analysts believe is essential for someone who heads an international organisation with employees from 100 countries.

"I am able to compromise," he said, and added quickly, "but not on principles."



# Seat for a Third World man?

The Star Bureau

## WORLD BANK

Star 25/7/80

LONDON — The time may now be ripe to install a Third World candidate as president of the World Bank, observers and diplomatic sources believe.

The presidency of this, the world's largest development agency, has traditionally been the choice of the US President, and has gone to an American. And there are plenty of candidates now that Mr

Robert McNamara has announced his retirement.

Mr. Abdlatif Al-Hamad is one. He is director of the Kuwait Development Bank, an able and shrewd financial administrator who has attempted to use his influence to push Opec nations into a significant role as aid donors.

Sir Shridath Ramphal, secretary-general of the Commonwealth, is another. He is regarded as a highly sophisticated politician who played a valuable role in organising the Commonwealth nations, both old and new, to lean on Mrs Margaret Thatcher's Government at critical points in the Rhodesian negotiations.

He is also credited, along with ex-British Prime Minister Mr Edward Heath, with having rescued the Brandt Commission from falling apart last year when its staff were hopelessly split.

Non-Third World contenders could include Mr Wilfried Guth, head of the West German Deutsche Bank, a strong probable among the West Europeans, though some sources doubt his willingness to assume such a task.

The Japanese have no



Robert McNamara, president of the World Bank.

major candidate. The Canadians have only one — Mr John Turner, a former Finance Minister in the Trudeau Government.

The European front-runner, though, is Mr Heath. The former Prime Minister lost his premiership when he called a

premature election in order, he hoped, to quash the miners' strike.

Today, ironically, he is regarded more highly in his country than he was while in office. He is seen as a man of great wisdom, energy and foresight.

He has, in fact, been by far the most effective member of the Brandt Commission. It is his work that has refined the argument that needed to be made where the commission's "Emergency Programme", linking the interests of the Third and industrial worlds with Opec, left off.

Nevertheless, tradition implies that the successor will probably be an American, which returns the hunt to the USA.

Mr Elliot Richardson and Mr Peter Peterson, the latter also a member of the Brandt Commissions, are two possibilities. But currently being strongly advocated, is none other than Mr Andrew Young, former US Ambassador to the UN.



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WEDNESDAY.  
International Monetary Fund/World Bank  
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471. Mr. H. H. SCHWARZ asked the  
Minister of Finance:  
What amounts have been (a) drawn or  
borrowed from and (b) repaid to the (i)  
International Monetary Fund and (ii)  
World Bank by South Africa since 1 April  
1979?  
The MINISTER OF FINANCE:  
(a) (i) None.  
(ii) None.  
(b) (i) SDR 229 001 000  
(ii) None.



# World Bank alters food policy to self-help

Rm 11/9/60  
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**LONDON.** — Trade in food grains rose last year to 181-million tons as more and more countries — most of them in the developing world — failed to satisfy often the most basic food needs from domestic production.

This tremendous volume of trade not only puts immense strain on the balance of payments of many poor countries, but causes formidable handling and distribution problems for importers. The problem has become so severe that the World Bank is calling on developing countries to put a high priority on self-sufficiency in food.

This marks a significant shift in World Bank policy because it has in the past been one of the leading advocates of export-led growth — a policy which has led many developing countries to trim food-grain production at the expense of export crops like palm oil, tapioca, sugar cane and coffee.

"Before 1939, only Western Europe among the world's regions was a net importer of grains," says the bank in its World Development Report. "Today, only North America and Oceania are not."

In the late 1930s, only 25-million tons was traded — 4% of global production — last year's trade of 181-million tons accounted for 14% of world production.

North America provides 20% of all grain produced — and meets a staggering 80% of the trade in grain. Average US exports over the past three years have been 95-million tons, and Canada's net annual surplus has been almost 18-million tons.

By contrast, the largest exporter in Asia, Thailand, sold 2 800 000 tons last year. This is important domestically in that it provides more than 13% of all export earnings, but is almost insignificant measured against import needs among the developing countries, averaging 36-million tons over the past three years.

Among the developing countries, low-income nations (those with a per capita gross

national product of less than \$370 a year) are expected to import food costing \$7 700-million, which accounts for 17% of their merchandise imports. The middle-income developing countries' imports are likely to cost \$360 000-million — 9% of merchandise imports.

Among middle-income countries, foodgrain imports account for almost a quarter of total consumption compared with 13% a decade ago.

Even more worrying than the cost is severe pressure on the grain handling and distribution systems in developing countries. The bank reports that they handle today four times the tonnage of 20 years ago.

"In times of food shortfalls, distributional bottlenecks are often a more important constraint than the ability to procure imports," says the bank.

For example, Bangladesh last year faced one of the severest droughts in its recent history. To meet urgent needs, more than 2-million tons of grain (mostly wheat) was imported under an emergency programme between July and November. It took a huge military-backed operation, personally orchestrated by President Ziaur Rahman, to ensure that grain reached people worst hit by the drought.

The President was no doubt galvanised by the memory that a similar drought in 1975 played a large part in the bloody overthrow of his predecessor, Sheikh Mujibur Rahman, in July 1975.

The bank concludes: "These constraints argue for a measure of self-sufficiency in food — but within limits. The earnings foregone as a result of the diversion of resources from other... investment can be substantial."

It thus advocates a "broad-based effort to stimulate agriculture" by improving yields, reducing waste in use of fertilisers and irrigation water, supporting extension services and shifting pricing policies so that they discriminate in favour of farmers. — Financial Times.



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# Boost for Third World

A HUGE R75 000-million-plus fund to stimulate industry in developing countries and to help hold back recession in the West will be the major proposal at the third general conference of the United Nations Industrial Development Organisation (UNIDO), which opens in New Delhi on January 21.

The fund would start with a paid-in capital of at least R3,750 thousand million.

## Borrow

Like the World Bank, it would borrow money at commercial rates, mostly from countries with balance of payments surpluses, and lend it for industrial development programmes in the Third World at the rate, eventually, of as much as R15 000 million a year.

A quarter of the loans would be at concessionary rates, to the poorest countries.

The idea of the fund is to smash open the present bottleneck in finance for development. The big development banks lend mostly for individual projects, but these can take a long time to design and identify, so the flow of funds is slowed.

Third World governments have been paying for their oil deficits by heavy borrowing on commercial markets. Their total debt reached R244 000 million in

1977.

But the cost of repaying is rising, so cutbacks in borrowing seem inevitable. As this would slow the pace of expansion, a big new source of flexible, medium term finance is urgently needed.

UNIDO's second general conference at Lima five years ago set the ambitious target of raising the Third World's share of industrial production from 7 percent to 25 percent by 2000.

That share remained static throughout the 60s. But, as the conference background survey shows, it began to rise from 1970, reaching 9 percent in 1977.

This was because recession-hit Western industry slowed to a 3,2 percent growth rate per year in the first half of the 70s, while Third World industry actually speeded to a remarkable 8,7 percent.

Industry in communist countries grew even faster, at 9 percent a year, bringing their share of world production to 28 percent in 1975. The West's share sank to 64 percent (down from 75 percent in 1960).

The Third World's booming expansion, with its thirst for Western imports, helped keep unemployment down — saving an estimated 3 000 000 jobs in the Common Market alone.

The proposed new fund is designed to keep up the momentum, to the benefit of North and South.

The conference will have before it a bold checklist of proposals. Most will appeal to developing countries, though Western governments will plead poverty. Much will hinge on the attitudes of the oil-producing States and of Western countries, like Germany, running a large balance of payments surpluses.

Western assent will not be needed for a proposed International Industrial Finance Agency, open only to developing countries, with a capital of 5 000 million.

This would channel surplus oil cash — now siphoned through Western private banks — directly into shares in Third World enterprises.

Technology for industry is a field in which UNIDO

is already active in trying to correct huge international inequalities. The poor countries, with nearly three-quarters of the world's population, have only 2,6 percent of total spending on research and development, making them evermore dependent on costly bargains with multinational companies.

## Patents

So UNIDO is proposing an International Industrial Technology Institute to spread information on suitable technologies for low income countries — especially technologies that would produce cheap goods for the poor and save on resources and energy.

A new International Patent Centre would provide developing countries free of charge with the information they need to process applications for patents, and thus save manpower.

ALL CAUSES

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| 1-4   | 1,17  | 0,94  | 2,42  | 2,39  | 17,2  | 2,2  |
| 5-24  | 1,05  | 0,46  | 1,31  | 0,74  | 8,8   | 24,1 |
| 25-44 | 3,02  | 1,47  | 4,33  | 2,48  | 96,1  | 14,1 |
| 45-64 | 17,46 | 9,49  | 26,27 | 18,72 | 14,1  | 166  |
| 65+   | 73,62 | 54,55 | 92,20 | 82,93 | 14,1  | 166  |
| ALL   | 9,44  | 7,40  | 8,03  | 5,51  | 14,1  | 166  |
| NO.   | 19600 | 15374 | 2828  | 1967  |       |      |

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# World Bank's unreserved gloom over sub-Saharan

THE ONE area of the world about whose prospects for economic development in the coming decade the World Bank is almost unrelievedly pessimistic is sub-Saharan Africa.

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By QUENTIN PEEL, Africa editor  
of the Financial Times

According to virtually every indicator of economic progress and welfare, African countries as a group are the world's poorest, and they are becoming progressively poorer.

Africa is the only continent where population growth continued to accelerate throughout the 1970s, itself an indicator of the lack of development, the report argues.

In both the low-income and middle-income African states, food consumption has declined, and it was less than half the world average 10 years ago. In spite of being overwhelmingly agriculture-based economies, most African countries have become net food importers.

Indeed, 26 countries in the region, with a population exceeding 150-million, report food shortages.

In terms of gross national product a head, the poorest countries of Africa are also unique in having suffered a 0.4% decline in the past decade. On the bank's most pessimistic assumptions, they face a further 1% decline in the 1980s.

Even on the most optimistic assumptions, per capita incomes in the oil-importing countries will stagnate, with a forecast increase of 0.1% a year up to 1990.

Although their lack of development means that African states are less dependent on

imported sources of energy than more industrialised states, they have been more drastically affected by the energy crisis.

Their lack of expertise and technical skills means they have been less able to adapt. Their economies, often depending on only one or two commodities for virtually all their export earnings, have proved highly inflexible to adjustment. They are also facing a critical shortage of traditional fuels,

least a quarter of their energy needs.

In the past decade, the report says, "African countries especially were beset by domestic problems, and could neither increase their exports nor borrow much; they had to cut imports and endure stagnation".

In spite of its gloomy forecast, the report tries to focus on development strategies which would alleviate the worst poverty and help countries in Africa to withstand future external economic upheaval.

It focuses on countries drastically affected by the oil crisis, declining agricultural production, and slumping commodity prices — like Zambia, Tanzania and Upper Volta — and on those which have coped best, such as Ivory Coast, Kenya and Malawi.

The report highlights key areas of concern, requiring the

most urgent aid, as well as new government strategies: agriculture, training, population growth, and energy sources.

Upper Volta and to a lesser extent Tanzania are countries whose poverty is dictated by their desperate lack of resources, both human and physical. In the former case, the report concludes: "On almost any set of assumptions, Upper Volta faces abject poverty for decades to come."

Tanzania can improve its economic performance with different policies, the report argues, without conflict with its socialist objectives.

It criticises policy changes, pervasive government controls, over-ambitious investment plans, and bad agricultural pricing policy for negating the potential benefits of Tanzania's economic recovery programme.

The most critical analysis is of the Zambian economy, which is classified as a middle-income oil-importing country, dependent on one key export — copper — which provides 95% of its foreign-exchange earnings.

Zambia's terms of trade plummeted 52% between 1974 and 1978 because of the poor copper price, and caused a huge reduction in national income. National income a head

has fallen continuously since 1965.

The bank argues that a third of the most recent decline could have been offset if non-copper exports had been promoted, and domestic agriculture had not been neglected.

The failure of African governments to encourage agricultural development, particularly of small-scale farmers, is a continuous theme.

"Virtually all the sub-Saharan countries whose recent growth has been slow have had a particularly poor record in agriculture."

The key conclusion of the report is that those countries which have reacted to the deterioration in their terms of trade by promoting new exports, such as new crops instead of protecting inefficient import-substituting industries, have best weathered the storm. It cites in particular Ivory Coast, Malawi and Kenya in the 1960s.

All three countries have had relatively conservative and pro-capitalist regimes. Moreover, the strategy of development through primary production and gradual diversification of exports is most closely associated with colonialism. As a result, it is one which many African states will find politically difficult to accept. — Financial Times.



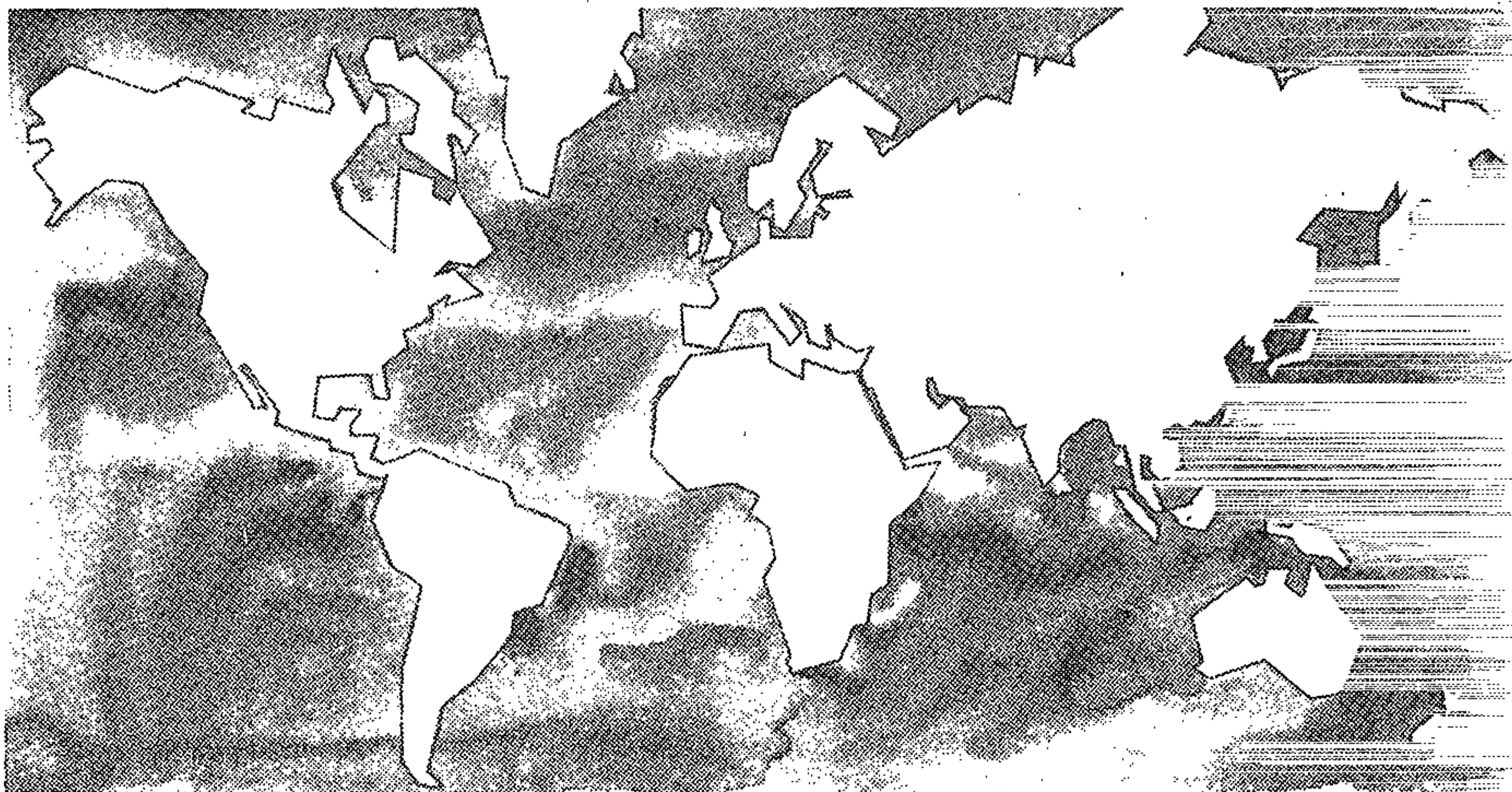
# GOING BACKWARDS

RDM 25/8/81

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## WHAT'S THE WORLD BANK'S FORECAST FOR MUCH OF THE THIRD WORLD

in the build-up period to the Rich-Poor Summit in Mexico next month, the World Bank has published a gloomy report that underlines much of what the Brandt Commission predicted — that the gap between the rich and poor countries of the world is continuing to grow. In the 80's the poorest countries may register no growth at all. Many will go backwards, with declining incomes reports ROY LAISHLEY.



need an extra \$4-billion a year.

To achieve faster growth Western donors will have to raise their official aid from present levels of 0.37 of GNP to 0.50% by 1990. This is rather a tall order, especially given current preoccupations with cuts in public expenditure.

However, the bank points out that the same effect can be achieved by re-directing an increased proportion of both Western and Opec aid to the poorer developing countries.

At present, it points out, 63% of Western and Opec bilateral aid goes to middle income countries. Of this over half goes to just four — Egypt, Israel, Jordan and

Syria. The Report urges that half or more of all Western and Opec bilateral aid should go to the poorer developing countries.

The political impetus needed to achieve these measures could come from the Cancun Summit. It could also ensure some degree of understanding on oil prices.

The Report argues that an annual increase in oil prices equivalent to 3% in real terms would still permit its more optimistic scenario to be achieved.

August's meeting of foreign ministers of the 22 countries scheduled to attend the Cancun Summit expressed optimism that the Ottawa Summit showed signs that the US, so crucial to the successful

implementation of all these measures, was demonstrating a more sensitive approach to the South's needs.

However, the preparatory meeting also said the October meeting will not be a summit for decisions. These, the communiqué said, should still take place within the context of the United Nations.

The latest World Development Report insists, however, that international measures are only one side of the coin. In a detailed analysis of developing country problems in the mid-Seventies it argues that domestic policies were often more to blame for poor growth records than international price upheavals.

In the case of the least-developed, primarily African,

countries, a decline in their share of external markets was well over twice as important as external shocks in explaining slow growth.

This decline, the Report argues, was caused by "domestic failures, particularly in agriculture".

It singles out over-inflated





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THE entire Third World faces a tough time in the 80's, but the poorest countries are likely to suffer most. Thus the major conclusion of the World Bank's latest "World Development Report".

Gloomily it predicts: "The world will divide even more sharply between the haves and the have-nots".

Middle income countries, like the Philippines or Colombia, with national incomes over \$370 a year, will probably find enough room for manoeuvre in the international economy to keep growing.

But for the poorest countries — particularly those in Africa south of the Sahara — the 80s could mean no growth at all. Many will go backwards, with declining incomes.

The report says: "The outlook for reducing poverty has worsened along with the prospects for the poor countries". Under the Bank's more optimistic scenario for the 80s it predicts that the estimated 750-million people living in absolute poverty in 1980 will fall to 630 million by the end of the century.

If its more pessimistic scenario comes to pass, then the number of poor will rise to 850-million. For low income countries that means 35% of their population will still be living in conditions former World Bank President Robert McNamara has termed "beyond human dignity".

The report pinpoints several measures it believes crucial if the worst prospects for the next 10 years are to be avoided. Interestingly, all are in the power of the world leaders which meet at Cancun, Mexico, in October in the first North/South Summit.

Following in the footsteps of the seven Western leaders at the Ottawa Summit in July, the Bank argues that curbing inflation and other constraints to growth in the north will be vital if developing countries are to achieve even moderate growth rates themselves.

The Bank hopes that by the end of the decade, with present problems sorted out, growth rates of 4% a year can be achieved in the North, against an average of 3.3% in the troubled 70's.

Industrial countries must also avoid present pressure to increase protectionism, the Bank argues. And finally, they must boost financial flows to the South. At the very least the poorer developing countries are going to

exchange rates and poor pricing policies as key factors in the problems of poorer developing countries. These, and public sector subsidies, will have to be changed as a matter of priority, if growth rates are to be improved.

The report argues: "The inefficiencies associated with current policies can hardly be tolerated in a decade when external shocks will probably be no less significant than they were in 1979-80".

Such reforms, it hopes, will lead to a boost in export production and to greater diversification. It was countries like the Ivory Coast, which maintained this outward orientation, that adjusted best to the rigours of the Seventies, the Report claims.

"The failure of the low-income countries to participate in the expansion of world trade is a principal reason for their disappointing performance in the 1970s."

The Report is forced to admit that trade prospects for countries overly dependent on a few raw materials are not good, whatever policies they choose. It concludes: "Adjustment by slower growth is likely to be more common".

Even where growth is achieved it could be at the cost of poverty-focussed programmes. The Report tends to avoid the question of how far possible tension between growth-oriented policies and poverty-focussed programmes will increase in the immediate future, although it continues to point out that, in the long term, education and health expenditure are vital if growth rates are to be sustained.

It admits that many human development programmes are "at risk" during the painful period of adjustment ahead. Without increased aid, it implicitly argues, it is hard to see how the wider development needs of low income countries will be met. Despite their wish to avoid responsibility the participants of October's North/South Summit will be expected to answer that point — Gemini News Service.



## BUSINESS TIMES ON THE INTERNATIONAL SCENE

US TREASURY officials have begun to circulate copies of a controversial internal World Bank staff study that is highly critical of the socialist economic policies of many African governments.

The study is being pushed by the Reagan Administration as a good blueprint for shifting international development aid policies towards all Third World countries to a greater free-market orientation.

The study charges that the socialist doctrines followed by many of the current leaders of African developing countries have led to overvalued currencies, trade barriers, shrinking exports and a destruction of the agricultural base of many of the most vulnerable economies in the sub-Saharan region.

The 205-page report specifically recommends that the African governments get out of a vast number of the public-sector service industries and that economic expansion be emphasised in the agricultural rather than heavy manufacturing sectors.

The most controversial part of the staff study calls for a doubling of industrial aid to the Third World in the cur-

# World Bank study slams the socialist policies of African nations

*S. Times 4/9/81 356*

By Jim Srodes: Washington

rent decade, but that the development funds be conditioned on the developing country governments' shift to a greater reliance on pricing mechanisms and other free-market forces.

The Reagan Administration has been circulating confidential copies of the report in the

been approved by the delegation because of its bluntly critical remarks.

This is the first time in recent memory that an internal staff study has so directly attacked the policies of member governments or recommended so sharp a departure from the World Bank's previous lending and development attitudes.

The bank's new president, A.W. Clausen, is reported to be in agreement with the report since it fits in with his outspoken urging that the developing nations must be prodded by the industrialised governments and the multilateral aid agencies into putting their economic houses in order.

"The inefficiencies implicit in the policies adopted by most African governments have been mutually reinforcing. Trade and exchange rate policy is at the heart of the failure to provide adequate incentives for agricultural production and for exports," the report states.

It details how fixed prices and overvalued currency rates have ruined historically vital export industries such as cocoa in Ghana, sisal in Tanzania and coffee in Madagascar.

Unless immediate reforms are undertaken, these countries face "even steeper downward spirals" in the 10 years ahead, the report argues, concluding that "a reordering of post-independence priorities is essential

if economic growth is to accelerate."

What is certain to add to the controversy over the report is the breaking of its confidentiality by the Americans as well as the urging that its conclusions be extended in full to other developing nations in Latin America, Asia and the Middle East.

Reagan officials have said all along that the United States should emphasise bilateral lending to Third World countries wherever possible, since it offers the opportunity to demand stronger conditions from the recipient government.

But Treasury officials now point to the bank study as an opening wedge to bring about policy changes within the multilateral aid agencies and their

White House.

A few weeks ago the US Government demanded the replacement of a senior official of the Inter-American Development Bank with an Administration appointee more in tune with the new development-or-

World Bank officials declined to comment on the document being circulated, since it is still ostensibly an internal and unapproved publication.

But some officials criticised the staff study as paying too little emphasis to external economic developments such as the rise in oil prices and collapse of many key export markets on the developing economies studied.



WORLD BANK

1982 — 1989

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# Blower

By RAY JOSEPH

alleged mercenaries who took part in the bur  
s coup attempt will go on trial in Maritzbur  
ay.

e are indications that the case, involving charges of hijack  
Boeing 707 aircraft, could turn out to be one of the longe  
sive trials in South African legal history.

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under the  
Offences Act.

## It could be the most expensive case yet in SA

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dates and on board the air-  
craft, the accused unlawfully  
and wilfully interfered with  
members of the crew of the  
aircraft in the performance  
of their duties.

On the second count it is  
alleged that, on the same  
dates and on board the air-  
craft while it was in flight,  
the accused unlawfully per-  
formed acts which jeopard-  
ised or might have jeopard-  
ised the safety of Mahe  
airport; and/or which might  
have jeopardised good order  
and discipline at Mahe air-

port; and/or which  
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## NEWS ANALYSIS

# A Reagan

## raid on

# AID

THE Reagan Administration has announced  
plans to cut drastically financial support of  
the kind of concessionary lending that the  
World Bank does among the poorest nations  
of the world.

Moreover, senior Treasury officials have outlined in  
a policy paper on the multi-  
lateral aid agencies that  
Washington wants the bank  
and other aid institutions to  
shift markedly their lending  
patterns and objectives and  
their search for financing.

The goal is to reduce  
sharply the traditional indus-  
trial block to Third World  
flow of funds and rely more  
on the free market to solve  
the problems of the develop-  
ing nations.

None of the foregoing is  
any secret. But what is less  
well understood is that the  
Administration aid strate-  
gists may be creating a new  
relationship with the multi-  
lateral aid banks, and the  
World Bank most particular-  
ly, that will come back to  
haunt Washington in the  
years ahead.

Simply put, by lessening its  
contribution to World Bank  
funding, the White House is  
lessening its say in World  
Bank affairs.

### First year

By pushing the bank to-  
wards more innovative, inde-  
pendent sources of funding,  
the Administration may well  
create a formidable aid poli-  
cy rival.

This at the very least is a  
prospect being raised in-  
creasingly by World Bank of-  
ficials as they contemplate  
not only their first year of the  
Administration but also the  
first eight months of their  
new president, A W Clausen,  
the former Bankamerica  
chairman who succeeded  
Robert McNamara last year.

Rather than turn the World  
Bank into a passive handma-  
iden of the Euro-banks, Clau-  
sen, with surprising staff sup-  
port, appears to be creating  
an institution that will be a



RONALD REAGAN  
Drastic cuts

dustrial West must transfer  
huge capital resources to the  
developing world if a global  
collapse were to be avoided.

So it is that, just four  
months after 22 heads of gov-  
ernment met in Cancun,  
Mexico, to accelerate that in-  
come transfer, it can safely  
be said that the controversial  
concept of the "north-south"  
solution to the crisis among  
the developing countries has  
been abandoned by World  
Bank strategists if not at oth-  
er aid banks.

Consider what else has  
changed at the World Bank in  
light of the demands for  
change by senior Administra-  
tion officials in the past  
week.

Part of the plan is to cut  
contributions to concessional  
loans through the aid agen-  
cies by nearly 26 percent  
from \$1 537-million in 1983 to  
\$1 139-million in 1987.

### More active

The Administration wants  
the World Bank and other  
agencies to use market  
forces to bring economic  
growth to less-developed  
countries and to adopt a  
sterner policy line with those  
debtor governments to im-  
prove their public  
management

# r's here!

are  
with you

ar to keep you cosy and  
cold winter nights.



QUOTE



S. Times  
7/2/82

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### Limitations on World Bank resources are forcing it to become more politically active

counterweight force in world development.

The World Bank, in Clausen's vision, will make greater use, for example, of the much-neglected International Finance Corp (IFC), which attracts private money for private-sector development projects as an offset to the diminished flow of industrial-nation funds into aid.

To be sure, the United States and other larger member governments which make up the bank will continue to have an enormous say about the political decisions of the bank.

But Clausen and his senior aides have publicly warned would-be borrowers that they can no longer expect to use bank funds to paper over ill-conceived public policies.

Thus, while the bank may not become more ideological, it certainly will become more politically active.

And, with the Administration's determination to use American foreign aid as a foreign-policy carrot and stick, it is inevitable that the White House will waken up some day to find a rival force just two blocks west on Pennsylvania Avenue.

It is not an exaggeration that the bank's staff of 2,600 professionals, economists, project managers and engineers eyed Clausen's appointment as warily as he eyed them.

### Morale

Clausen came from San Francisco with a reputation as a humourless, hard-fisted banker whose eye was always fixed on the bottom line.

"The bank's staff was having serious morale problems having as much to do with McNamara's estrangement from the lower decks as with a growing sense among key staff members that the institution needed a dramatic new direction.

Both the bank staff and Clausen have been pleasantly surprised with each other.

"I find the bank in better shape than what I had perceived on the outside. And I find the staff far more sympathetic with my own philosophies than I had believed before I arrived," said Clausen recently.

The result is that the bank has moved with surprising speed to shift radically the bank's lending activities away from the Malthusian focus on population growth and diminishing resources which has proved McNamara's argument that the in-

The policy report also demands a more active "maturation and graduation" effort to "move countries from a total reliance on 'soft funds' to 'hard-and-soft blends' and then into the 'hard loan windows' exclusively".

The World Bank has already met these demands and in some cases gone beyond.

Also significant is the Clausen-bank choice of priorities for its development assistance.

Bank agronomists have convinced Clausen that agriculture and hydro-generated energy projects have a better chance of helping developing country governments develop themselves.

But of all the new World Bank policy positions adopted in recent months, none has been more potentially controversial than the flat rejection by Clausen of the "north-south" dilemma, or, as he terms it, the "bipolar" confrontation between the industrial bloc and the have-nots.

Tied to the bank's insistence on distinguishing be-

### QUOTE

More than 90 percent of development and resources must come from within a country

tween the various categories of Third World nations is the insistence by Clausen and other bank officials that future loans will be accompanied by sharper bank surveillance of debtor government policies which could help or interfere with the project in question.

"I view our mission as being a catalyst for economic development. We don't do economic development ourselves; the country does it.

"More than 90 percent of the development and the resources that are put into a project must come from within. We are part of the extra," Clausen argued recently.

### Confrontation

And the north-south struggle?

"That phrase no longer lends itself to the kind of world in which we operate. That world is not bipolar. 'North-south' is too much of a cliché.

"I would also be less than frank if I didn't say that the bipolar concept over time has lent itself to confrontation, which doesn't help when you are looking for solutions," Clausen added.

Jim Srodes  
in Washington



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Good signs for Development Bank

13/9/82

There is a good chance that the Development Bank for Southern Africa, once it is established, will be able to co-operate in some projects with the International Development Association

and the International Finance Corporation, associate bodies of the World Bank.

This emerged from interviews conducted with World Bank and South African officials at the annual meeting of the International

Monetary Fund in Toronto last week. An information officer of the International Finance Corporation, Mr Carl Bell, said that co-operation of this type was already taking place. In the past five years, about 20 development projects

in various regions had been tackled in which bilateral regional development agencies had taken part with world bodies and private-sector companies. The Director-General of Finance, Dr Joop de Loor, also interviewed

in Toronto, said that these were perhaps early days for envisaging such co-operation but there was no doubt that it was possible and, indeed, Southern African countries should be ambitious in their thinking. — Sapa.



1200 20182  
Plea to US  
356 84V  
for poor aid

WASHINGTON. — The American head of the World Bank, the biggest international aid agency, suggested yesterday that the US spend more to help the poorest countries, and less on its military.

Mr A W Clausen, president of the bank, appealed for American leadership to provide more funds for his bank's International Development Association, which provides interest-free loans to the poorest countries. — Sapa-AP.



**By NEIL HOOPER**  
THE expertise and projects of the World Bank

# Criske's bond plan to aid jobless

pendent national states — nine South Africa's new-  
work for Ciscel unem-  
played, announced by  
President Lennox Sebe  
yesterday.

President Sebe revealed at Independence Stadium at Blantyre, near King William's Town, during the first anniversary of independence celebrations, that his government is to undertake to provide work for and pay all unemployed a subsistence wage of R2 a day.

The plan, which it is hoped will ultimately provide work for about 60 000 unemployed Clickelans — and at the same

**By NEIL HOOPER**

time create buying power in the impoverished country — has been formulated by Dr. David Bridgman, development policy advisor to President Sebe.

Cinkel hopes to start implementing the employment plan, which initially will cost R30-million a year, in five tribal areas in April next year, and to have it fully operational throughout the country by the end of the year.

Dr Bridgman has spent the past two years working for the World Bank, where he specialised in the bank's

long-term aid to under-developed countries, particularly through agricultural projects.

The plan to provide work for unemployed Clakelans—who are estimated to make up 25 percent of the total population—was, he says, the brainchild of President Sebe and on his appointment as presidential adviser, he was told to give priority to its formulation and implementation.

And as a result, President Sebe was able to announce yesterday that the Ciskei Government had undertaken to employ, at a subsistence wage of R2 a day, all unemployed adults who are pre-

pared to work on a "task work" basis on infrastructure, and small-scale agricultural projects in the rural areas of Ciskel.

Those who are eligible will be employed for work "which will yield positive economic returns" in the rural areas.

The types of projects envisaged by the plan, include:

- Planting of forests for a timber industry.
- Planting of woodlots for fuel.

● Construction of small earth dams and weirs for irrigation.

- Establishment and cultivation of vegetable gardens.
- Construction and repair of local roads, schools and public buildings.

## Laying release electricity cables

In addition attention will be given to opportunities for small-scale manufacturing, and handicraft activities, as well as a variety of small-scale agricultural projects.

Dr Bridgman says that one of the obvious problems facing the Ciskel Government in implementing the plan is that of finance and administration, and that the Ciskel Gov-

ernment hopes that both the South African Government, and more particularly the private sector in South Africa, will help both financially and through "lending" staff.

"Perhaps a South African firm that finds that some members of its staff are under-employed because of the recession, will be prepared to 'lend' them to us for a period," Dr Bridgman said.

He said he was thinking in terms of artisans, such as electricians, and that the loan of such personnel would be as valuable — if not more so — than financial assistance.

Ciskei is currently an impoverished nation, and its greatest export is labour — with Ciskeians in many cases literally working "across the National Road" inside South Africa.

**With recession the country is now facing the threat of increased unemployment.**

According to Dr Bridgman during the past week alone 1 500 Ciskeians have been laid off work by South African firms, to join the ranks of the those unemployed who President Sebe is determined to help through the new plan.

how many people are unemployed in Ciskei, because there are no accurate population figures.

The country's population is estimated to be between 650 000 and 750 000 and the number of unemployed who are not receiving any form of pension is estimated to be a quarter of the total adult population.

Dr Bridgman said that the population figures were also complicated by the South African Government's "dumping" people it had classified as Ciskei citizens, into the territory.

The creation of job opportunities for the unemployed in the rural areas will also be to the advantage of South Africa as far as security is concerned, as a greater rural population will make terrorist infiltration into the Ciskei more difficult.



# Mozambique applying to join World Bank

THE MOZAMBIQUE government is set to apply for membership of the International Monetary Fund and the World Bank — another step towards normalisation of the country's devastated economy.

The country's Council of Ministers announced this week that discussions would begin soon on the possibility of taking out membership.

For Mozambique, a successful application would give it access to 200-million dollars in drawing rights and, more importantly, the organisations' considerable expertise in advising Third World countries on economic matters.

## Powerful

It would also be a powerful push along the road towards re-establishing the country's economy without help from its traditional Soviet and other communist allies.

The application would not

By BRIAN POTTINGER  
Political Correspondent

be the first from Communist-orientated countries — Hungary and Rumania are both members — but in the light of Nkomati and regional economic developments the pending Maputo action is significant.

It also ties in with steps currently underway within Mozambique for the forging of effective legislation to deal with the growing private sector in the country's economy.

In 1980, Mozambique announced it would begin undoing some of the massive nationalisation schemes it had undertaken after independence, and would be prepared to give greater latitude to the private sector.

But war, drought and international recession interceded, and it is only now — after Nkomati — that

Mozambique is again seriously addressing itself to economic development through private enterprise.

The awakened foreign investor interest, as a result of the Nkomati accord and better prospects of peace in the area, has forced the Maputo government to address itself to the major concerns of foreign investors — security of assets and repatriation of profits.

## Pathfinders

Last week a high-level pathfinding mission, comprising members of the South African Department of Foreign Affairs and the Department of Industries, Tourism and Trade, visited Maputo for talks on channelling investment inquiries from South Africa to the Mozambican government.

Sources described the visit as successful, and their reception by the Mozambicans warm.

# Rebels hold key to peace

THE Mozambican Government may be obliged to negotiate with its sworn enemy, the Renamo rebel movement, if the Nkomati peace agreement with Pretoria is to function effectively, diplomats in Lisbon suggested this weekend.

The security-part of the Nkomati accord is being successfully implemented by both South Africa and Mozambique. Other aspects embracing the economy, tourism and Cahora Bassa are hanging fire because of the continuing guerrilla war in Mozambique.

Late last week representatives of South Africa,

By KEN POTTINGER  
Lisbon

Mozambique and Portugal met for a further round of talks in Lisbon on the Cahora Bassa project and reportedly reached agreement on new tariffs and conditions of supply.

## Tariffs

No details were released, but reliable sources in Lisbon say that both Portugal and South Africa made it clear to Mozambique that without firm safety guarantees for the 800km of powerline run-

ning through guerrilla-infested territory, the future of the dam remains uncertain.

At the same time Renamo sources in Lisbon claim that both South Africa and Portugal have cautioned Maputo that the envisaged flow of foreign investment, economic aid and tourism to Mozambique will only be possible once guerrilla-resistance has stopped and internal security can be guaranteed.

Renamo says it has stockpiled sufficient arms and equipment inside Mozambique to run the war for the next two years, while the Mozambique Government itself has warned residents of the capital to expect some guerrilla activity in and around Maputo in coming months.

There are also signs that the government amnesty presently being set up for rebels who wish to opt out of the fight, may itself become a cover for some form of accommodation with Renamo, although the rebels firmly deny they are considering a ceasefire.



EMBARGO: HOLD FOR RELEASE UNTIL DELIVERY  
EXPECTED ON MONDAY, APRIL 18, 1983  
AT 8:15 P.M. IN BONN, FEDERAL REPUBLIC  
OF GERMANY (1:15 P.M. IN WASHINGTON D.C.)

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"Accelerating Growth and Reducing Poverty:  
A Multilateral Strategy for Development"

Remarks Prepared for Delivery

by

A. W. Clausen, President

The World Bank

and

International Finance Corporation

to the

Atlantik-Brücke

and the

Deutsche Gesellschaft für Auswärtige Politik

Bonn, Federal Republic of Germany

April 18, 1983



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Dr. Klasen; Ladies and Gentlemen:

It is both a pleasure and a privilege to be meeting with the members of the Atlantik-Brücke and the German Foreign Policy Association. And I thank both associations for giving me this opportunity to address such a distinguished audience.

I want to share with you this evening some thoughts on how and why the international community must act to restore the momentum of economic development in the Third World. The global recession has brought development to a virtual stop; and none have suffered more than the low-income countries. To meet this crisis, the international community needs a strategy framed with ingenuity, generosity and determination. A strategy for a better future, built on the realities of the present and the lessons of the past.

If you were to ask me what single ingredient is most vital to such a strategy, I would have to say: faith in the development process itself.

In recent years the industrial world's faith in that process has weakened. Through the Fifties and the Sixties, even into the Seventies, the international effort to support the development process in the Third World was marked by a spirit of enthusiasm and adventure. We set off along new and untried paths of cooperation. We took wrong turnings; we stumbled up blind alleys and occasionally fell into traps. But we learned from our mistakes along the way; we improved our techniques, deepened our understanding, and built on our successes.

And what have we discovered on that journey?

We have discovered three things:

- first, that the developing countries' own efforts are the decisive factor in achieving success;
- but secondly, that international development assistance is essential to the attainment of that success;
- and thirdly, that the development process has been working.



Many expert forecasts of two and three decades ago have been confounded; development has worked better than many dared to hope.

Yet today public opinion in much of the industrialized world is suffering from "aid fatigue." There are voices raised claiming that there is really little to show for three decades of internationally supported development effort. For all the billions given, lent and spent, the world is today more crowded than it ever was with people trapped in poverty. So why, they ask, should we listen to those urging a redoubling of the effort? We shall enrich no one, they say, while surely impoverishing ourselves.

Perhaps we who are in the development assistance arena should bear a share of the blame for this "aid fatigue." In seeking to dramatize the need for a concerted effort to promote Third World development, we may sometimes have got the emphasis of our signals wrong. It is right that people should be shocked into a realization of how dreadful life is for hundreds of millions in the Third World. And they should be made aware how monumental a task we face to change that. But, in speaking up on this issue, we must take care not to drown out the accompanying message of hope.

And if that message of hope is not heard, we simply risk reinforcing a groundless but growing suspicion that the problems of the Third World, in particular those of the poorest countries, are unmanageable.

That message of hope is that development, slow process though it may be, has been demonstrably working for hundreds of millions of people in the Third World. And it will continue to work, and can be made to work for those still trapped in poverty, if the international community commits itself to a cooperative effort to ensure that.

\* \* \*

Let us look first, and briefly, at the historical record.

It is instructive to compare the average rates at which the economies of today's developed countries grew over their long periods of advance to industrialization, with the rates at which the developing countries of today grew in the third quarter of this century.

According to evidence assembled and published by Professor Simon Kuznets just over a decade ago, fourteen of today's industrialized countries -- ten European countries



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plus the United States, Japan, Canada and Australia -- achieved together, during the period 1860-1960, an average annual per capita income growth rate of barely two percent.

At the time of their entry into modern economic growth, which for most of them was between 1830 and 1870, these countries were already economically ahead of the rest of the world, with relatively high initial levels of per capita product.

The developing countries of today found themselves at no such advantageous launching point in the middle of this century. These were countries with no history of growth, and with few, if any, of the economic preconditions for it. Moreover, rapid progress in disease eradication was steadily boosting population figures. What chance did they have of pushing economic growth ahead of population growth?

Not much, was the prevailing view. The inherent slowness of economic development, said the experts, held out possibilities of growth ranging from zero to a very small percentage advance each year. World Bank economic reports of the Fifties and early Sixties offered predictions of growth rates for developing member countries, which were later shown in many cases, from Colombia to India, to have been pessimistic.

But what happened? Between 1955 and 1980 the developing countries as a whole achieved an annual average growth rate, not of zero, nor even of 2 percent, but of just over 3 percent. It was a remarkable performance which confounded the economists. There were doubters even as the trend was emerging. One noted economist predicted in 1960 that not one of sixty-six developing countries under study would record as fast an average annual growth rate between 1961 and 1976 as three percent. In fact eighteen did so.

Between 1955 and 1980, many developing economies grew faster than the industrial ones, with income rising faster than population in virtually all of them. Industrial bases expanded; agricultural output grew at historically high rates; education systems were rapidly developed, and literacy rates rose. Health and nutrition systems were improved, lifting life expectancy and lowering infant mortality rates.

Over the broad front, the achievements were impressive. And by far the greater share of the credit was due to the developing countries themselves. They took advantage of an international environment more favorable to growth than ever before, and worked hard to better their capacity to plan and manage their economies efficiently. They steadily raised domestic savings and investment rates. And they put to increasingly productive use the expanding flows of external capital.



But we are, of course, talking of the performance of the developing countries as a group. And this audience hardly needs reminding that within that group there was a considerable diversity of experience.

The facts are well enough known. Between 1955 and 1970, the middle-income countries' per capita incomes were growing at an average annual rate of three and a half percent; a rate which dropped to just over 3 percent over the decade of the Seventies. But the low-income countries, accounting for 47 percent of the world's population by 1980, managed only a 2 percent annual rate of increase in per capita income. And even this rate mainly reflects the relatively strong performance of China, and more recently, India. Income per capita in the other low-income economies, mostly in Sub-Saharan Africa and South Asia, grew at an average of 1.2 percent over the quarter century to 1980, and not at all over the past decade.

What we have been witnessing is a slow but steady reduction of the relative income gap between the industrial nations and most middle-income nations. But, at the same time, the poorest nations are being left further and further behind. While some nations have progressed rapidly to become competitive participants in the global economy, others, particularly in Sub-Saharan Africa, continue to struggle with low growth or no growth, and with extensive poverty problems.

History has shown us that it can take decades, sometimes centuries, to establish the preconditions for accelerated growth. At low-income levels it is a long, painful process to accumulate that critical mass of skilled human resources, physical infrastructure, productive capital, and effective institutions that will ignite accelerated and sustained growth.

But the experience of the newly industrializing countries should give the low-income countries hope. These front-running middle-income countries, about a score of them, in Latin America and southern Europe, and on the Pacific rim of Asia, have succeeded in accelerating their growth. They have been rapidly expanding production in both agriculture and manufacturing, and capturing increasing shares of world markets.

For example: Thailand.

Over the last twenty years, Thailand's economy has grown at a rate of almost 8 percent per year. This growth has encompassed all sectors, public and private. Exports have grown at an average annual rate of over 14 percent, and per capita income has increased from \$110 in 1960 to \$670 in 1980.



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During those twenty years, The World Bank and its affiliates lent over \$3 billion to that country. And Thailand made good use of it. Today that country is one of the developing world's most dynamic participants in world trade.

Who are we to say that their experience cannot one day be the experience of the low-income, poverty-troubled countries?

Moreover, the achievements of middle-income countries ranked just behind these frontrunners should also offer hope to the low-income countries. Their progress may have been less spectacular than that of the newly industrializing countries, but they nonetheless succeeded in doubling real income per capita in a generation.

Why, then, should there now be a feeling in many quarters of hopelessness, helplessness and resignation over the problems of the poorest nations? None of us working in the development assistance field underestimates the awesome size of the problems, especially in Sub-Saharan Africa. We are all too familiar with them. Nor are we ignoring the fact that the global economic environment today is far less hospitable than the environment in which many developing countries made real progress in the preceding decades. But the international community's capacity to help solve these problems should be better understood and supported.

The translation of that capacity into an agreed strategy for accelerating the low-income countries' growth and reducing their poverty is essential.

It goes without saying that, without global economic recovery, this intrinsically difficult task is made far more difficult. The low-income countries' future economic growth will depend to a large extent on export growth. As it is, they supply only 2 percent of world exports. With non-fuel commodity prices at their lowest in real terms in thirty years, and with protectionist tendencies in the industrialized countries threatening much needed export diversification efforts, particularly in Sub-Saharan Africa, improving export income will be painfully hard.

With global recession has also come stagnation in international assistance on concessional terms, greatly compounding the problems of the low-income countries who depend so heavily upon it. With few exceptions, those among them who are primary commodity exporters, as most are, do not have the productive structures yet to allow them to participate in manufactured goods trade on any meaningful scale. And without external assistance on concessional terms, it will be difficult for them to develop those structures. Rather they will be left at the mercy of world commodity prices.



The real impact of the global recession on the poorest population groups should not be underestimated. The effects of depressed commodity prices, for example, reach deep into a nation. Let me offer just one illustration which is typical of Sub-Saharan Africa, even if it concerns a middle-income country. A middle-income country, however, with a currently declining per capita GNP.

Low world prices for copper have been seriously diminishing Zambia's government revenues. The government's newly released 1983 budget is 20 percent lower in real terms than that of 1982. The recurrent health budget is one of the many areas of public expenditure to suffer a cutback. And funds for maintenance and logistical support have been the worst hit. More than 75 percent of the Ministry of Health's existing fleet of vehicles is currently inoperative because of shortages of spare parts or inadequate maintenance, or both. The consequent breakdown in the transportation network has much impeded the flow of essential supplies to support primary health care activities in rural areas.

The dangers of dependence on a single commodity, and the importance of diversification, could scarcely be better illustrated.

Similar stories could be told of almost every country of Sub-Saharan Africa and would illustrate how exposed all population groups are to the vagaries of the international economic environment. Small low-income countries, especially those of Sub-Saharan Africa, have limited policy options, and the impact on them of global recession is particularly difficult to handle.

Some signs of economic recovery have begun to appear in the United States and in some parts of Europe, and on the whole I tend to the optimist's view that the global economy is on the road to recovery. But the question remains: how strong and how lasting will it prove to be?

The international community cannot, however, just sit back and postpone international action on the problems of the low income countries and their poverty stricken populations until recovery is here. The recession has aggravated pressing problems, and made their solution that much more difficult. But let us not forget that these are problems that were already there before the downturn. Moreover, global recovery cannot, by itself, produce accelerated growth in the low-income countries. It will produce some growth, but the expansion of world trade will be gradual, and today's gravely depressed commodity prices will take time to climb back up the scale. Furthermore, the negative results of the slowdown in investment in these



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countries during this period of global contraction will be felt long after the recession is over.

Global economic recovery cannot alone bring accelerated growth to the low-income countries, nor can growth alone alleviate poverty. This is partly because rising population is tending to swell the ranks of the really poor even where, as a group, they constitute a diminishing share of the total population.

Despite lagging per capita income growth, standards of social welfare in the low-income countries have been rising fast. By the end of the Seventies they had to a large extent converged with those of the better-off developing countries. And those standards continue to rise.

To take one exciting example: medical experts have recently discovered that the incidence of infant and child mortality can be reduced by one half by two simple methods.

- five million children die every year of dehydration. Through a simple new method of oral rehydration, four million of those children can be saved.
- as a result of the development of stable vaccines which can withstand high temperatures, it will now be possible through mass immunization to save one half of the five million children who each year die from a wide variety of diseases.

And what makes these technological breakthroughs so attractive is their simplicity and their low cost.

Improvements in health and nutrition have, of course, led to higher rates of population increase in both low- and middle-income developing countries. The problem of rapid population increase is particularly acute in Sub-Saharan Africa, the region with the highest fertility rate in the world.

Let me give you a typical example of how this can affect the growth prospects and quality of life of countries in that region.

Upper Volta with a population of just over 6 million, is one of the world's poorest countries, with one of the world's highest fertility rates. If the rate is not reduced, the population requiring maternal and child health



services will increase from 2 1/2 million to almost 6 1/2 million between 1980 and 2010. And the fertility rate that could cause it poses a formidable challenge to Upper Volta's prospects for economic and social progress.

Government attitudes in Sub-Saharan Africa towards population programs stretch across a wide spectrum, from a handful of countries favoring high population growth rates to countries who have explicit population control programs. Most African countries are at intermediate points on the spectrum, and they must be encouraged and helped to move steadily across it towards explicit programming. Otherwise the growth in per capita incomes will remain little or nothing. And the assault on poverty risks being overwhelmed by the sheer weight of the numbers.

While faster growth of average incomes is essential to reducing poverty, it should be remembered that in many developing countries there is a sizeable gap between average income and the incomes of the poorer groups. Therefore the particular problems of those poorer groups must be addressed directly within the framework of an overall strategy to promote growth.

The key to that poverty reduction lies in raising the productivity of the poor themselves. Welfare programs aimed at the poor without corresponding increases in the productivity of the recipients can only be short-lived and even counterproductive.

Governments have to take measures to ensure that the employment opportunities and earning power of the poor are not limited by sickness, insufficient food and lack of education. They have also to consider that high fertility and large family size mean that an adult's earnings will be spread thin to support more dependents than in richer families.

These non-income aspects of poverty call for a commitment on the part of governments to human development programs on a wide scale. The choices facing countries, who have to choose at the margin between human development and other activities are not easy. Policy decisions will be affected by the relative emphasis each government attaches to increasing growth, raising the incomes of the poor, and attacking the non-income aspects of poverty. The economic payoff to human development certainly eases the tradeoffs between growth and poverty reduction. But the difficulty of quantifying the costs and benefits of a human development program often compound the problem of deciding the size of its budget and the allocation of its resources among education, health, nutrition and family planning. And within each of these areas as well.



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How the dilemmas surrounding the raising of the productivity of the poor are resolved will vary from country to country. Differences in political and social priorities, in income levels and growth prospects, will suggest different approaches. But in all developing countries, steps to reduce poverty and promote human development must inevitably put strong emphasis on economic returns.

However well-chosen the policy mix, widespread poverty is not going to disappear overnight. It is going to be a very long haul indeed. But progress can be made less agonizingly slow if the international community brings active and enlightened support to the effort.

Which brings me to the role the World Bank can and does play in helping to reduce poverty.

More than a decade has passed since the Bank decided to place special emphasis on direct measures to alleviate poverty, both in its lending operations and in its economic research and analysis. The Bank was not alone in this; a general consensus had emerged among bilateral and multilateral aid institutions, and among many developing countries, that greater efforts should be directed toward increasing the productivity of the poor.

This resulted in an expansion of lending by both the Bank and the International Development Association to low-income countries, and to those sectors and subsectors where assistance could be brought directly to large numbers of poor people. The focus of the Bank's attention was to be more concentrated on rural and urban development, primary education, population, health and nutrition, small-scale industries, and water supply. Bank and IDA commitments to low-income countries increased from 37 percent of the total program during the years before 1968 to 58 percent in the current 1979-83 five-year lending program.

In our last fiscal year, when we reviewed this new approach, we concluded on the basis of our experience to date that we were on the right track. A strategy embracing the twin objectives of growth and poverty alleviation seemed to be the key to securing stable and sustained development.

We now know that through our project lending we can effectively reach substantial numbers of poor people, particularly through carefully designed poverty-oriented projects. There have been mistakes and failures, and much has been learned along the way. But by and large our projects have been effective in directly increasing the productivity of small farmers. They have also enhanced productive capacity through investments in human development, in education, health and nutrition and population programs. We also know now that



these new-style projects can have rates of return as high as other projects. And once they are seen to work, they are replicated by the borrowing governments, thus multiplying the benefits.

We believe that through our policy dialogue with member governments and our country economic work, we are having some success in incorporating poverty concerns into the policy-making process.

If that review smacks of self-satisfaction, let me assure you that we know only too well that there is still a huge distance to go, and that there is a vast amount still to be learned about poverty alleviation. The hundreds of millions of poor people still with us are living -- some barely living -- testimony to that fact.

Nonetheless, an important and promising start has been made, and it must certainly be pursued with vigor, by both lenders and borrowers.

It is a tragedy, therefore, that continuing efforts to alleviate poverty are now threatened by a shortage of concessional funds to help finance them. These countries need more desperately than ever the type of development aid that IDA offers. But aid budgets face fierce competition for public funds during the current recession. IDA's funding, as you know, has suffered from this; shortfalls in contributions from the United States have cut into our lending program. Despite their own budget problems, other donor nations, including the Federal Republic of Germany, have contributed more than they originally agreed to help compensate for U.S. shortfalls. And we are deeply grateful to them and to you.

IDA funds are now almost completely restricted to borrowers among our low-income member countries, and they continue to prove an excellent investment. While helping to raise the living standards of hundreds of millions of people through its projects, those projects have been recording average rates of return near 18 percent.

I assure you it is no habit-forming welfare program. Twenty-seven nations have now graduated from IDA borrowing to World Bank borrowing. And a few of these, South Korea and Colombia among them, are now contributors to its resources.

But 51 low-income countries, among them 28 Sub-Saharan African countries, depend on those concessional funds. Now more than ever. They just cannot be expected to cope with the impact of the recession and the very pressing problems of poverty without that kind of help. Nor can the



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international community, in good conscience, seek the promotion of domestic policy reforms in those countries unless it is prepared to help produce the finance, where needed, to support those reforms.

The developing countries are passing through a painful and nerve-racking period. The global recession has dealt them, particularly the low-income countries, something akin to a heart attack. After the recession, the recovery period will be long, the convalescence expensive, and there will certainly have been some permanent damage to the tissues.

It will take a vigorous and sustained international cooperative effort to help them move forward again towards their twin objectives of accelerating growth and diminishing poverty. And it is entirely in the interests of the industrial nations that that effort be made.

In the meantime, the world is in a state of economic crisis. There is simply no other way to characterize the situation.

The crisis arises from the very real danger that the deepening recession in the Third World will abort the economic recovery in the industrial world. And a delayed recovery in the industrial world will visit even greater havoc on the stricken economies of the developing nations.

If ever there was a vicious circle with the potential to entrap us all, this must be it.

How do we break out of it, then?

There are two imperatives:

- the flow of international capital to the Third World must not be curtailed; on the contrary it must be expanded;
- the industrial world must at all costs resist the temptation to raise protectionist barriers against imports from the Third World.

On the first of these imperatives; the flow of capital:

International private capital is essential to the development process. The liquidity problems of a handful of countries that are major borrowers from the commercial banking system have had the perverse effect of reducing the availability of commercial capital to developing countries that have managed to maintain their creditworthiness through



these hard times. And that notwithstanding the special arrangements set in place by the IMF, in collaboration with the banking system to ease the liquidity problems of those major borrowers. It doesn't make much sense to penalize the many for the problems of the few. But the effects of that penalization are already being felt in the developing countries in postponed investments and curtailed imports.

The commercial banking system must not withdraw. Cutting off credit at this moment can only exacerbate a critical situation, to the ultimate detriment of both borrower and lender.

Nor must funds for the international financial institutions be blocked or reduced. The participation of these institutions in the international cooperative effort to restore growth to the developing countries is essential. The recent decision of the IMF's Interim Committee to go ahead with recommendations for a substantial quota increase is a very welcome step. But it cannot compensate for the negative developments elsewhere in the transfer of capital to the Third World.

It is, for example, counterproductive to hold the lending of the IBRD at artificially low levels at a time when markets are daily demonstrating their confidence in an institution which can obviously intermediate much larger amounts and transfer them effectively from private savings to effective investment in the Third World.

And the curtailment of IDA's ability to provide desperately needed concessional finance is extremely serious in light of the parallel shrinking of the flow of such funds on a bilateral basis.

With regard to the second imperative; an open trading system: a depressed economic environment provides fertile ground for the spread of protectionism, with nations surrendering to the position that the abandonment of open trading by one nation calls for a matching reaction. Surely we have learned that there is no ultimate victor in such a contest. If the developing nations cannot sell, they cannot buy. And protectionist pressures increase rigidities in protectionist nations, so contributing to the inflationary cycle. Thus everyone is a loser. If growth resumes in the industrial world, the prospects of recovery in the developing countries are enhanced. But if protectionist measures persist, the benefits of recovery can only be undermined.

These twin imperatives -- maintaining capital flows and resisting protectionism -- must be met if the current economic crisis is to be defused. Curtailing those flows and raising those protectionist barriers, all in the name of



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belt-tightening, may seem to be the less painful way to accept austerity. But in the longer run it most certainly is not. The industrial world may find it has been tightening a belt around its neck rather than its waist.

And the ultimate self-inflicted wound is to ignore this simple truth: the industrial world has everything to gain from economic growth in the developing world; it has everything to lose from stagnation and decline there.

That is why we talk of the mutual economic advantages in Third World development. And rightly so. It is a powerful call to common sense. And we also talk of the threat to our global security posed by economic retrogression and human despair in the developing world. And so we should. The threat is surely there.

Security is as profoundly an important issue here on the European political stage as anywhere in the world. And I need hardly remind this audience that almost every flash point of East-West confrontation in the last twenty years has been in the Third World. If through selfishness and shortsightedness we hold the developing nations back on their long and difficult march to economic maturity and decent living standards, we shall be inviting further, and more dangerous, confrontation.

Can we not agree, then, that to help the developing nations help themselves is an act of enlightened self interest?

Those who created this community of nations in Europe over a quarter century ago were men of vision. They saw that the way to prosperity and lasting peace was a commitment to international cooperation for the common good.

We need just such an enlightened commitment today. A commitment to cooperate for the common good of the global community of nations.

Let us make that commitment.

END



CALC TINTS 2/2/85 (356)

## World Bank aid to Africa 'small'

PARIS. — The World Bank's proposed special fund to help rebuild sub-Saharan Africa's economies, after a decade of famine and drought, was likely to be much smaller than planned, aid officials meeting here said.

The bank originally called for a \$2-billion (R3,9-billion) fund, but even the \$1-billion (R1,95-billion) target is unlikely to be reached after Britain, West Germany and Japan announced on Thursday that they would not contribute.

The United States has rejected the World Bank fund launched yesterday, preferring to put \$500-million (R980-million) into its own African fund.

France promised about \$165-million (R323-million) over the three years that the fund will operate, and Italy, the Netherlands, Nor-

way and Sweden offered more money than hoped.

Aid officials said countries not participating in the fund might contribute indirectly through co-financing arrangements, with Japan appearing the "least negative" on this proposal.

However, they said the bank might have to inject some of its own money to achieve the \$600-million (R1,18-billion) that its president, Mr Tom Clausen, has said he expected.

The fund is to help African countries boost investment, improve production techniques and rebuild neglected infrastructure.

The 23 countries attending the meeting at the World Bank's European headquarters here are mainly from Europe, North America and the Middle East, with one African representative, Algeria. — Sapa-Reuter



# World Bank's Africa Fund may be doomed

N.M. 4/2/85 (35b)

WASHINGTON—A world bank bid to raise at least \$1 000m in African aid appears unlikely to win support from the major Western powers, even though concern over the African drought has deepened, bank officials say.

Some 23 potential donor nations met in Paris last week to confront the issue, but so far, the bank has a mere \$250m promised from France and the Netherlands.

Other major donors — The U.S., West Germany, Japan and Britain — have to date refused to participate, the officials said.

The negative response has come despite a personal appeal from World Bank president A.W. Clausen that appears to have been rejected by top U.S. allies after Washington refused to join.

The officials said the Paris meeting could be a critical test for the bank and its current leadership.

## Proposal

'Do donor nations want the bank to lead these initiatives, or are they looking for other vehicles?' one official asked.

The official was referring to growing criticism that Clausen's leadership has become ineffective and to repeated attacks on bank policy by the Reagan administration.

The proposal for a special world bank 'Africa Facility' came after efforts to boost the resources of the International Development Association, the bank's soft loan arm to the world's poorest nations, collapsed last year.

The bank, backed by many Western nations, had pressed for a \$12 000m three-year capital replenishment, citing the crisis in the poorest parts of the Third World, especially sub-Saharan Africa.

The IDA debacle came about after the refusal of the U.S., increasingly irritated its aid to the world's poor countries is not reciprocated by friendly foreign policies, agreed to no more than nine billion dollars for IDA.

As a result the bank has invested a lot of its prestige in trying to persuade other Western countries to join an Africa fund, but one official said of the meeting: 'I want to be honest: the outlook for Paris is gloomy.'

Washington has refused

point blank to get involved in the Africa Facility, pointing instead to its own \$500m five-year programme of aid to the continent.

Similarly, West Germany, Japan and Britain have declined to offer firm commitments for the facility without the assurance of joint involvement.

But Ernest Stern, a senior vice-president of the bank in charge of lending, told reporters recently that some of the 23 donor countries would contribute eventually while others would reshuffle already allocated aid to the Facility.

## Loans

Proposals for an Africa Facility come as World Bank loans to the third World are actually falling because borrowers increasingly resist the stiff economic reforms demanded by the development agency as a condition for many of its loans.

Bank officials ruefully admit that money lent out this financial year could fall by as much as \$2 000m in the wake of reluctance by several Third World nations to take up loans, a problem that could plague the Africa Facility.

The officials said loans made from this fund would also be made in conjunction with economic reforms, but they expected African leaders to be more flexible than in the past.

'There seems to be a little more intellectual hon-

esty now and less rhetoric,' one official said. 'They really need help with policies: they're afraid to change because they're afraid of being overthrown.'

Underlining the urgency for more African aid and economic reforms, Stern pointed out that Africa owes some \$70 000m to foreign creditors.

And in some countries, servicing these foreign loans swallows up almost all the foreign exchange they earn from exports.

The African Facility would be similar to concessional loans already made by IDA, which are usually granted for 50 years without interest charges. — (Reuter)



# World Bank warns of economic disorder

WASHINGTON. — The World Bank warns that there is a risk of worldwide disorder and decline during the rest of this decade if US budget deficits remain uncut.

In a background paper prepared for the IMF/World Bank development committee, the bank said industrial-country growth could falter to 2,5% for the rest of the decade, while exports from Third World nations would only expand at perhaps 3%.

The World bank's chief economist, Ms Anne Krueger, pointed out that Third World export growth needed to average 5,5% for these countries to service their debts.

The bank said that even this picture "might be over-optimistic". The financing crisis of US deficits might emerge suddenly and trigger a sharp recession, with

growth well below average.

The bank paper stressed that this could hurt the ability of Third World nations to service their debts and force them to generate continued large trade surpluses, resulting in industrial nations accepting corresponding trade deficits, despite unemployment in those countries.

The bank said, however, that this scenario could be averted by a timely cut in US fiscal deficits.

Under this scenario, the value of the US dollar could

gradually decline and so could real interest rates.

It added that if a reduction in the US budget deficit was accompanied by a relaxation of financial policies in other industrial countries and by wage and cost restraint, the developed world could grow at 3% for the rest of the decade, and faster thereafter.

The bank said that financial relaxation in Europe should be undertaken chiefly through monetary policy and largely through fiscal policy in Japan. — Reuter.

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NM 18/5/85  
**Mozambique  
gets \$45m**

**356 loan** ~~278~~

MAPUTO — The World Bank and Mozambique have reached agreement on a \$45m loan aimed at rebuilding the war-battered country's industry.

It will be Marxist Mozambique's first loan from the World Bank since joining the international body last October.

The World Bank vice-president for East and Southern Africa, Mr Edward Jaycox, said the loan will be approved at a meeting of the bank's executive board next month.

The money will be made available over the next 15-18 months, repayable over 50 years including a 10-year grace period, at 0.75 percent interest, he added. — (Sapa-Reuter)



# A continent in se

by  
Michael Chester

The World Bank has been urged to take the initiative in mobilising the entire African continent behind a radical master-plan to avert catastrophic famine and economic disaster.

In a special study, experts from the Worldwatch Institute, based in Washington, have warned that Africa needs to abandon its emphasis on cash solutions and put more emphasis on human solutions.

The study argues that, so far, the common approach by outside nations with huge projects based on their own conceptions of post-colonial industrial development has proved "sadly mismatched to Africa's needs".

The researchers say the spearhead of action should be the mobilisation of millions of young workers into a mammoth task force, modelled on the Peace Corps, to tackle problems that have reached crisis level.

Urgent action is needed in a master-plan to launch new programmes in family planning, reforestation and soil conservation — the crux of the dilemma that is evident "from the Mediterranean fringe to the Cape of Good Hope".

In short, say the experts, not only Ethiopia, but all Africa, is losing the ability to feed itself.

Symptomatic of the decline of the continent are:

- Deaths from starvation have passed the one million mark.
- Ten million people have been forced to leave their villages and trek in search of food.

## World Bank urged to master-mind 'Save Africa' plan

● Production of grain, measured by a head count, has shrunk by more than a third below what, in 1967, was considered a subsistence threshold.

● Average incomes are between 15 and 25 percent lower than 15 years ago.

● Population is growing at a rate which is reckoned to be the fastest recorded by any continent in history, leaving the continent hopelessly unable to feed everyone.

● Africa's foreign debts — boosted by the cost of basic food imports as harvests fail — seem likely to reach R350 billion by the end of 1985.

The scramble for survival in the population explosion is fast destroying the natural resources and support systems vital to underpin economies — forests, grasslands, croplands and water.

Worldwatch warns that, at present, current endeavours — such as efforts by the World Bank to raise an additional R2 billion for long-term economic aid — are aimed largely at the symptoms rather than the causes.

The strategies, dictated by traditional financial criteria

based on rates of return on investments, are destined to fail.

The researchers contend the only successful economic development strategy will be one that restores the natural systems on which African economies depend in the first instance.

"Reversing Africa's decline will require carefully orchestrated national efforts to organise millions of people to plant trees, build soil conservation terraces and plan families," say the authors.

"Much more capital will be needed but the heart of the reversal strategy will be the mobilisation of people."

A crucial problem will be to find the leadership needed to motivate a huge drive to change trends which, at the moment, all point to disaster.

The researchers write off the chances of the United States taking the helm and favour the World Bank to take charge of the exercise.

Success, it is conceded, will need "an unprecedented degree of co-operation among African countries" each of which would be assigned to work out its own list of priorities.

"Once national strategies

have been outlined and goals and timetables established for such things as planting trees and planning families, it will be up to each national government to mobilise its own people and integrate assistance from overseas."

The study says African leaders should try to emulate the South Korean and Chinese successes in national reforestation; Indian and Nepalese experiences with village woodlots; and the community-based family planning programmes of Thailand and Indonesia where birth-rates have been halved within a decade.

"Africa faces difficult choices," say the experts. "Success in saving Africa hinges on whether political institutions are strong enough to make the course corrections needed to reverse the decline."

"The ecological handwriting on the wall could not be clearer. The economic consequences of continuing ecological decay are equally clear."

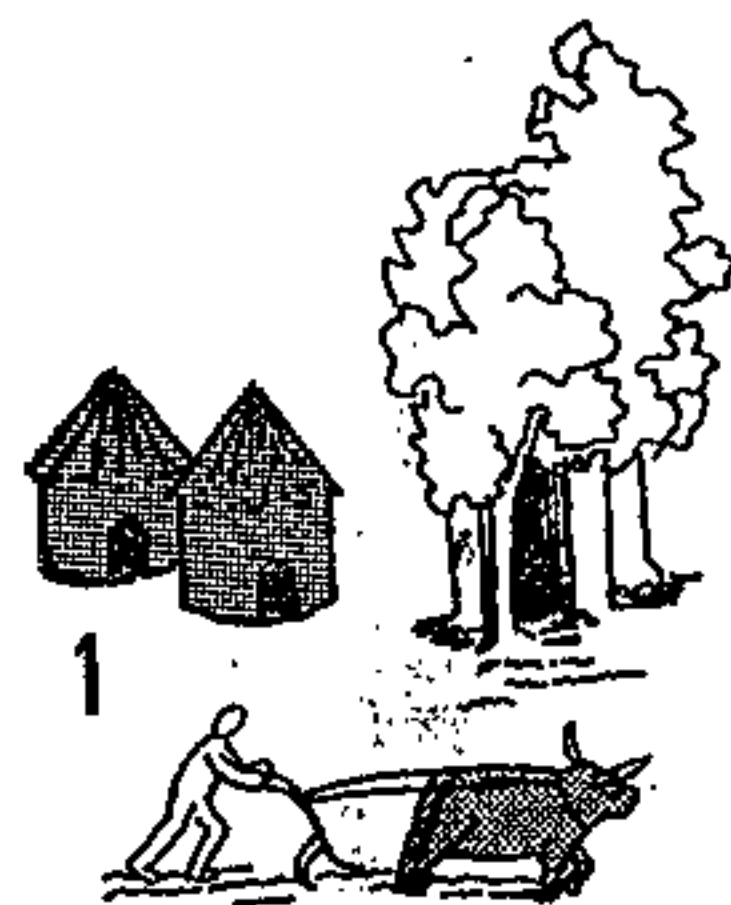
"Eventually, the social costs, the human suffering and loss of life, could approach those of World War 2."

"The greatest risk in Africa is that there will be a loss of hope."

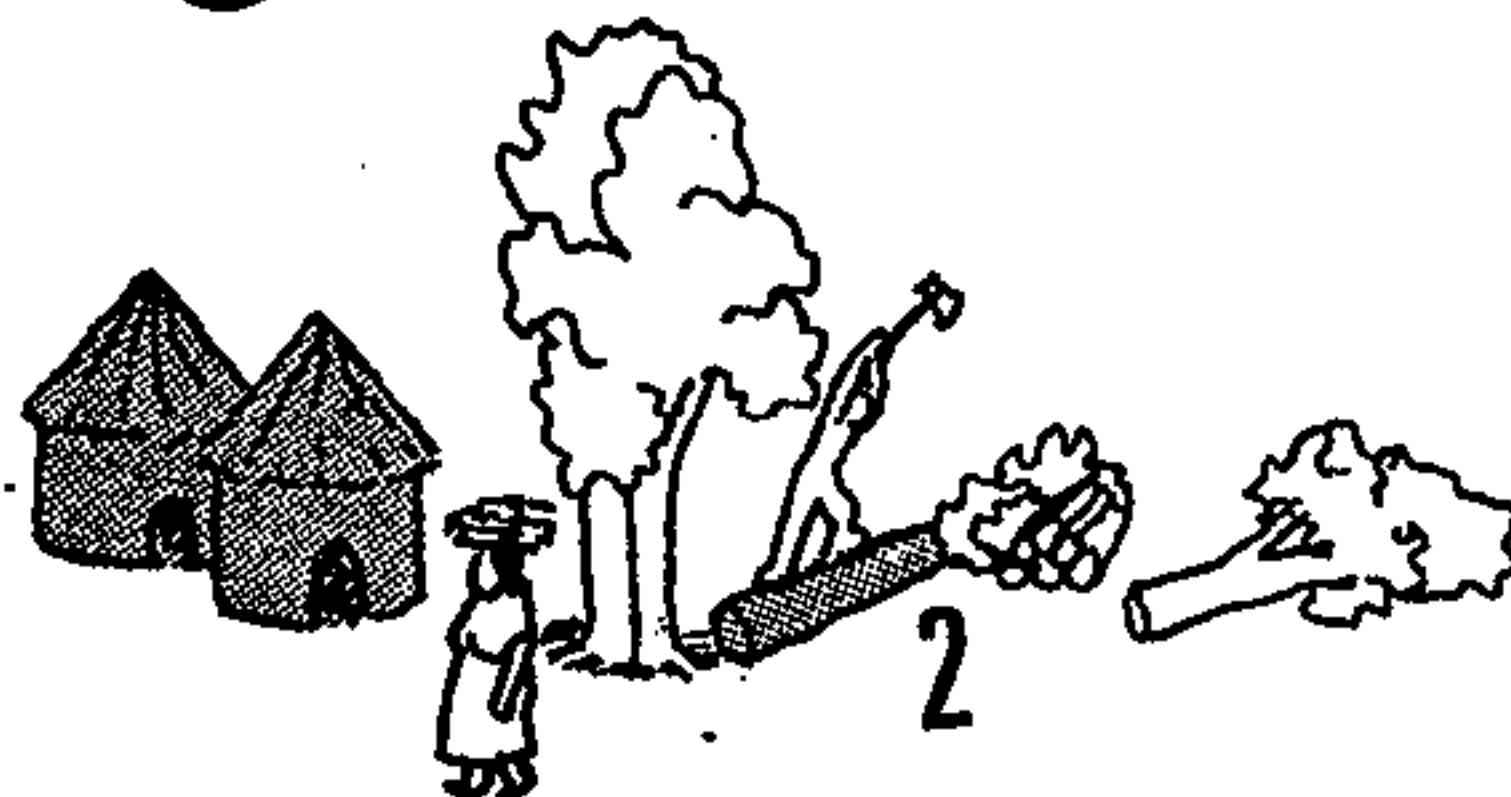
"However bleak the deteriorating situation may appear, it is of human origin and can yield to human remedy."

"How African leaders and the international community respond to the challenge will reveal much about the human prospect over the remainder of this century and the beginning of the next."

## Over-use of biological systems starts c



1 As people seek new agricultural land, natural forests retreat before the plough. Trees no longer recycle mineral nutrients from deep soil layers and soil fertility begins to decline. In this first stage, wood supplies remain sufficient and the gradual erosion of cropland fertility is imperceptible.



2 Populations grow and wood is used for construction. Peasant families now burn unmarketable crop residues and animal dung. Removing crop residues and diverting dung from fields degrades soil structure and encourages erosion. Forest depletion speeds up and soil fertility losses become noticeable.



3 With nearby trees gone are now traded. Loss of from croplands curbs on the sale of dung than and insufficient crop yields soil erosion of 50-100

## Whittling away the woodlands

"The climatically critical rain forests of West Africa are disappearing at the rate of five percent annually," says Worldwatch.

The Ivory Coast, which once had 30 million hectares of tropical rain forests, now has only 4.5 million hectares.

Other facts highlighted by Worldwatch:

● Vast areas of Ethiopia, the communal lands of Zimbabwe and the homelands of South Africa are now largely devoid of trees.

● If the dryness of the last 17 years is temporary — the product of oscillations in global atmospheric circulation of the sort that have caused droughts historically — then governments should concentrate on emergency food relief.

If, however, population-induced changes in land use and soil degradation are gradually reducing average rainfall, then far more urgent and

ambitious measures are needed.

● Over 40 percent of Africa's people now live in countries where grain yields are lower than they were a generation ago.

● Restoring African woodland and forests is essential to the recovery of agriculture.

This calls for unprecedented efforts by African governments and international donors to assist millions of families who will do the bulk of plant-

ing, maintenance and forest management.

The 380 million men, women and children in the African countryside comprise the only labour force large enough to reforest Africa.

● No one technological package will work for more than a small segment of the continent's farm sector. As a result, the research investment needed to achieve a given advance in farm output in Africa may be far greater than in Asia or

North America.

● The effort required to avert economic collapse in Africa recalls the Marshall Plan that revitalised Western Europe after World War 2, but this time it will be far more difficult.

In Europe, the needed institutions and human skills were already in place.

By contrast, Africa does not yet have all of the institutions and skills needed to avert the decline.



Grain Yield Per Hectare by Region

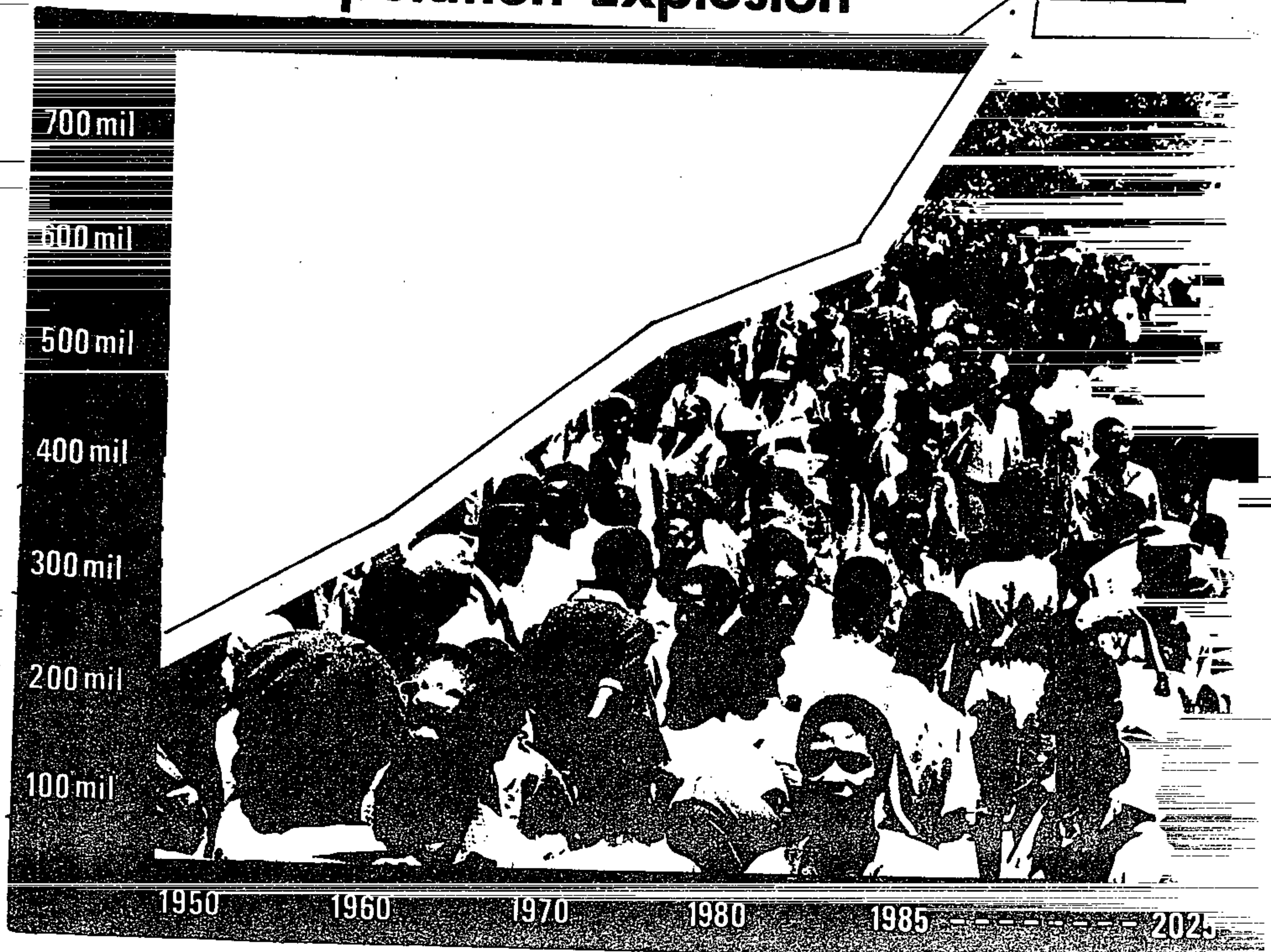
| Region         | 1950-52     | 1980-82 | Change    |
|----------------|-------------|---------|-----------|
|                | (kilograms) |         | (percent) |
| North America  | 1646        | 3757    | +128      |
| Western Europe | 1733        | 3843    | +122      |
| East Asia      | 1419        | 2973    | +109      |
| Eastern Europe | 931         | 1819    | + 95      |
| South Asia     | 825         | 1450    | + 76      |
| South America  | 1217        | 1854    | + 52      |
| Africa         | 757         | 1044    | + 38      |



# Arch of salvation

## Africa's Population Explosion

1500 million  
by 2025



## Changes that end with human tragedy



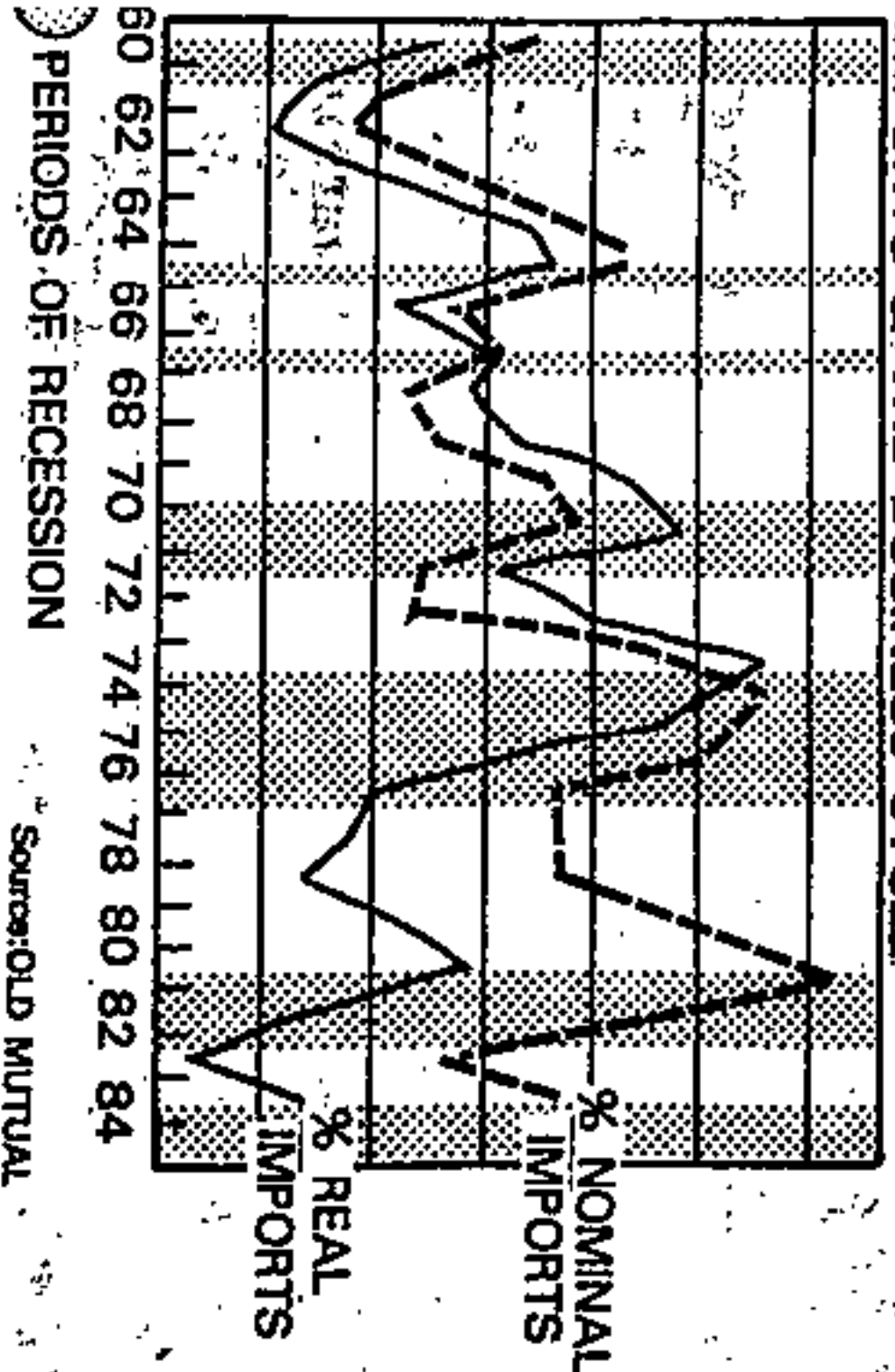
1 dung and crop residues  
and organic matter  
Families depend more  
harvests with unreliable  
On sloping fields, annual  
is common.

4 Cow dung becomes the main village fuel and thus  
the main cash crop from nearby farms. Rural families  
use crop residues for cooking and as forage. Perva-  
sive top-soil depletion leaves farmers vulnerable to  
total crop failure during even routine dry seasons.  
Food and fuel prices rise rapidly.

5 Finally, biological productivity collapses, with insuf-  
ficient food for families, let alone to sell. The exodus  
from rural areas begins, often triggered by drought  
that could formerly have been tolerated. Famine is  
widespread. Peasants' lack of income is compounded  
by absolute shortages of food at home.



# IN TANDEM: IMPORTS & THE BUSINESS CYCLE



## GRIM OUTLOOK FOR SUB-SAHARAN AFRICA PREDICTED DESPITE RECENT HEAVY RAINFALL

### World Bank gives warning

WASHINGTON — The rains have come to Africa, and TV crews have left in search of another crisis, but experts say the economic outlook for the famine-ravished continent remains desperate.

World Bank officials, who have been sounding alarms about a fundamental economic crisis in sub-Saharan Africa for years, say the late 1980s will be grim for the continent despite relief from a long drought, and that political stability in some areas cannot be ensured without increased foreign aid.

They say the drought, which spread starvation, disease and death into 1985 — and triggered lavish Western relief efforts involving pop music and film

stars, among others — accelerated Africa's crisis but did not cause it.

Similarly, the officials say, emergence from the much publicised drought and its after-effects will not end Africa's deep crisis, which derives from failed economic and social policies which only drastic and prolonged change can reverse.

"What we have worried about is what to do after the TV cameras go away," World Bank vice-president Edward Jaycox said.

"If these reform ideas are in fact debunked by lack of external support, then we could have the whole process set back by a generation or more."

The process that led Africa to its present predicament has occurred in other regions with less serious impact.

As outlined by the World Bank, African countries have tended, almost without exception, to give farming a back seat to more prestigious investment in the cities.

Sometimes, such investments were pushed by what the bank describes as opportunistic foreigners who wanted to sell some type of equipment. They made loans at favourable rates and cared little whether the project would prove productive.

There were also well-meaning donors who started projects which had little chance of being sustained once the donor left. — Sapa-Reuter.



# Development Bank closes ranks with World Bank

John Spira

THE Development Bank of Southern Africa is enjoying close co-operation with the World Bank — so much so that, political factors permitting, the Development Bank could in due course become an unofficial arm of the World Bank in the African sub-continent.

This is the message brought back to South Africa by Dr Simon Brand, the Development Bank's managing director, who has just returned from the recent IMF-World Bank meetings in Washington, after which he visited high-ranking development officials in several Western countries.

Dr Brand reveals that much of the focus in Washington fell upon the World Bank's report on sub-Saharan Africa.

He says: "The World Bank took a strong line in insisting that the governments of the sub-Saharan countries adopt sound economic policies as a prerequisite for World Bank aid. This was a crucial policy statement and one which gels with the Development Bank's own philosophy.

"Another of the World Bank's requirements for the sub-Saharan region was the establishment of strong regional institutions to channel aid and oversee the implementation of projects. The Development Bank is ideally placed to perform such a function."

Dr Brand points out that a large measure of co-operation already exists between the World Bank and the Development Bank in the areas of training facilities and ready access to information and research data.

"Yet while we enjoy close links with the World Bank, we

still have some way to go before we evolve into a major force in Africa. The Development Bank has yet to gain universal acceptance. When that happens, we shall hopefully reach a stage at which all development bodies will co-operate with one another.

"In the interim, we need to devote our efforts to selling South Africa and the Development Bank to other countries in the southern African region, with the Bank acting as a go-between on mutually beneficial projects.

"I firmly believe that our neighbours will accept South Africa's role in this process as it will be pragmatically prudent for them to do so."

The first visible steps being taken by the Development Bank towards implementing its policy of closer economic co-operation with the countries of southern Africa will be on view at an epoch-making conference at Johannesburg's Carlton Hotel on October 31.

Titled Trade and Investment in Southern Africa, the conference, organised by Unisa School of Business Leadership and Safto, embodies, in Dr Brand's words, "the first forum since the early 1970s at which the local private sector will have the opportunity of rubbing shoulders with senior officials of southern African countries".

Such contact, Dr Brand is convinced, will open many doors to neighbouring countries and help rebuild the bridges that have been torn down in the past decade.

Several of the conference sessions will be chaired by senior executives of foreign states. Their identities have not yet been disclosed for obvious political reasons.



# Still vacant: The world's top job

ONE of the top jobs in the nearest thing we have to a world government is about to be awarded. The post is open to anyone — as long as he or she is American.

No, the job is not secretary-general of the United Nations, for the UN is of little political importance.

It is true that the UN's top office-holder is selected through a process of ruthless bargaining by geographic bloc. But, if the UN really carried political clout, the secretary-general would be an American.

Real power in large parts of the globe — the power to force governments to change policies, the power to affect the lives of millions of people — resides in the International Monetary Fund (IMF) and the World Bank.

That is why the president of the Bank is always nominated by the No 1 Superpower. The custom is questioned by many people who feel the soundness of the organisation's policies, indeed the very credibility of its claim to offer technically proficient, politically unbiased assistance, would be better upheld by a less blatant insistence that "our man" should be at the top.

It has been suggested that the West Europeans, representing the second most powerful bloc in the non-Communist world, might whisper to Washington that job reservation is counter-productive. After all, the Europeans like to compare their worldly sophistication with America's blunderingly naive approach to global

The Americans have caused great concern over the time they are taking to choose a successor to Tom Clausen at the World Bank, which is being called on to play a key role in solving the global economic crisis. DANIEL NELSON queries whether the post should go to an American at all.

diplomacy. But the Europeans do not have a leg to stand on, for they have already been "given" the managing directorship of the IMF.

Japan keeps a low profile in such international horse-trading, and is generally content to be left to cultivate its own extensive back yard: Asia. That is why the president of the Asian Development Bank is always Japanese.

And just as Tokyo's funds are considered essential by Asia's developing countries, so Washington's support is seen as necessary for the effectiveness of the World Bank.

Its effectiveness will be particularly crucial if the Baker Plan for solving the international debt crisis — or rather, the part of the crisis of most immediate concern to the US — gets off the ground.

US Treasury Secretary James Baker's plan envisages \$20-billion (R40 000-million) net new commercial bank lending to 15 of the most heavily indebted countries over the next three years, and a bigger cash and policy role for the World Bank.

Ten of Baker's 15 crisis countries are in Latin America, where US bank balance sheets are most seriously

endangered.

Countries owing relatively small amounts in absolute terms, but with crippling large debts in terms of their own economies, will have to wait: evidence again of the old dictum that if you owe a bank \$1 you are in its debt; if you owe \$1-million, you own the bank.

An effective World Bank is also important because of the uncertainties ahead. Lower world oil prices, for example, will boost the world economy, but will provide major problems for a number of oil producers such as Mexico (whose estimated \$6-billion capital requirements this year make a dent in the Baker proposals), Nigeria (where oil contributes 65 percent of the government revenue), Venezuela (the first Opec country to seek a debt rescheduling) and Indonesia.

A 26 percent drop in dollar prices of non-oil commodities since 1980 is causing difficulties for many developing countries, and a threat still hangs over what Clausen calls "the last vestiges of order in world trading arrangements".

A fall in US interest rates would bring immediate relief to debtor countries — a one percentage point drop means a \$3-billion (R6 000-million) reduction in the debt service burden in Latin America alone — but the continuing outflow of capital from poor countries to rich is highly dangerous.

Bank vice-president for Latin America, David Knox, has warned that after five years of falling per capita income "the moment is clearly approaching when the lack of economic growth will have become politically unsustainable".

Exchange rate disorder is so great that President Reagan quietly reversed his earlier hostility and mentioned in his State of the Union address that he had asked Baker to take a look at currency reform and assess whether there was a need for a new Bretton Woods (the 1944 conference which laid the basis for the post-Second World War monetary system and which collapsed in the early 1970s with the emergence of floating exchange rates.)

—Gemini News Service



By Jo-Anne Richards

# Quiet 'honest broker' slips on to political scene

A Swiss-based organisation has quietly moved into the South African political sphere in an attempt to play "honest broker" to its wide variety of interest groups.

But members stress they are not just another "bunch of overseas experts come to present a blueprint of ideas to the people here".

For some months now the Foundation for International Conciliation has been involved in setting up a "self-help" problem-solving programme to aid

South Africans in resolving their own conflicts.

"We're a totally independent, non-profit foundation," said director Mr Michael Davis.

"We have no affiliations with any government, and our work involves quietly addressing the causes of dispute in different situations."

"We have certain skills and, as other foundations give money to causes, we give time and know-how. We're funded by

donations, but only accept them with no strings attached."

Mr Davis said he was aware of South African disillusionment with groups of overseas experts presenting "answers" to political problems.

"We've no description of what South Africa should look like. We have no preconceptions at all, and we don't pretend to be specialists on the situation. South Africans themselves have more than enough valu-

able ideas. And solutions to the problems here will have to be organic and homegrown."

The foundation's intention is to be to provide a neutral meeting point for South Africans to solve their own problems.

Mr Davis said people wanting to participate could do so, with no preconceptions.

"As non-South Africans, we're not in a position to set any," he said.

He was anxious that the organisation should not develop a "do-gooder, amateur" image and stressed their conflict-resolving approach was highly skilled. Their first step had been to ensure they were wanted here at all. They received a "strong positive indication", said Mr Davis.

They are now in contact with a "wide variety" of political groups, in and outside the country. But he did not wish to

name the groups at this stage.

"We've been accused of obsessive secrecy, but that's not true. We're bound to protect people from risk, and we try not to lay them open to pressure and speculation."

The foundation's skills involved encouraging people to explore the interests and fears which lay behind the fixed, unbending "positions" they often took, Mr Davis explained. They were also aided in moving

away from symbols. People often saw situations in terms of frightening stereotypes and symbols — as "black majority rule" had become for whites.

As black aspirations became more specific, many white fears could begin to seem unfounded. The process would try to take advantage of that "momentum" to produce plans for the country, which could be implemented.

The process carefully avoided

ed deadlock by speaking to participants separately when views were too divergent for them to meet. But as shared interests came to light, were more able to hold discussions. Eventually, the foundation "will quietly slide the picture".

"Though political views are so divergent, it all transpires that there is more common ground than allowed to come out. We already established that if from a surprisingly wide forum are interested in it into their common interest



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# The poor asking for more



● BAKER

WASHINGTON — Developing countries at the World Bank and International Monetary Fund (IMF) meetings in Washington have called for expanded lending under the so-called Baker Plan to ease the foreign debt crisis.

The chairman of the Group of 24 developing countries (G-24), Tadessa Gebre-Kidan, told reporters the initiative announced by US Treasury Secretary James Baker last October did not provide for enough new money.

Baker proposed that commercial banks put up an additional \$20bn in loans and that multilateral development banks add \$9bn to stimulate growth in countries with severe foreign debt problems. — Sapa-Reuter.

LINDA ENSOR

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## AFRICA-WORLD BANK 356

### Signs of hope

1986 is a year of opportunity for sub-Saharan Africa, according to the fourth in the series of World Bank reports on development problems in the region, published this week.

The report — *Financing adjustment with growth in sub-Saharan Africa 1986-1990* — says per capita incomes should rise this year for the first time since 1980, adding gloomily that there is little to celebrate since low-income Africa is poorer today than when the independence train gathered momentum in 1960. The bank warns that the improved outlook for 1986 could turn out to be no more than an interruption of "chronic decline." Population growth continues largely unchecked while productivity is all but stagnant.

The good news, according to the bank, is that many African governments are now making significant progress in structural adjustment, though they still have a long way to go to correct past policy errors. Governments are beginning to see the error of their ways in maintaining overvalued exchange rates, in setting producer prices too low in agriculture, and wages too high in the towns.

But policy improvements should not be exaggerated. Investment ratios in the region have been falling since 1980 and are now the lowest among developing economies. A dozen countries are facing "acute" foreign debt difficulties "with little prospect of improvement."

Per capita imports have been declining for 15 years and, despite higher coffee prices and lower oil prices, the outlook for Africa's terms of trade is "poor." Unless more aid and some form of debt relief is provided, imports will continue to decline for the rest of the decade and into the Nineties.

The World Bank calculates that 29 low-income African countries (including Lesotho, Malawi, Mozambique, Kenya, Uganda, Tanzania, Zaire and Zambia, from southern and east Africa) will need more than \$35 billion in foreign exchange over the next five years, but their exports will earn them only \$20 billion with a further \$12.8 billion being provided in aid flows and debt relief.

This would leave a resource gap of \$2.5 billion to be filled by extra aid. The report suggests the donor countries of the West should contribute by increasing their aid budgets, by offering debt relief and rescheduling, and by converting previous loans into grants.

Much of the report reiterates previously devised strategies for African recovery. Four medium-term adjustment priorities are identified — overvalued exchange rates, neglect of agriculture, excessive public sector wages and overblown and inefficient public enterprises. The report points out that for the region as a whole, real effective exchange rates appreciated in the Seventies and early Eighties in marked contrast to what was

happening in both Latin America and Asia. By the end of last year, the real effective exchange rate in the 29 countries was 15% higher than in the early Seventies. The bank urges African leaders to bite the devaluation bullet, noting: "Rarely will the poor be the principal losers from devaluation."

It urges governments to improve incentives for export crops, pointing out that cocoa production in Ghana is estimated to have increased 25% over the past two years mainly because it devalued its currency and tripled the domestic producer price of cocoa.

The bank says that for cash crops like coffee, cocoa and cotton, the farmer is getting only about half the export price of the product. This ratio is too low, it says. A further important aspect of adjustment policy is the need to reduce the average public sector wage. According to the bank, the average government employee in low-income Africa gets a wage that is almost seven times the average per capita income for the country as a whole, whereas in Asia the comparative multiple is only three. Senior officials and skilled personnel should probably be paid more, but average wages should be lower.

The fourth policy priority emphasises another familiar theme — rationalisation of the public sector. The bank points out that, in Africa, public enterprise employs half the formal sector labour, compared with one-third in Asia.

Low-income African states have closed down or divested about 5% of their publicly-owned enterprises during the Eighties while, in many instances, improved management and sounder policies have resulted in sharply-reduced operating losses. But doubtful ventures continue to be promoted — "ostentatious universities, over-designed highways, luxury sports stadiums and uncompetitive agro-industrial ventures" — and the bank repeats its 1984 call for Africa to shun these "white elephants."

In addition to these medium-term adjustment strategies, the report re-examines the longer-run development problems facing the region — rapid population growth, the fact that health conditions remain among the worst in the world despite improvements, the "reversal in both the quality and quantity of education services," what it calls the "bare" technology shelf of African agriculture, and the "serious and mounting problems" of deforestation and land degradation. The message is clear enough: Donor nations must find additional resources, but these will go to waste unless and until Africa puts its economic house in order.



# Birth rate a threat to the environment

**RAPID population growth in Africa, at 3% a year the highest rate in history, is slowing development and sharply reducing the chances of raising living standards, according to a World Bank report.**

The report, released in Nairobi under the title 'Population Growth and Policies in Sub-Saharan Africa,' says that between 1970 and 1982 the effect of rising population cancelled out economic growth in the region, so that there was no average improvement in per-capita incomes.

It says agricultural production grew at only 1.4% in the 1970s and warns that unless other sectors of the economy grow even faster than population to finance food imports Africa will have to rely more and more on food aid.

Without efforts to spread the message of family planning, population growth may even accelerate in many parts of the continent as better health care reduces death rates and encourages birth rates to rise, it adds.

The nightmare is that the extra population will not only hold down per-capita income but could also degrade the environment, put tighter constraints on basic health and education services and lead to lower real wages as the labour force outpaces investment.

## Hopeful signs

The report sees some hopeful signs that attitudes towards family planning are changing, though only 3 to 4% of African women now use any form of contraception.

More and more African governments are expressing concern, education for women is spreading and is likely to reduce fertility, and continued urbanisation is loosening family ties.

As a model for the future, the report cites Zimbabwe, where government action over the past five years has raised contraceptive use from 10% to 25%.

Even this modest level of family planning would have a significant effect on population growth, bringing birth rates down from between 45 and 50 per thousand to between 35 and 40 per thousand.

Radio Nigeria reported on Wednesday that according to a World Bank official the population of Nigeria would reach 162 million by the year 2000.

## 90 million

The radio, monitored in Abidjan, said World Bank representative Mr Ishrat Husain said in Lagos that 'with a population growth rate of 3.3% development must proceed at an extraordinary rate'. According to Nigeria's National Population Bureau Nigeria has about 90 million people.

Mr Husain said that with a real average growth rate of 3% the population of sub-Saharan Africa, which now stands at 470 million, would exceed 700 million by the year 2000. The bank believed that life for the majority of Africans could be improved if governments would adopt more efficient economic policies and give agriculture higher priority.

The report puts much of the onus for bringing about change on African governments but the bank itself promises to try to double its financing for population and related health pro-

grammes in sub-Saharan Africa over the next three years.

'If progress in population policy is to be rapid some strategic reorientation of the direction and nature of government involvement is needed,' it says.

It proposes that governments take the lead in 'generating a climate of legitimacy for family planning,' broaden the choice of contraceptive methods, and end their reliance on highly trained staff for spreading the message.

The World Bank estimates that providing family-planning services to 25% of couples for the continent would cost only 75 US cents per person per year and says that, given Africa's limited resources, it is not unreasonable for foreign donors to finance half of programme costs for the next decade.

Meanwhile Mort Rosenblum reports from Addis Ababa that as a billion dollars flowed into Ethiopia to feed starving people a world-renowned research centre seeking ways to prevent famine found its meagre budget dwindling.

'We've seen none of the money, and we are really very frustrated,' said Mr Peter Brumby, director of the International Centre for Livestock in Africa. 'For us, it is all rhetoric.'

The crisis at Icla reflects a worldwide problem: mounting sums go toward relieving hunger, but little is spent on heading it off.

In Africa 12 billion to 14 billion dollars (about R30 to R35 billion) a year is spent on food imports to countries that could produce substantial surpluses.

soils Icla has helped double and triple yields in some places.

African technicians track weather and ground cover on a finely drawn grid of the continent, using computers and satellite readings. Others isolate abnormalities in animal herds.

## Special Correspondent NAIROBI

African research centres and agricultural extension services go begging when they could be instrumental in breaking a deadly cycle of crop failure and famine, scientists say.

'We are cap in hand all year around,' said Mr Richard Stewart, a British chemist who supervises Icla publications.

'After Ethiopia became news we thought rather naively some of this manna would find its way to us,' he said. 'We are still waiting.'

Icla is one of 13 centres funded by the Consultative Group of International Agricultural Research, a group of governments, the World Bank, specialised agencies and private foundations.

The US Agency for International Development pays a quarter of Icla's budget.

The 10-year-old centre helps African nations raise draft animals and build herds for meat and milk. It researches, trains African specialists, distributes data and runs laboratory and field tests.

By finding better ways to farm and fertilise different

International experts assess range-land and land use and, in related fields, expand scientific knowledge in Africa.

'But we have no resources with which to tackle these enormous problems,' said Mr Brumby, a New Zealander on loan from the World Bank. 'We're doing it with bloody peanuts.'

The centre's budget was 13.5 million dollars (about R33 million) this year. Mr Brumby expects it to be reduced because individual donors, including USAID, say they are pressed by hard times.

In Ethiopia alone international donors spent a billion dollars (about R2.25 billion) for emergency relief from late 1984 until the end of 1985. The United States paid a third of the total.

Many lives were saved, but perhaps one million Ethiopians starved to death. Hundreds of millions of dollars were spent elsewhere in Africa, but hundreds of thousands of people died. — (Sapa-Reuters-AP)



mitted. Republic Bank of Dallas, First Chicago Corp, and Manufacturers Hanover of New York are leading the legal battles for the banks.

Penrod may have to go into bankruptcy too. Both companies were used to guarantee the Hunts' misadventures in sugar and silver despite the brothers' argument that their business dealings were separate corporate

entities. But now both companies are in default on the \$1.5 billion new loans, and the old debts from the silver and sugar losses are still partly unpaid as well. In April 1985, the three defaulted on \$295m in sugar trading debts, not to mention the roughly \$1 billion in silver losses incurred when that market collapsed five years before.

For years, the Hunt brothers have kept

creditors and regulators off balance by carefully segregating their football teams, cattle ranches and trust shares in their oil fortune founded by their father, the late H L Hunt, in a myriad of corporate entities either named Placid, Penrod, or some other six-digit name that begins with the letter P. With all those assets under court control, their freedom to manoeuvre is gone. ■

BARBER CONABLE

## A cool head at the World Bank

When, later this month, Barber Conable, the newly installed president of the World Bank, reports to his shareholders on the operations of an institution which lends over US\$13 billion a year to developing countries, the expectations of government officials and bankers in his audience will be high.

In March James Baker, the US Treasury Secretary, decided that Conable was just the man he needed to rejuvenate the agency — which he called on a year ago to play a leading role in tackling the Third World debt crisis.

But how does the earnest 63-year-old former Republican congressman intend to set about a task for which he readily concedes he has little practical experience?

"I do not come here with a big agenda," he says, sitting in the modest ante-room adjacent to the large office occupied by his predecessors, but which he has abandoned. "I am not an experienced banker, development or administrative person."

Conable agrees that two months after he officially took office, an atmosphere of uncertainty — a top official uses the word "paralysis" — has gripped the institution. Already some 7 000 staff are fearful that the modest and approachable man in the president's office, who with the light touch of the American politician refers to new acquaintances as "friends," is about to transform their working lives in ways they may not like. Others, contrarily, fear that the patience which this cautious and pragmatic ex-politician is showing, means the far-reaching changes and the firm leadership they yearn for will not materialise.

But most agree that Conable has begun to make some kind of mark. "I have started out here beefing up the president's office," the new president says. "I have terminated the management committee, which was a structural device at the top designed to achieve consensus in the bank management." That consensus, he maintains "simply was not there on many occasions," which obscured accountability and raised "all kinds of confusion about who was making decisions and when they were to be made."

Conable wants there to be no doubt that, today, accountability rests with him. It is a view which will endear him to those in the bank who believe that history has demonstrated that strong, presidential-style leader-

ship is needed to make it function effectively.

He evidently hopes, too, that this will diminish conflict within the institution, which he says is typical of a bureaucracy: "I regret the degree of polarisation there seems to be between the board and the management, the (developing and developed) countries and the bureaucracy and the policy people."

Neither is Conable unaware of the mood of those around him or of the fact that some feel the time for reform is running out. "I am not going to flail around to create change for the purpose of demonstrating my control of the institution," he says. Nonetheless, necessary changes will be made by the end of the year. Then it would be a question of buckling down to "make the existing structure work as people expect it to."

It is Baker's programme for the Third World which heads that list of expectations. "I think one of the major elements in our operations will be a co-ordinating role," by which Conable means trying to ensure that all the agencies, bilateral and multilateral, work effectively in the Third World.

"But," he adds, "that means inevitably more adjustment lending," the sort of shorter-term advances to developing countries Baker is backing and whose disbursement is tied to the borrowers' acceptance of the need to undertake economic policy reforms, such as trade liberalisation, in return for the money.

Despite this, he says, traditional "project loans" will "probably remain a majority of our work here." He also strikes an unyielding note towards rightwing Republicans on Capitol Hill who want the World Bank to be a sort of Trojan horse for Reaganomics in the developing world: "We have to encourage those procedures which encourage growth ... and that means not necessarily always totally free markets, because we have to do it within the traditions and acceptable political patterns of individual countries."

He also firmly rejects the proposal from New Jersey Senator Bill Bradley that a radical new approach to the debt crisis is needed in the form of writing off billions of dollars of bank loans. "I just do not think," Conable says, "(that) you are going to have a good environment for the voluntary lenders to come forward with the sums of money which are needed if we are talking about debt

forgiveness."

To challenge the idea that they are not coming forward (private bank lending to the Third World has been falling this year) Conable says he believes that the banks do "seem willing to participate" in the huge \$12 billion refinancing package for Mexico.

He adds that when he visited New York in July for a private chat with the banks — the personal sort of diplomacy he favours — they wanted reassurance about what the World Bank would bring to the pot.

"They wanted to know that we were not just putting in a couple of hundred million dollars."

In fact, the bank is undertaking a \$3 billion-plus lending programme in Mexico in 1986 and 1987.

On some of the burning issues facing the bank as it prepares for its annual meeting, Conable is, however, tight-lipped. He says, for instance, he is not aware of any adverse impact on the bank's relationships in black Africa stemming from the apartheid struggle.

Asked about the doubts whether donor countries will reach agreement on providing new funding for the International Development Association (IDA), the World Bank agency which lends to the poorest countries, Conable concedes there could be a problem.

The problem is that Japan, if it is to put in more money for the IDA, wants a bigger shareholding in the World Bank. Bank officials complain that in return the US, which would have to surrender some shares to accomplish this, is pressing Japan for concessions on, among other things, bilateral economic policy issues. "If they do not agree between themselves obviously that will slow the process down," Conable says guardedly.

Similarly, on the threat to World Bank funding from Capitol Hill, as his former colleagues try to agree budget priorities, Conable concedes that domestic politicians are always sceptical about foreign aid. "Statesmen," he adds, "usually understand that aid of various sorts ... is part of a balanced programme — balance is a magic word in government — and we expect that ultimately outside the political season, cooler heads will prevail."

True to his reputation, the new World Bank president is determined to be one of those cooler heads.



# SA still has important role, says World Bank official

2/10/86 SML 356

WASHINGTON — Faced with increasing isolation, South Africans can draw some solace from the World Bank's recognition of the country's important role in sub-Saharan Africa.

Ms Anne Krueger, the bank's vice-president, economics and research, told me yesterday that the World Bank was acutely aware of the economic ties that exist between South Africa and other nations in the sub-Saharan region.

"I asked her whether, because of the abject poverty of so many countries in this area, South Africa figures in the World Bank's strategy for the region.

"South Africa," she pointed out, "very definitely comes into play."

From John Spira at the IMF annual meeting

The South African role clearly assumes importance because, as Ms Krueger indicated, although some sub-Saharan nations were receptive to economic policy reform, there were others that were not.

She added that the World Bank treated each case on an individual basis.

The bank was fully aware that sub-Saharan Africa was a special case for World Bank assistance and that special strategies were therefore being applied to the region.

Reuter reports from Washington that South African finance minister Mr Barend du Plessis suggested yesterday that his

country was helping to bankroll the Third World.

Mr Barend du Plessis said Pretoria had repaid about \$3 billion of its foreign debt since the end of 1984 and a substantial portion had gone to commercial banks.

"It is noteworthy that the total amount of the net redemption of debt by South Africa over this period equals the net increase in 1985 in the total amount of new loans extended by the international banks to all developing countries in the world," he said.

Addressing the annual meeting of the International Monetary Fund (IMF) and World

Bank, Mr du Plessis also said that South Africa had experienced "an abnormally large withdrawal of foreign capital and credits during the past two years".

Mr du Plessis said that in the past year South Africa has reduced its outstanding foreign debt by about 10 percent, to \$21.4 billion at the end of June, but at what he called an unsustainable cost to the domestic economy.

He said that loan repayments to the IMF alone were absorbing "a substantial part of the scarce domestic savings of the country at a time when there is a great need for increased domestic expenditure on social reform".



**The Star's Africa  
News Service**  
**MAPUTO** — The World Bank will loan Mozambique R220 million for agricultural development projects over the next three years, Mozambican official sources have said. The World Bank loan will be the first from this international organisation to Mozambique and will open the door for further loans from other Western organisations.

Mozambique recently started negotiations with the World Bank and the International Monetary Fund in a reversal of its earlier economic policies. According to Mozambican officials the World Bank will now make a careful study of all the development projects and will then release the money.

A World Bank delegation is expected to visit Mozambique this month, the sources said.



# Problems multiply at the World Bank

From James Adams in Washington

The World Bank is facing a cash crisis which threatens to cut heavily into its ability to continue lending to Third World countries at its present scale.

Worse still for the bank, the crisis coincides with a collapse in staff morale caused by a reorganisation.

The bank's budget problems began after the appropriations committee of the United States House of Representatives proposed to slash America's World Bank funding by 27 percent. When the issue comes before the full Congress next month the cuts could be increased. The R2.5 billion appropriation requested by the Regan Administration could be halved.

The US supplies the World Bank with a quarter of its funds. Senior bank officials fear the budget cuts will mean the other 32 member countries will reduce their contributions. Last year the bank lent R22 billion to developing countries.

"If the budget is cut, it will undermine the whole of our strategy of trying to solve the debt and poverty crisis in poorer countries," said one executive.

The cuts have been imposed by an unusual alliance between Democrats, who want to reduce the budget deficit by any means possible, and Republicans who

see the World Bank as an inefficient and excessively liberal supplier of loans to Third World countries.

"There is a strong feeling among some members of Congress that it would be more efficient to use the money that currently goes to the bank for projects that could be directly financed by the US," said one congressional source.

The budget problems come in the middle of a reorganisation at the World Bank. The changes are designed to streamline the organisation and to make it more responsive to the needs of the countries to which it lends the money.

But in the last three months

more than 700 people have been fired out of a staff of 6 000, and a huge shuffling of jobs has provoked allegations of "cascading cronism", with allegedly unqualified people being appointed to senior posts. Some projects are being delayed for months because staff have been too nervous to leave Washington, in case they get fired while they are away.

The chaos inside the bank has undoubtedly influenced Congress. A year ago Mr Barber Conable was appointed president of the bank, with a brief to push through reforms. Conable is a former Republican Congressman with little experience of international affairs, but he felt the bank had become a

bloated bureaucracy.

He announced a reorganisation costing R200 million. Under it, all of the bank's staff were to be relieved of their existing posts and some eventually made redundant.

So far 40 percent of the staff have changed jobs, four new directors have been appointed, and they in turn have been made responsible for choosing their deputies. This process has continued right through the bank's structure, but it is said that this system has allowed bosses to appoint their cronies to junior posts.

"The result has been a theatre of the absurd," said one bank source. "Friends have appointed friends who are unqualified for their new jobs. It is like asking a plumber to do brain surgery." — *Sunday Times, London*



*B/day* *(356)*  
**A bonus from World Bank**

WASHINGTON — The World Bank will double its lending for population, health and nutrition programmes in developing countries over the next three years, its president, Barber Conable, told an international conference in Nairobi yesterday.

He said that by 1990, the World

Bank and its affiliates might be directly assisting such projects in 50 countries with credits and other financing assistance totalling \$500m a year.

Conable will visit several East African countries to discuss economic development efforts with government officials. — AP-DJ.

*11/2/87*



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WITH an average per capita income of \$2 340 South Africa ranks as the 27th wealthiest nation (excluding the East European socialist economies and the high income oil exporting countries) in the world according to the latest development report of the World Bank.

South Africa looks good in terms of both per capita income and inflation, from the World Bank's international comparisons. But the bank's report does not give figures on income distribution in South Africa and without these, per capita income does not tell us much about levels of economic welfare or poverty.

South Africa is classified by the bank as an upper middle income country, in the same category as Argentina, Venezuela, Hong Kong, Brazil, Singapore, Chile, South Korea and Israel.

According to the report, living levels, in 1984, were highest in Switzerland and the United States with re-

spective per capita incomes of \$16 330 and \$15 390. Countries with the lowest per capita incomes were Ethiopia (\$110) and Bangladesh (\$130).

Among middle income countries South Africa ranked as the eighth wealthiest after Singapore, Trinidad and Tobago, Hong Kong, Israel, Greece, Venezuela and Algeria.

South Africa's per capita income declined from \$2 670 in 1982 to its present R2 340. In fact, the average annual rate of growth in gross national product per capita between 1960 and 1978 was 2,5 percent while for the period 1965-1984 it had slumped to 1,4 percent, a clear reflection of

#### By PUNDY PILLAY, Cape Town

both the poor performance of the economy in recent times and the high population growth rate.

The report also shows that most of the middle and high income countries have failed to contain inflation during the Seventies and Eighties.

Although the average annual rate of inflation in South Africa more than doubled from 6,0 percent during 1965-1973 to 13,2 percent for the period 1973-1984, this still compares favourably with the "galloping inflation" of such middle income countries as Israel, Argentina, Uruguay,

Chile, Brazil and Portugal (see table below).

Only a handful of nations managed to achieve single digit inflation rates during the Seventies and early Eighties, most notably Hong Kong, Singapore, Japan, Switzerland, West Germany and the United States.

#### Average annual rate of inflation

|              | 1965-73 | 1973-84 |
|--------------|---------|---------|
| South Africa | 6,0     | 13,2    |
| Chile        | 50,3    | 75,4    |
| Brazil       | 23,2    | 71,4    |
| Portugal     | 4,9     | 20,5    |
| Malaysia     | 1,2     | 6,2     |
| Uruguay      | 51,7    | 50,0    |
| Mexico       | 4,8     | 31,5    |

|              |      |       |
|--------------|------|-------|
| South Korea  | 15,5 | 17,6  |
| Yugoslavia   | 10,9 | 24,6  |
| Argentina    | 24,1 | 180,8 |
| Venezuela    | 3,3  | 11,7  |
| Israel       | 8,2  | 84,4  |
| Hong Kong    | 6,4  | 9,8   |
| Singapore    | 3,1  | 4,4   |
| Japan        | 6,0  | 4,5   |
| West Germany | 4,7  | 4,1   |
| Switzerland  | 5,5  | 3,9   |
| USA          | 4,7  | 7,4   |

In terms of the relatively high per capita income ranking of South Africa it might be easy to conclude that development is not an issue. However, while the rate of growth of the per capita income of an economy is one of the factors which is important in determining trends in the level of economic welfare, information is also needed about the distribution of income and the incidence of poverty.

Income distribution figures produced by researchers at the universities of Cape Town and Natal suggest that South Africa is "at the very top of the inequality league". For instance, in 1980, the top 20 percent of earners received 60 percent of all income while the bottom 40 percent took home only eight percent. Furthermore, this inequality is structured along racial lines with blacks, comprising more than 70 percent of the population, receiving only 40 percent of earned income.

While the South African per capita income is in excess of \$2 000, it has been estimated that African per capita incomes in this country in 1985 were about R280, declining from R292 in 1980. Countries with this level of per capita income include the "poorest of the poor", such as Bangladesh, Malawi and Zaire.

The R280 per capita figure is considerably lower than those for Southern African countries such as Botswana, Lesotho, Zambia, Zimbabwe and Swaziland.

There is also evidence to suggest that urban-rural inequalities have increased with per capita incomes for Africans in metropolitan areas being as much as five times greater than in rural areas and homelands.

The problem of unequal income distribution has been compounded by the fact that during the last decade and a half, this country has had to contend with "stagflation" — the simultaneous occurrence of high rates of inflation and unemployment.

Independent researchers estimate unemployment as being in excess of three million in 1987, increasing from about two million in 1980. The result is increasing impoverishment for black South Africans, with the dependency ratio (the number of individuals dependent on an employed person), for example, for Africans at 5,3 compared to a white dependency ratio of 3,3.

Those who have jobs are faced with declining real incomes; since 1984 real wages have been declining in all sectors of formal employment except transport and services.

The overriding conclusion then is that while South Africa is one of the wealthiest nations in the world in terms of per capita income, the actual level of development places her much lower in the international development stakes.

P. 21-4



Our dear Amanda,  
 understand that Thami's ulcers  
 have worsened, so much so that  
 he has been hospitalised. Perhaps  
 you will be able to assure me  
 that he is responding well to  
 the treatment, that he is on his  
 feet again.  
 He is a young man of promise and  
 the one we like very much. He has  
 a lot of vigour and drive which  
 we all, particularly you, can help  
 him to develop to the fullest.  
 I sincerely hope that the knowledge  
 that our admiration for him is  
 still as high and attachment  
 so strong, and that we think of  
 him at this very moment, will  
 cheer and strengthen him. Do tell  
 him this!!  
 I hope you will now get  
 Madiba clear.  
 Hoping to see you again in the  
 near future.  
 Yours Amanda.

Mkhwanazi's fiancée, Amanda Kwadi, copied these excerpts from a letter sent to her by Mandela

There was harmony between the PAC and the Freedom Charter camp, but we had to work at it. Kwedi Mkhaliwe, who completed his 20-year sentence last year, was very good at maintaining peace. Mkhaliwe, a thorough Africanist, was the most likeable man in the PAC camp.

We were in the same cleaning span in B-Section. As we swept the sprawling combined dining room and movie hall, our brooms moved forward in unison, and so did our discussion.

We often found ourselves trapped in opposing political views. For the sake of peace, Mkhaliwe would subtly turn the subject to the Organisation of African Unity. The importance of the OAU was a subject on which all camps agreed.

Very different was my good friend Geoff Masemola, a PAC lifer who foreswore PW Botha's "foreswear violence" offer of release. Bra Geoff and I were bound by the principle of telling the prison authorities where to get off.

He had declared a one-man war against the authorities. To him, careful plans and lengthy debates by inmates before action could be taken was a waste of time. He staged one-man hunger strikes, winning a lot of rights and privileges for himself — and also losing many battles, ending up behind bars within bars, gaining nothing at the end of a lengthy and painful hunger strike.

Armed with a BA degree which he earned in prison, he argued intelligently in his letters to the prison top brass. His letters were like declarations of war or indictments. He called a spade a spade.

Bra Geoff was an agitator. Perhaps I was one too. He called me "fighter" and I called him "soldier". For some reason we were constantly having brushes with the authorities. Like me, he was transferred from section to

section and eventually from prison to prison. (In the seven years I was jailed, from April 1980 to March this year, I was moved around the country between seven different prisons. The longest stretch, three years, was spent on the Island.)

We met in A-Section, shortly after my arrival on the Island. I was his "home boy" — we both came from Atteridgeville, near Pretoria, where he had been a schoolteacher at the time of his conviction in 1963. Inmates are always anxious to learn of events back home and I promised to inform him about Pheli, as Atteridgeville is called.

It took me two weeks to revisit his cell, and he was so angry he told me to get out. He told me he believed I was being inducted into the Freedom Charter camp and that whatever I would tell him would be censored by the Charterists, playing down any PAC gains.

A week later we were laughing together. I understood his problem. Many prisoners had to vent their anger from time to time on someone. We saw it as therapy when anger was vented on us by fellow inmates on the Island and we didn't take it hard. Also one had to consider the fact that the man was a lifer.

Masemola was a skilled artisan — a carpenter, builder, plumber. In the early Seventies he made all the cupboards in the cells in his section out of scrap wood. That was not all he made. In the Sixties, I was told, he made a jail key which was offered free to anyone who cared to try the daredevil swim to freedom. No-one took up the offer.

No-one did in the Sixties and it is not likely anyone would today, if the offer were still in force. The inmates made adaptable codes that changed to meet changing situations — and eventually it became part of the code

of conduct that there should be no escape attempts. We felt it would retard the struggle. Any attempted escape could lead to a death — and the only ones to benefit would be the state.

Elias Motsoaledi, 63, another Rivonia trialist, was the haircut man. He would set up a chair in the courtyard and give you any style of haircut you needed, especially for special occasions such as a visit, or a pending release. But he was a very busy man — one had to make an appointment to get a haircut.

He was also the handyman — and always had this or that to do. For example, he made rubber plugs for all the sinks. The sink plugs provided by the prison were always too loose and light and they would often come out while one was using the sink. Motsoaledi had a huge piece of rubber that had been washed up on the shore. It was so hard and tough — he needed a hacksaw to cut it — that he would joke that it came from Inner Mongolia. He used it to cut sink plugs.

He would store lots of things like this in one of the empty cells. When the prison authorities would raid and one of the warders would want to confiscate it, he would resist and argue and eventually they would say, "Leave the old man alone."

But his real love was his garden.

For years he had cultivated the area around the courtyard. He had planted grass and flowers — over the years he had managed to acquire seeds — and cared for them every day. He collected rain water by placing plastic drums under the drainpipes, carting them around to the flower beds when they were full and reserving some for dry days. He treasured soft water for his garden and when inmates had finished bathing he would collect the leftover soapy water for his flowers.

It was an unofficial garden — not sanctioned by the prison officials. However, it was really beautiful and they turned a blind eye to it. In the end, the prison officials themselves were proud of it and would show it off to visitors.

At first, everyone would pick flowers from the garden and put them in their cells. But this spoiled the garden, so a rule was made that only Motsoaledi himself could pick them. Every week, he would take a few flowers, put them in a tin or similar container and place them in the corridor or the dining room.

Motsoaledi was concerned at one stage that mice were destroying his garden. So Geoff Masemola made him traps from scraps of wood and metal, and he put them around the courtyard. When in the early morning he would find a successful "catch", he would cheer and chortle and show it off to everyone.

The Red Cross delegation that visited the Island last year included a woman for the first time, Francine Fass-Regrosio. Motsoaledi picked some of his freshest flowers and gave her a large bunch as a token of our appreciation for their work.

W/Mail 21-27/8/87

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- (a) The authority was granted on 23 July 1987.
- (b) The number of the authority was 19/1987 (N).
- (c) The relevant conditions attached to the authority were:

(a) The regulations for the Safe Transport of Radioactive Materials (1985 Edition) of the International Atomic Energy Agency (IAEA) must be complied with.

(b) This authority must be returned to the Atomic Energy Corporation of South Africa Limited, P.O. Box 582, Pretoria, 0001, promptly after shipment of the total quantity authorised herein has been completed, or when no longer required for further use.

(2) Since neither NUFCOR nor the carter were licensed in terms of section 30 of the Act, no licence information was required to be displayed on the vehicle. However, the IAEA regulations referred to earlier call for appropriate labelling of vehicles indicating that the material being transported is radioactive. The vehicle in question did carry placards indicating that the load was radioactive material.

(3) No formal inquiry was received by the AEC from any Fire Department. NUFCOR also confirmed, on inquiry by the AEC, that they have also not received such inquiries.

However, the AEC maintains a National Emergency Team which was activated and which established monitoring stations at Charlestown and at the Fire Station in Newcastle. They were in continuous contact with the Town Clerk and the Chief Protection Services of Volksrust and the Traffic Department of Newcastle. Decontamination facilities were also established by the AEC at Volksrust and at the Fire Station in Newcastle.

By the nature of these acts, personnel of the Fire Department in Newcastle were kept fully informed.

However, a reporter of the Natal Witness did ask a member of the Emergency team what the ultimate destination of the uranium oxide was, and he correctly answered that such information was classified.

(4) No, not at this stage.

*For written reply:*

*General Affairs:*

*Reply substituting reply to oral question 26 on Tuesday 8 September 1987 put by Mr S S van der Merwe (col 806):*

**Boschfontein 458-JQ**

\*26 Mr S S VAN DER MERWE asked the Minister of Constitutional Development and Planning:

(1) Whether, with reference to his reply to Question No 229 on 21 August 1987, the six White owners of Portion 4 of Boschfontein 458-JQ have been bought out by the South African Development Trust Corporation; if not, when is it anticipated that the matter will be finalised; if so, when was the sale concluded;

(2) whether this land will be made available for sale to the 92 Black persons living on the land to be incorporated into Bophuthatswana; if not, (a) why not and (b) to whom will this land be sold;

(3) whether, prior to this land being incorporated into Bophuthatswana, these Black persons will be consulted regarding their views on incorporation; if not, (a) why not and (b) who took the decision not to consult them; if so, (i) when, (ii) who will consult with these persons and (iii) what options will be offered to them in regard to the proposed incorporation?

\*THE MINISTER OF CONSTITUTIONAL DEVELOPMENT AND PLANNING:

(1) No. Negotiations with some of the owners have not been completed as yet.

(2) (a) and (b) No decision has so far been taken about the future disposal of the undivided shares that will be acquired by the South African Development Trust.

(3) (a) and (b) The hon member is referred to paragraph 4 of the reply by the hon Minister of Constitutional Development and Planning to Question No 229 on 21 August 1987. A decision on the incorporation of the area concerned was taken by Parliament of the Republic of South Africa by passing Act 112 of 1986.

as at the latest specified date for which information is available;

(2) (a) how many such persons were employed in each of the eight most senior post levels of this Board, (b) how many of these persons were (i) male and (ii) female and (c) to which population group did each of these persons belong;

(3) (a) what will be the applicable salaries and/or salary scales of each of the eight most senior post levels of this Board with effect from 1 July 1987 and (b) what financial and other specified benefits will be applicable to each of these post levels as at 1 July 1987?

#### Tourism Board: employees

174. Mr R M BURROWS asked the Minister of Economic Affairs and Technology:

(1) What was the total number of persons employed in a full-time capacity by the South African Tourism Board

#### THE MINISTER OF ECONOMIC AFFAIRS AND TECHNOLOGY:

(1) 285 persons on 1 October 1987.

(2) (a) 82 persons.

(b) (i) 71 male persons.

(ii) 11 female persons.

(c) 69 White males, 1 Black male, 1 Coloured male and 11 White females.

(3) (a) Applicable salary scales on 1 July 1987:

|                                                       |                                                                                  |
|-------------------------------------------------------|----------------------------------------------------------------------------------|
| Executive Director .....                              | R70 017 (Fixed)                                                                  |
| Chief Director .....                                  | R62 199 (Fixed)                                                                  |
| Director .....                                        | R54 954 (Fixed)                                                                  |
| Deputy Director .....                                 | R43 389 × 1 830 - R47 049                                                        |
| Assistant Director .....                              | R33 624 - 34 803 × 1 431 - R37 665                                               |
| Senior Accountant .....                               | R25 371 × 1 179 - 30 087/33 624 - R34 803 × 1 431 - R37 665                      |
| Senior Tourism Promotion Officer and equivalent ..... | R25 371 × 1 179 - R30 087                                                        |
| Hotel Inspector .....                                 | R15 912 × 789 - 22 224/22 224 - 23 013 × 1 179 - 25 371/25 371 × 1 179 - R30 087 |

(b) Benefits: Housing subsidy

Pension fund  
Group life insurance  
Annual service bonus  
Motor-car financing scheme (from rank of Director)  
Entertainment allowance (from rank of Deputy Director).

#### End Conscription Campaign

249. Mr S S VAN DER MERWE asked the Minister of Law and Order:

(1) Whether, with reference to his reply to Question No 30 on 16 June 1987, any possible charges are being inves-



other is a damning analysis of the WB published by the conservative think-tank the Cato Institute (CI), which uses internal (and presumably leaked) bank studies to demonstrate the failure of many of the expensively funded development projects.

The Salomon securitisation idea is noteworthy for its avoidance of the early popular idea that much of the Third World's troubled debt could be swapped for equity interests. This idea ignored the formidable barriers to foreign ownership that exist in law and culture in Latin America and elsewhere.

According to MD Warren Foss, the Salomon scheme would centre on a debt-for-debt security, presumably discounted deeply enough to make it marketable.

The firm is working with numbers that show the secondary market for such debt is about US\$10 billion this year, double last year's volume. One stumbling block in the way of such a new capital market vehicle is the concern about the quality of the underlying debt itself. Some of the Mexican secondary sales are below 50c on each dollar of face value.

Brazil is another worry. Its negotiators with the New York bank syndicate were said to be putting forth an exit bond plan which would give the banks themselves the power to determine the amount of debt to be converted and the amount of the discount to be offered.

Among the more intriguing proposals rumoured is that the Brazilians will insist that the new bonds offer a competitive yield and rank as senior official debt. This would enable them to be used to make debt-equity swaps, it is argued.

Such a scheme would have the support of James Baker, the US Treasury Secretary, who has been urging securitisation as a device to attract new bank lending into the Latin American sector — where it is badly needed if American exports there are to revive.

Baker also startled early arrivals to the WB/IMF meeting by jumping out ahead of the parade and calling for a major capital increase for the WB to the tune of \$40 billion-\$50 billion. This new money is needed, he told a news conference, so that the bank can move from its current \$15 billion a year loan output to a \$20 billion level.

The idea is not as popular as it might have been a year ago.

IMF MD Michel Camdessus was hoping to win final approval for a \$7 billion contribution from the Group of Seven bloc to fund a special loan package for the distressed nations of sub-Saharan Africa. Since the US still has to pony up its \$2.8 billion share of

the current replenishment of the International Development Bank, Camdessus might well wonder whether the WB's priorities are correct or whether the WB is going through a rough patch itself.

President Barber's reorganisation — which will cut 6 500 staff members and a cadre of advisers — is being implemented in the press four months after it was put into place.

Now comes the CI report which argues that while the WB preaches the doctrine of encouraging market-orientated reforms among Third World nations, its funding usually ends up going for collectivist (and often anti-human) projects or to prop up failed state-run economic experiments. Some of the evidence cited in the CI report is deliberately and undeniably damning. The bank's loans to finance the genocidal resettlement programmes of the Marxist Ethiopian regime or the Indonesian transfers from Java are only the most obviously grotesque. Less dramatic, but arguably more crucial, is the citing of several internal WB studies which argue that the much ballyhooed structural adjustment lending programmes — used since 1980 to nudge developing countries back to market-orientated policies — have in many instances hampered the very reforms they seek to encourage.

WORLD BANK/IMF F/M 2/10/87

## Beyond debt swaps

Any veteran of the merchants' fair known as the annual meeting of the World Bank (WB) and International Monetary Fund (IMF) knows of the vast array of interesting things to read and new ideas to ponder that confront the delegates.

Among the more popular items being discussed as the central bankers and finance ministers of 151 nations began to drift into town is a plan by Salomon Brothers Inc to market a new Third World debt bond. An-



# World Bank to give R270-m for Zambian development

Star

20/2/87  
The Star's Africa News Service

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LUSAKA — The World Bank approves of Zambia's economic reform programmes and has promised R270 million for development projects, World Bank president Mr Barber Conable said in Lusaka on Tuesday.

But at a Press conference, he warned that despite "the constructive attitude" he had found in Zambia, the reform programmes depended on political decisions to implement them.

Mr Conable stressed that for the Zambian economy to recover there was a need for discipline and sacrifice in terms of both short-term and long-term programmes.

"We are pleased that President Kaunda and his government have recognised they can no longer rely on the declining fortunes of copper wealth," he said.

Mr Conable said Zambia needed to expand and diversify its agriculture. Money borrowed should be used in productive sectors.

"We don't want money to be used for paying debts, but it must be used on sound planning programmes designed for short-term and long-term benefits for the economies of the countries concerned," he said.



# Debt fatigue: beyond the jargon of the loan crisis

The debt crisis has not gone away — in fact, it is getting worse. A report by the World Bank says that last year debt passed the R2 000-billion mark for the first time.

DANIEL NELSON looks at what the bank admits is a threat to the world financial framework

BRAZIL's decision to suspend interest payments on its foreign debt can be a surprise only to bankers — the people who created the debt crisis by their greed to cash in on what they thought was risk-free lending, allowed it to spiral out of control by failing to do their accounts properly, and then ran for cover by refusing to cooperate in the only systematic solution to the crisis so far attempted.

That solution was the Baker Plan, named after the United States Treasury Secretary. It depends on three prongs:

- Economic policy reforms by developing countries.

- The fostering of economic growth as part of policy prescriptions for developing countries.

- An increased flow of capital from the industrialised to the developing world. That was the consensus which emerged two years ago for dealing with debt.

The World Bank has now issued a report on *Implementing the consensus*. A more accurate title would be *Failure of the Consensus*. Western banks and governments have always selfishly treated debt as a banking crisis, when in reality it is a crisis of development. So it is not surprising that the only Baker Plan condition that has been met is the one insisting on readjustments by developing countries.

At enormous political risk, the Third World has carried out its side of the bargain.

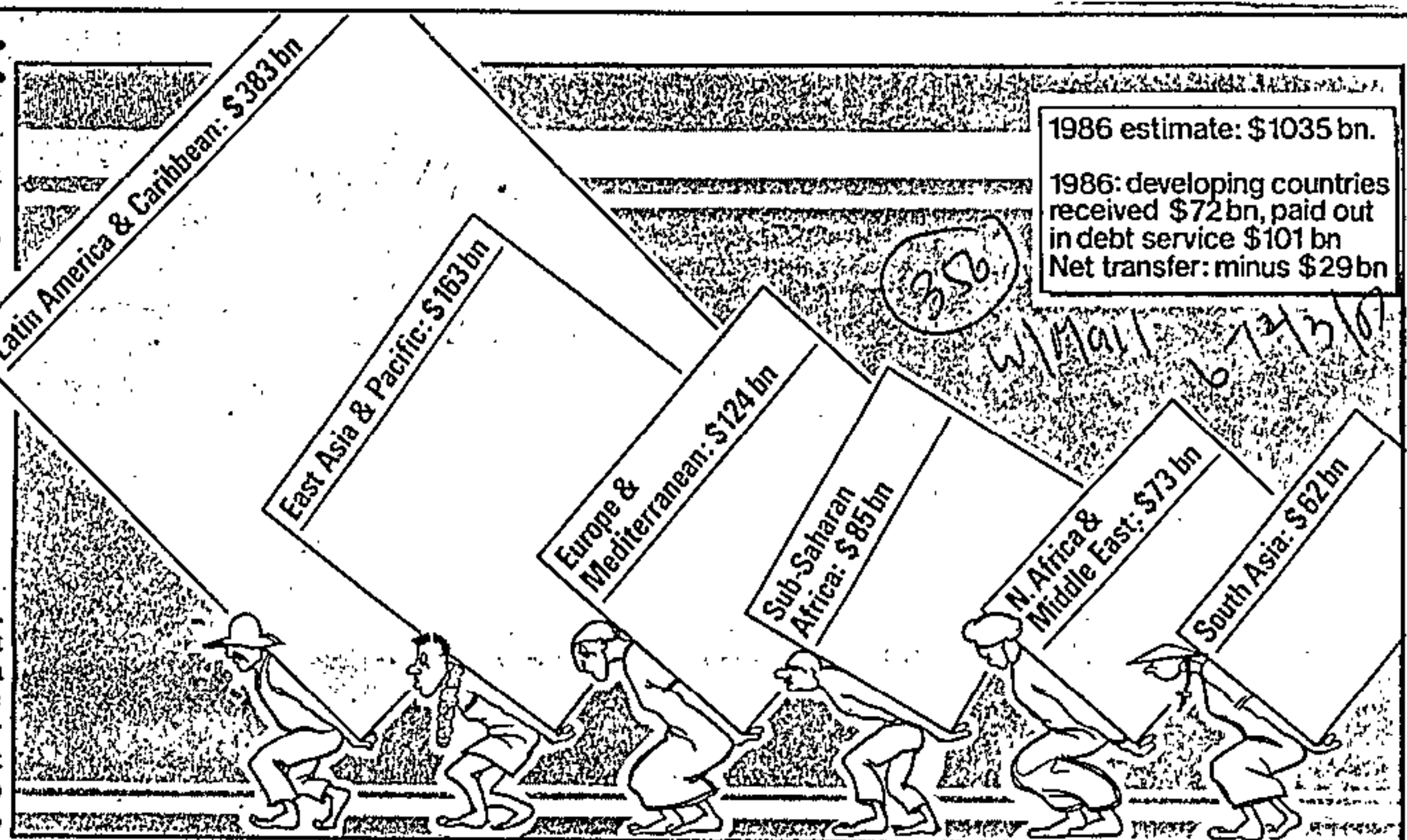
The World Bank report says reforms have been implemented "at the cost of stalled development and falling per capita incomes". Verdict on Third World efforts by Michael Carter, deputy director of the World Bank's European office: "Pretty impressive."

But what about the extra money developing country governments are supposed to receive in return, to help them raise living standards for their people?

The banks have failed to deliver. They have not even maintained lending. They are actually lending less.

If the magic of the marketplace is failing to solve the problem, what about government aid — particularly important to low-income Africa, where the marketplace does not even deign to look? No, that is falling too. Even Carter calls it "a very disturbing situation".

So for the third year in a row, the world is confronted with "a net transfer of resources" — in plain



The debt burden: No easy load for the countries involved — or the World Bank.

language, money is moving from the poor world to the rich: \$11-billion (about R22-bn) in 1984, \$26-bn (about R52-bn) in 1985, and \$29-bn (about R58-bn) last year.

"Debt fatigue" is what bankers call it. To make matters worse — although that scarcely seems possible — many banks are showing less interest in working out orderly arrangements for debt rescheduling. So developing countries are forced into short-term deals which make planning impossible.

The banks are able to adopt this position because they used the panic years after Mexico's near-default in 1982 to reorganise their balance sheets. Without their participation, however, the Baker Plan is dead. And the danger of a head-on conflict between borrowers and lenders looms again.

In the context of the jargon-filled language of most international documents, the World Bank report is very outspoken: it refers to "risks", "a step backwards", "increasing difficulty", "...the whole international economic framework, whose edges

are already frayed."

But this report is not enough.

The new president, Barber Conable, is said to be organising the biggest shake-up in the bank's history. But unless he confronts the debt situation — beginning with the IMF-World Bank meetings in Washington during April — his reorganisation will be meaningless.

The bank has to take a lead, because there is no-one else to do it. The private banks have shown their disinterest, the major Western powers are concerned only with a dangerously narrow view of their own economies, and the IMF displays a deadly combination of economic tunnel-vision with political incompetence (although the new managing director cannot possibly be more short-sighted than the previous incumbent).

The bank is appallingly arrogant: it recently sent out a patronising letter urging those covering development issues to appreciate the importance of women — a cause which has been pressed by virtually everyone else for years.

It claims to hold the intellectual high ground in the development field, with officials often expressing contempt for the "unprofessional" development efforts of the United Nations agencies. If it seriously wishes to uphold this claim to leadership, it must now go beyond reports calling for renewed efforts to keep the Baker Plan alive. It must originate other measures, and press for implementation.

What is at stake is not only the debt question: after all, it is evident that some debt will never be repaid, and that "controlled default" — agreed by debtors and creditors — is both likely and feasible. More seriously, the whole international development effort is at risk.

A situation in which the poor transfer money to the rich, and in which commodity prices appear to have become detached from the industrialised economies of the West (an argument which the bank must also consider) is not a framework for development.

In Washington next April, the bank must make that warning clear. — Gemini News.

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Johannesburg 2000



## Coming on stream

Last week's announcement that the World Bank (WB) has granted a R15m loan for the initial costs of the Lesotho Highlands Water Project has finally kicked off phase one of the R5 billion scheme.

When complete, the project will double the total yield of the Vaal River system, including recycled return flow, to 6 500m cubic metres of water a year. This will meet the needs of the PWV well into the 21st century.

Cost of the first phase — due to be commissioned in 1995 — is projected at R1,5 billion at 1985 prices. The SA end, involving tunnels, canals and access roads, will be worth R250m to local contractors.

Royalties to be paid by SA in terms of last October's treaty will be the equivalent of 21% of Lesotho's current GNP and will therefore benefit the small kingdom's economy substantially. Once the project is operational, Lesotho will receive a capital-related royalty of R23,4m a year. A further 4,1c/m<sup>3</sup> will be paid to meet projected demand, as well as 2,05c/m<sup>3</sup> for all water delivered in excess of the agreed demand projection. All royalty payments are subject to inflationary adjustment.

Calculated over a repayment period of 15 years, SA water tariffs will have to increase, at current prices, by about 250% immediately after the scheme is commissioned — from a current 11,5 c m<sup>3</sup> to 40,1 c m<sup>3</sup>. Alternatively, tariff increases will have to be phased in gradually.

Apart from the WB loan, the European Economic Community's Economic Development Fund will contribute R35m to the R100m initial package. This will go to the Lesotho Highland Development Authority (LHDA) which is responsible for the Lesotho side of the project. The WB will be lead agency for Lesotho throughout the first phase with back-up from the EEC.

A further R50m — for SA's Trans-Caledon Tunnel Authority — will be raised on the local capital market.

Claus Triebel, Chief Engineer, Planning, of the Department of Water Affairs (DWA), says a very tight schedule is needed if phase one is to be commissioned as planned by January 1, 1995. The work schedule is:

- ☐ Access roads: October 1987;
- ☐ Katse-Sentelina transfer tunnel and delivery tunnel: January 1990;
- ☐ Katse dam: April 1990;
- ☐ Tlhaka Dam: August 1991;
- ☐ Hydropower plant: January 1992;
- ☐ Sentelina dam: October 1993; and
- ☐ Transmission lines: October 1994.

"LHDA is about to appoint consultants for the infrastructure development of phase one, while consultants for the hydro-power station will be appointed in May this year. Consultants for the design of the dams and the tunnels will be appointed later this year," Triebel tells the *FM*.

Apart from the improved water supplies to

the PWV, regional centres and business sectors will also receive beneficial spin-offs.

Nerve-centre for the importation of goods could be either Fouriesburg or Ficksburg — the final decision is pending. But Ficksburg looks set to become at least the major residential centre on the SA side. A priority will be the upgrading of heavy load road routes, which extend from Durban via Harismith and Bethlehem to the PWV, Fouriesburg and Caledonspoor. Bitumen surfaces have been recommended for the main routes to improve traction, ensure access and reduce maintenance.

In Lesotho, the main upgrading of access roads will involve 162 km in the Mohale dam area, 173 km in the Mashai dam area, 160 km in the Katse dam area and 59 km in other parts of Lesotho.

The value of these contracts — at 1985 prices — is estimated at R128m, while SA work on site is valued at another R15,8m.

LHDA CE Masupha Sole says the project should also be seen as an opportunity to upgrade the skills of the Basotho — 4 000 jobs will be created for local inhabitants during the first phase alone. One of LHDA's functions will be to provide local inhabitants with professional and technical skills through bursaries and on-the-job training. ■



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# Name the World Bank's biggest coup? The bankers aren't sure

WHEN author Paul Harrison asked the World Bank to nominate one of its successful projects in Africa for inclusion in a new book, the bank had trouble thinking of any. Only after he had tried several departments, Harrison relates, was a project suggested, and then half-heartedly.

After years of effort and billions of dollars spent on programmes across Africa, he found the bankers deeply frustrated that so few attempts had succeeded.

One internal evaluation of 17 African projects found that only four had sustained their benefits for a decade or more.

The World Bank is not the only organisation active in African aid, but it is one of the most important. For many industrialised countries, World Bank approval of an aid scheme is enough to justify their getting involved. It has likewise not been alone in suffering a high failure rate.

When University of Sussex economics professor Robert Cassen led a 20-member team in a year-long investigation into the question "Does aid work?" he concluded that the answer is yes — except in Africa.

The bank has been criticised for secrecy, however. In the past it has not been eager to admit its limitations.

Britain's sudden enlightenment may have something to do with its impending general election and voter concern for African famine, but it reflects the general attitude that something must be done, and that old solutions have not worked.

The biggest spenders in the development business are beginning to admit that they underestimated the effect of environmental factors on economic advance. In the past donors have pleaded that they are at the mercy of sovereign governments, which set their own priorities regarding conservation of resources.

In his book *Only One Earth*, author Lloyd Timberlake recounts how the World Bank and the Inter-American Development Bank provided Panama with \$19-million to increase beef production while encouraging "sensible and sustainable use of the land".

In the end neither bank could act when it turned out the money was going to farmers who systematically stripped forests to create ranchland, without concern for soil loss or the damage to fertility they were causing. The banks now say they are moving to reduce such practices.

In a major reorganisation, the World Bank is to enhance the influence of its environmental office, which officials admit had little clout in the past.

Each of four geographical sectors will have its own environmental unit to deal with issues specific to the region. In addition, Martin Koelle, head of the Department of International Relations, said pilot efforts will be undertaken in 10 countries to devise overall macro-economic policies which include environmental concerns as an integral part of planning.

If the admission of failure is the first step on the road to success, development efforts in Africa may finally be heading in the right direction. Harrison, who examined successful aid projects across Africa in order to analyse and catalogue what made them work, found that failure was not endemic to Africa, but frequently resulted from weaknesses within the organisations operating there. He noted: "Many conventional projects have ignored fundamental facts of life and have failed because of that." — Gemini News

Recently there have been signs that its reluctance is changing: comments by a variety of bank officials indicate a willingness to face failures and consider new approaches to avoid them.

This candour was reflected in remarks by Shahid Husain, vice-president responsible for operations, who acknowledged that economic policies in many bank-subsidised countries are harmful to the environment, and thus to long-term growth. Husain reportedly told the bank's development committee: "Many direct government subsidies are unsound, both in environmental and economic terms. They add to a country's fiscal burden, encourage the wasteful use of scarce resources and frequently benefit the large landowners."

Despite such frankness, much uncertainty remains among development professionals about what to do next. A legacy of uncertainty has been left by the failure of so many past attempts despite the availability of

If the admission of failure is a step towards success, development efforts in Africa may finally be heading in the right direction. KERRY MCPARLAND reports on abuses of aid — and what some donors are doing about it.

money, expertise and good intentions.

Development workers often contend the bulk of aid spending is wasted. The recently-released report of the World Commission on Environment and Development points out that the disastrous outcome of many aid policies was predicted beforehand, but was ignored in the interests of "progress". Said Joseph Wheeler, chairman of the development assistance committee of the Organisation of Economic Co-operation and De-

velopment (OECD): "Many of our projects are not working well... They may look good in London, but they're not working on the ground."

Members of the OECD, the main economic grouping of 19 of the world's richest countries, spend about \$30-billion a year on efforts to strengthen the world's poorer nations. Yet Wheeler says that in many cases they have not yet fully grasped how to do the job. "A real understanding of the issues is still elusive," he says. Projects have been poorly planned, based on a lack of first-hand experience and understanding of the realities of life in the countries to be helped.

Realistic solutions have not come quickly to hand. Much of this has been evident to field-workers for some time. The time it has taken to percolate to top people such as Wheeler illustrates the communications gap that plagues the big bureaucracies responsible for setting poli-

cies in action. Yet there is a growing consensus that essential economic problems must be solved before poor countries have a chance of making real gains.

At the same time, development and concern for the environment have become intertwined to the point it is conceded long-term success in one cannot take place at the expense of the other.

Shridath Ramphal, secretary-general of the Commonwealth Secretariat, is among those who have begun to argue that poverty in itself impedes progress: "It's not that the poor are to blame, but that poverty is to blame, and all those who contribute to the perpetuity of poverty are to blame." This message was taken up in a move by the British government that surprised even its close allies.

Britain — usually among the rich world's most ardent supporters of austerity economics — has begun urging other senior members of the International Monetary Fund (IMF) to take exceptional steps to ease the debt burden on the poorest African countries. Britain has waived repayment on \$400-million in aid loans and pressed other donors to do likewise. It argues that IMF lenders should reduce interest payments and allow longer repayment periods to needy countries.

Christopher Patten, Britain's minister for overseas development, said Western countries must be realistic: "We have to recognise that there is little prospect of some of the poorest and most heavily-indebted sub-Saharan countries being able to service all their debts in the foreseeable future. The burden is quite simply too immense."



# Global upturn slowing down

GRETA STEYN

GLOBAL economic recovery is slowing down and government action is necessary to avert economic stagnation — if not decline — the World Bank says in its latest World Development Report.

Real output growth in industrial countries slowed to an estimated 2,5% in 1986 from 2,8% in 1985, after peaking at 4,6% in 1984.

In developing countries, growth slowed to 4,2% in 1986, after notching up an increase of 5,1% in real Gross Domestic Product (GDP) in 1984.

Major factors inhibiting recovery are the current account imbalances between industrial countries, and the Latin-American debt crisis.

"The combination of international payments imbalances, sluggish growth, increasing protectionism, and the debt problems of many developing

● To Page 2



## World Bank call for action on recovery

countries is an unpromising base for sustainable growth in the world economy," the report said.

The growing payments imbalances between industrial countries would have to be reduced. But before this could happen, the United States would have to make progress in reducing its fiscal deficit.

The report called for trade reform and said improved access for the manufactured exports of developing countries to the markets of industrial countries was a "crucial element".

It cautioned against increasing protec-

tionism and said there was strong evidence to suggest that outward oriented trade policies were more successful than inward oriented policies.

Countries industrialised faster under outward orientation, and arguments for industrialisation through import substitution were "questionable".

"Growth rates of GDP show a clear descending pattern from the strongly outward-oriented to the strongly inward-oriented group," the report said.

● From Page 1



## Running in place

The World Bank decided last Friday that it needs a capital increase of US\$75bn, roughly equal to its present \$80bn size. But, standing in the way, is a growing controversy over last year's cost-cutting reorganisation attempt which has turned into something of an embarrassment.

Last year, World Bank president Barber Conable announced the firing of 600 bank professionals and staff in a 10% reduction in force which was designed to get rid of old non-performers and to shift out a number of engineering professionals' job slots to make room for the bank's new emphasis on economic reform in Latin America and Africa.

In so doing, Conable appears to have invented the "golden trampoline" — where a department takes hefty severance settlements and early retirement and then bounces back into old jobs or consultancies indistinguishable from those old jobs.

Confidential bank reports indicate that 85 of the 600 target employees escaped the knife and another 100 abolished jobs have been filled again, with many of the old faces. Another 150 jobs will be refilled this spring, largely through the device of consultancies. The Paris offices of the bank, which were at one point to be closed, are also to be restored to pre-Conable staffing levels and budgets.

The upshot is that more than 200 bank staff members, who last autumn took upwards of \$50 000 in cash plus early retirement, now find themselves back at their old jobs with the added advantage that as bank consultants they can fly to their Third World destinations on first-class airline seats.

So far, the bank's new money needs has the support of the Reagan administration, even though final approval means an annual commitment of roughly \$416m from the US Congress at a time when it is pinching pennies on projects that have a great deal more domestic political appeal. It is doubtful that Congress will be as generous once the full impact of last year's "reorganisation" is known. ■



# World Bank heads for trouble of its own making

The World Bank, originally established to help rebuild postwar Europe, and a major source of development aid to Third World governments, is now creating a new role for itself: that of central manager and negotiator in the continuing "Third World debt crisis".

But for the first time since its fledgling days, the World Bank itself appears to be headed for serious financial difficulties. At a time when it is seeking a R150 billion "general capital increase" — an expanded lending authority, roughly a fifth of which would be guaranteed by the United States — the bank's creditworthiness needs to be re-examined.

This scrutiny could raise questions about the soundness of World Bank bonds and about the liabilities of taxpayers in the Western countries that guarantee the bank's borrowings.

The World Bank's activities depend on investor confidence in its creditworthiness. Independent services such as Standard and Poor's and Moody's rate the World Bank as an AAA borrower, the highest rating. In effect, the World Bank makes its money through its good credit standing — borrowing cheaply to lend at higher but still attractive rates. Now this standing is threatened.

## Riskier loans

In recent years, many private banks have had their credit ratings lowered, in part because of their loan exposure in the Third World. In the view of investors, lending money to these banks has become riskier — in some cases, significantly so. Yet none of these private banks has anything like the exposure of the World Bank, which has extended nearly all its R240 billion in loans to Third World governments. Why does the World Bank still enjoy an AAA rating?

One argument is that the World Bank has never suffered a default on a loan to any of its member governments, which number more than 150. While this position may still be technically defensible — "default" has a complex, elastic legal meaning — it fails to convey an accurate impression of the bank's current circumstances.

Seven countries — Guyana, Liberia, Nicaragua, Peru, Sierra Leone, Syria and Zambia — have World Bank loans that the bank itself registers as non-performing. Their total debt to the bank is about R6 billion — almost three times the bank's stated profit for 1987. And an even bigger problem may be in the offing.

The largest borrower from the

bank is Brazil. Despite recent promises to talk about repayment, the Brazilian government has suspended repayment on nearly R140 billion of its foreign debt to private creditors. Brazilian officials reportedly told the World Bank that Brazil will default on its bank debt unless the bank keeps lending more to Brazil than it must repay to the bank.

The World Bank is thus on a perilous trajectory. Should any default in its portfolio be recognised, its creditworthiness would suffer. Thereafter it would cost the bank more to borrow money for its loans and operations in the Third World.

Of course, financially responsible Third World governments, such as those of Thailand and South Korea, have earned good credit ratings through their own actions. Therein lies the rub. If the bank's credit rating declines, a growing number of creditworthy governments will find it cheaper to borrow on their own rather than through the bank. A process of "negative selection" could begin, whereby the bank would be left, in effect, as lender of last re-

sort — financing only deadbeat governments.

The World Bank leadership is well aware of these risks. It is attempting to finesse the bank's problems through its request for the general capital increase. With the near doubling of World Bank loan authority now being proposed, more loans could be extended to the Brazils and the Argentinas of the portfolio. A pretence of repayment could thus be effected. The bank's creditworthiness could be maintained and the bank could continue to operate as usual for at least a few more years.

The US Treasury Department has endorsed the bank's proposed capital increase and now Congress is being asked to provide a guarantee for increased World Bank lending. Congress should review the application with the greatest care. After all, the American people are legally obliged to cover the World Bank's losses. Great as these could be today, they could be vastly larger after the proposed R150 billion capital increase.

Since the beginning of the 1980s,

an increasing number of Third World governments have refused to repay borrowed money on the terms originally agreed. Almost all these governments are unwilling, rather than unable, to honour their financial obligations.

Virtually all the governments that are demanding loan rescheduling or debt relief command sizeable public sectors, replete with nationalised businesses and state-owned corporations. In some cases, in fact, the government owns more than half of the country's industrial base. It is plainly wrong to suggest that such governments have no saleable assets with which they can meet their loan obligations.

There is more than a little irony in this situation. In the last 20 years the World Bank, as an increasingly indulgent dispenser of funds to Third World governments, has been partly responsible for the change in official attitudes towards borrowed property that are highlighted today in the "debt crisis".

After contributing to the degradation of international banking standards, the World Bank now stands to be a victim of the trend.



8/4/88

# Debt crisis (356) review

WASHINGTON — The World Bank will review its options for reducing the Third World's \$1.2 trillion debt but has no major new initiative in the works, according to the president, according to Mr. Barber Conable.

Mr. Conable conceded debt relief would have to be considered for the poorest countries, but only as a last resort.

"I do not believe that the World Bank will now say that we should engage in a such and such debt relief scheme," Mr. Conable said.

The bank's staff has prepared a comprehensive report on the debt crisis, now in its sixth year, and the role of the World Bank.

The paper, which was examined by the bank's executive board yesterday, came amid calls by some bankers, lawmakers and academics for governments or agencies, such as the World Bank to sponsor a sweeping solution to the debt crisis.

Although the World Bank must become more sophisticated and cannot afford to stand still, Mr. Conable said firmly the staff paper did not endorse a "mystical masterstroke."

"It is a review of the various things the bank has done and the options that are open to it," he said. "It's not a major new initiative, it's a report."

The World Bank president, interviewed just before key meetings next week of the Bank and International Monetary Fund, defended the approach taken by US Treasury James Baker, who argues that countries must reform their economies in return for new assistance from the development banks.

In the report, the bank reviews a wide range of methods for helping countries, including guaranteeing bonds that countries might issue in exchange for bank loans, as Mexico did recently, or a special insurance fund to protect loans. — Sapa-Rns



## World Bank loans influencing policies

DIP.1414/88

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WASHINGTON — Nearly one dollar in every four the World Bank lends to governments in developing nations is given on condition that they change their policies, following the urging of the United States.

It's not a new kind of lending, but the report released this week reflects the importance the United States and other wealthy countries now give to influencing governments of poorer nations.

In 1979, the proportion of this kind of loan

was less than \$1 in \$300. The rest of the bank's money was used, as now, for the traditional kinds of World Bank loans: building schools, roads and hospitals, dredging harbours and helping farmers, without regard to how the government is run.

The bank — the biggest source of aid for poor countries — authorised more than \$17,5 billion in loans in the year that ended last June 30, compared with \$10 billion in 1979. In 1979 policy-based lend-

ing amounted to only \$31 million compared with almost \$3,5 billion in 1987.

The new proportions appeared in a special report issued as part of this week's semi-annual meetings of the bank and its sister organisation, the International Monetary Fund. They are owned by the same

151 countries, with the United States as the largest single contributor to both.

At a 1985 meeting in South Korea, Treasury Secretary James A. Baker said the bank should take the lead in policy-based lending so that the bank could help work out long-term plans. — Sapa.Ap



# Export credits and bank loans to Africa are drying up

Star 24/188

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NAIROBI — Foreign banks have curbed loans to Africa despite efforts by multilateral donors like the World Bank to generate more aid to the continent.

Export credits too have been drying up, according to the Abidjan-based African Development Bank (ADB) and the UN Economic Commission for Africa (ECA), based in Addis Ababa.

A joint economic review by the continent's top financial institutions welcomed steps taken by major multilateral agencies, including the International Monetary Fund (IMF) and World Bank, to mobilise increased funds for Africa.

But sums received in 1987 continued to fall short of expectations raised by a UN-sponsored, 1986-90 programme for recovery adopted by African heads of state in July 1985.

"A key factor in this development is the drying up of export credits and bank loans as the debt servicing problems of the region continue," the report said.

African nations envisaged \$128 billion in new funds — 65 per cent to be raised from domestic resources — would be needed for the UN-sponsored economic programme.

The ADB-ECA report did not say how far behind expectations the funding drive was. But, highlighting Africa's cash woes, it said: "In fact, on the one hand major Western banks have begun to limit their exposure on loans to Africa, while the various debt rescheduling exercises on the other hand tend merely to postpone the problem and increase the debt burden over the longer term."

The report said Africa's foreign debt totalled \$218 billion last year. Other continents owe more.

Yet, it added: "It is the size of debt obligations in relation to available resources that renders African debt the most critical."

The debt was equal to 70 per cent of Africa's gross domestic product, and triple its export earnings in 1987. Some 35,8 per cent of export income was needed just to service this.

Growing repayment bills were falling due at a time Africa's export earnings, hit by a slump in world commodity prices, were shrinking and capital inflows were stagnating in real terms.

"Further, as countries find it increasingly difficult to meet outstanding commitments, the deterioration in their creditworthiness limits new borrowing and even the

disbursement of agreed loans," it declared.

The report portrayed the debt as a major obstacle to developing Africa's economies, which it said grew only 0,8 per cent last year after 0,5 per cent in 1986.

It called for more realistic repayment terms, based on the real capacity of African nations to settle obligations along with their development needs.

It said sluggish growth had increased pressure on governments to adjust policies giving momentum to the pace of reforms. Some 28 countries were reported to have started programmes to restructure their economies.

But while a consensus had emerged since 1986 on the need for reforms there were still serious problems over how to enact these.

There was almost unanimous agreement on the need to give priority to agriculture, giving farmers adequate incentives by way of prices, inputs, and technical and financial support.

"By contrast, there is still serious debate regarding the role of the public sector, while the social impact of adjustment measures has become a very contentious issue," it added. — Sapa-Reuter



# Third World debt crisis is 'far from resolved'

Star 6/5/88

LONDON — Soothing noises have been heard lately about the Third World's \$1.2 trillion of debt but optimism about solutions is not universal.

One leading banker, Bank of Tokyo chairman Yusuke Kashiwagi, says he thinks the debt crisis is far from resolved, six years after Mexico's near-default shook the world economy.

"It appears to me that this issue will probably be coming to a critical head in the coming months unless something is done about it soon," he told a London audience recently.

His view contrasted with the mood earlier in April after meetings in Washington of the International Monetary Fund and the World Bank.

"There's a real sense of momentum," said senior World Bank official David Hopper after those discussions.

Recent months saw a cash injection to the World Bank of

\$75 billion, and an accord by wealthy nations to triple the pool of money available on easy terms to the poorest African countries, among other new measures to alleviate the crisis.

Meanwhile Western banks have in the past year set aside huge sums from their profits to provide against potential bad debts, bringing into open debate the once-held view that they will never be repaid anyway so it might as well be quietly written off.

US Treasury Secretary James Baker, however, has criticised proposals to forgive the Third World its debts.

"I believe that path leads both debtors and creditors off the cliff," he says.

Forgiving at least some of the debt, some bankers and economists argue, might ease the short-term burden of the present crisis, in which the Third World is spending almost \$30 billion more on servicing its debt each year than

it gets in new loans.

But wiping off the debt would scarcely improve developing nations' credit-worthiness.

## Recession

The real challenge is increasingly seen as being how to pump more, big money into the Third World to get its recession-hit economies moving again while also helping it settle past debt — rather than merely getting the banks' money back or finding ways to write down bad loans on the balance sheets.

The banking system, six years since the threatened Mexican default, might survive a situation in which repayments just dried up, bankers say.

But if they default, Third World nations could be cut off indefinitely from tapping the accumulated savings of the West and Japan, as they must to finance expansion of their economies.

And if Third World economies

the social, political and economic consequences could be incalculable.

"It is absurd that developing countries are transferring more to the industrialised countries than they receive," Prime Minister Gro Harlem Brundtland of Norway told the general assembly of the World Health Organisation (WHO) on May 3.

"These trends will have to be reversed, not only because the situation is in itself unacceptable, but also because it is in the self-interest of the developed countries themselves."

Economists agree that affluent societies, robbed of markets for their manufactured goods, will risk being tilted into a slump if developing nations cannot revive economic activity.

"Let's be clear about these countries," said Brian Pitman, chief executive of Britain's Lloyds Bank Plc. "The international

banks have stretched out the repayment of principal on these loans for some years, but they will need more cash to continue to grow."

"The fact that Brazil has renewed interest payments and that Venezuela has raised \$100 million on the Eurobond market indicate the situation is brighter than a few months ago," Pitman told Reuters in an interview.

## Bigger role

But governments and multinational agencies would have to do more for countries experiencing repayment difficulties, he said.

Kashiwagi of the Bank of Tokyo also takes the view that a bigger role must be undertaken by international financial institutions like the World Bank and IMF.

They could borrow more from private banks and re-lend to the Third World, or take over much of the risk undertaken by the private

sector when it lends to the Third World.

Kashiwagi called on leaders of the United States, Japan, West Germany, France, Italy, Britain and Canada, who hold a summit in Toronto in June, to take a new initiative.

A \$5.2 billion bank loan for Brazil, the Third World's largest debtor, however, was delayed by a dispute over whether the World Bank should guarantee part of the money, according to US officials and bankers.

Japanese banks in particular threatened to boycott the loan unless they got the World Bank guarantee.

The World Bank and the Reagan administration argued that the Bank should use its guarantee power sparingly. "We've made it clear that we don't support World Bank guarantees of private loans for a country with the potential Brazil has," Treasury Secretary Baker said. — Sapa-Reuter.

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## Zambia's loan talks fail <sup>SAPA</sup> 10/5/88

LUSAKA — Zambia has failed to reach agreement with the World Bank over the resumption of its loan payments. ~~240~~ (356)

The loans, intended for improvements to the education system and development projects country-wide, were suspended last year after Zambia did not meet the terms of an outstanding 400 million dollar debt owed to the World Bank.

Finance Minister Gibson Chigaga blamed Zambia's economic woes for preventing it from starting the loan repayments.

"At the moment the position of our foreign exchange is not good and that is why we are not able to pay back our creditors, the world bank included," Chigaga said.—  
Sapa-AP.



# World <sup>Star</sup> Bank bids <sup>24/10/86</sup> to shed uncaring image <sup>350</sup>

WASHINGTON — The World Bank is trying to shed its image of being uncaring about the environment in its efforts to push Third World development.

For years environmentalists aided by friends in the US Congress have been highly critical of the bank, accusing it of ignoring ecological matters.

They have accused the agency, which makes loans to assist development and economic reform in poor countries, of often backing projects detrimental to the environment.

Now the bank has created a department to review projects for their environmental impact and named Mr Kenneth Piddington, a New Zealand conservationist, to head it.

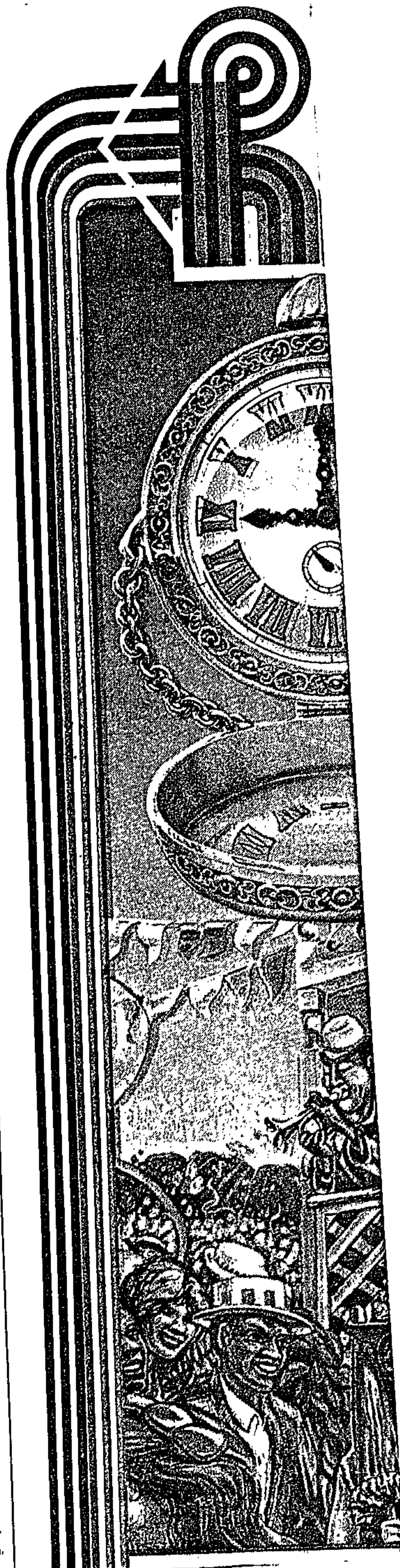
Mr Piddington and other bank officials said in the future the bank will make sure the environment is a major factor when considering loans.

They said that ecological damage had become so severe worldwide that governments have no choice but to face the problem.

Bank officials said they were convinced the bank could make a difference, taking steps to not only make certain that new projects adhered to environmental guidelines, but revisiting existing schemes to see if repairs could be undertaken.

But Mr Piddington made it clear that progress would be slow.

"The whole issue of climate and the ozone layer has dramatised the fact that man in the last 100 years or so has had a drastic and fundamental influence on planetary systems and that the solution to that is something that everyone must be involved in," he said. "





# World Bank plays a defensive move

Source: First National Bank

By ALEX BRUMMER.  
Washington

THE World Bank said last week it was increasing its provisions for losses to \$500-million from \$100-million (about R240-million) as part of an effort to convince the financial markets of its conservative approach.

The move comes when lending by the Bank to the most heavily indebted Third World countries has been increasing. It is certain to be interpreted as a defensive move as more countries go into arrears.

In the past the Bank took a liberal

view on arrears, waiting two years before a country was declared ineligible for new borrowing.

But as it has become more deeply embroiled in the debt crisis, both as the primary point of contact with the poorest of the poor in Africa and a larger recycling institution of funds for Latin American debtors, it has tightened its rule.

After many years in which no countries were in default, as many as eight are now said to be behind.

There has been concern at the Bank that its high quality loan ratings, the best in the Third World lending business, should not be undermined. By adopting a more conservative approach the Bank is clearly determined to underline its basic financial strength. — The Guardian, London

22-28/7/88  
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Now it allows only six months' grace.



be involved in, he said.

#### DISMISSED

Mr Piddington and other officials generally dismissed fears that the bank staff or representatives would impede efforts to protect the environment even if they seemed — over the short term — to slow development.

"There is widespread support for what we are doing," Mr Piddington said.

Environmentalists, including the Sierra Club, have centred their fire on what they call "the five fatal projects" — a livestock operation in Botswana, Brazil's Carajas iron ore project, China's Three Gorges Dam, India's Narmada Dams and Indonesia's Transmigration project.

In addition, the bank's International Finance Corporation was stunned two years ago when demonstrators surrounded a factory it had helped finance that was being built on the Thai resort island of Phuket.

The demonstrators, saying they feared the plant would destroy the environment, burned it to the ground.

Countries looking for ways to reduce their debt have discovered that environmentally-sensitive charitable groups are willing to buy their debt at discount and return it to them if they agree to set aside and maintain wilderness areas.

In such an arrangement, there are no losers. The charitable organisations get the tax writeoff, the country gets the reduction in its debt service, the banks benefit and the wilderness is saved. — Sapa-Reuter.

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# Debt crisis is crippling Africa

By CONNIE MOLUSI

THE swelling debt of Third World nations has begun to frighten some sectors of the international capital community.

Recently a conference of concerned people met in Paris to canvas support for the World Bank and the International Monetary Fund to cancel the debt.

The cost of the debt has a horrendous effect on the economic development of Third World countries. In Latin America, between 1980 and 1985, per capita income fell by nine percent.

As unemployment rose and governments cut back social spending, the incomes of the poor suffered disproportionately. In Mexico, for example, the purchasing power of the minimum wage dropped by 30 percent between 1981 and 1985.

The debt situation in Africa is worse than it was in 1986, despite policy reforms and restructuring measures by most African governments. Per capita income has fallen by 4.2 percent in the last two years. The debt burden has grown heavier and is projected to rise still further, and imports crucial to economic growth, have declined.

The reason is a heavy dependence on the export of primary commodities – about 90 percent of all exports for Sub-Saharan Africa.

Real African exchange rates – higher than those of any other developing region in the early 1980s – are now the lowest in the world, having fallen by an average of 55 percent in the last three years. The lower a country's exchange rates fall, the greater is the drop in its purchasing power.

Most African countries have cut their budgetary deficits by nearly a third since the adoption of the recovery programme in 1986. This was done partly through reductions

Sharing the huge burden  
looks like the only way out

in government employment and expenditure on social services.

The result has not only been increased infant and child mortality rates but also severe personal hardship for hundreds of millions of people. Unemployment has grown, clinics are running short of essential drugs, factories are idle through lack of foreign exchange to import parts and there is more hunger as food subsidies are lifted.

One reason the recovery programme did not usher in growth was the collapse in commodity prices.

The loss of about \$19-billion in export income in 1986 – almost a third of its \$64-billion income the previous year – dealt a devastating blow to development and investment plans.

The debt crisis in Africa has swept away the hopes of political freedom and economic prosperity following independence. The greater part of the masses lack confidence, or even hope that they will ever be able to eat from one day to the next.

Agricultural production decreases from day to day and basic economic infrastructures are not kept up.

It is clear that, because of Africa's dependency, we are unable to change the course of our development, even when it is clear the path we are on is leading us nowhere. The World Bank estimated that to achieve the five percent growth in gross national product recommended by the United Nations as the minimum essential for

developing countries, these countries must aim at expansion of exports at an annual rate of seven percent.

Anything less would amount to stagnation, taking into account the rapid population growth in these countries. Some African economists, though, have convincingly shown that to achieve a growth rate of five percent, export growth must rise by at least 18 percent annually.

The problem is that there is limited scope for expansion of demand for tea, coffee, cashews and other products – the populations which consume these in the Western World grows at less than two percent annually.

How many more cups of tea can a British worker consume beyond what he is already consuming, however, prosperous Britain becomes?

No British importer would import an additional seven percent of Africa's tea when the demand at home is rising by less than two percent.

African economies tend to import the developed world's inflation. When countries are plunged into periodic monetary crises, there is a tendency for the prices of primary commodities to rise as long as these crises last.

This is because such crises are generally accompanied by a worldwide stampede to buy tangible commodities such as gold, silver, copper, cotton, and so on.

Merchants prefer to stockpile those

commodities rather than hold liquid cash, whatever the currency – since cash at such times always faces a threat of instant devaluation.

When these developments occur, there is invariably a superficial appearance of boom in the developing countries which supply primary commodities. But such booms are as deceptive as they are short-lived.

They are deceptive because what is gained by increased export prices is lost through the increased import prices of industrial goods.

The industrialised countries would not lower the prices of their exports, even if the inflation which sparked the increased prices in the first place, abates. So in the end it is the developing countries that bear the brunt of the industrialised world's inflation.

This seemingly insoluble problem is the result of Africa's dependence on production of primary commodities, principally for export.

Developing countries should encourage industries which would make them genuinely self-reliant. These countries need to process more of their commodities instead of relying on the export of primary products.

The enormous wealth produced from the work of the African masses is today principally oriented towards the servicing of their nation's debt.

According to International Monetary Fund estimates, the debt makes up 44 percent of African GNP. It is estimated that the debt is greater than the per capita income of Africa's population.

Given this situation, it seems clear that the debt crisis is a vicious circle in which the developing nations are trapped. For as long as the greater slice of profit is used in servicing the debt, nothing will remain for the industrial development of the developing nations. Therefore the burden of this crisis should be a shared responsibility.



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# Africa deeper in debt

star 3/1/89 (1)

ADDIS ABABA — The executive secretary of the United Nations' Economic Commission for Africa said yesterday almost all African nations were falling farther behind the world's developed countries. (356) (166)

Adebayo Adedeji, who also is a UN under secretary-general, called for fundamental changes in so-called structural adjustment programmes ordered by major lending institutions such as the World Bank and the International Monetary Fund.

Structural adjustment programmes usually require significant economic belt-tightening by nations receiving World Bank or IMF aid and poor, debt-ridden nations frequently complain that the measures often lead to hardship and civic unrest.

Adebayo, delivering a year-end assessment to an audience of diplomats and economists at the commission's headquarters in Ethiopia's capital, said Africa's economy did not keep pace

with its population growth in 1988.

He predicted an even more dismal decline in 1989.

Adebayo said Africa's combined economy grew at a rate of 2.5 percent in 1988, compared with 1.3 percent in 1987. However, he said, that was offset by population growth of about 3 percent.

A decade-long pattern of slow economic growth coupled with rapid population increases has left the average African with an income only about 80 percent of what it was in 1980, Adebayo said.

He noted that demand for African exports remains weak and said the continent's economy "has been sapped and weakened by the burden of debt in spite of the perceptible recovery of the industrial economies".

He put the combined debt of African nations at \$230 billion at the close of 1988, compared with \$218 billion in 1987.— Sapa-AP.



6/Day 5/1/89

## New loans will help deficit, says Nigeria

LAGOS — Nigeria, pledging to make "every effort" to honour its foreign debts, said this week new loans would help government deal with a burgeoning budget deficit and huge overseas borrowings.

Budget and Planning Minister of State Alhaji Abubakar Alhaji was explaining details of an austerity budget announced at the weekend by President Ibrahim Babangida. The budget is aimed at cutting imports and boosting farming and small scale industry.

Alhaji said \$2bn — 37% of foreign exchange revenues, 80% of which come from oil sales — had been allocated to service repayments on Nigeria's foreign debt of \$26bn.

In naira terms, repayments on external and internal loans in 1989 will nearly double to 13,03-billion naira.

Alhaji said fresh loans from the World Bank and other foreign creditors should narrow Nigeria's projected 1989 budget deficit of 12,88-billion naira, (\$2,43bn at the pre-budget official exchange rate).

Alhaji said new loans should furnish about \$1,13bn.

The first tranche of a \$500m World Bank loan should by now have been released, co-financing of about \$200m is expected from Japan and an international creditors meeting in London next week could help mobilise more funds.

Alhaji said money from current projects, such as those funded by the UN Development Programme, would provide about another \$472m. — Reuter.





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# Bank urges mothers to cut families

STAV  
3/2/89

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WASHINGTON — The World Bank has appealed to African mothers to bear only half as many children.

This would by the year 2015 reduce the average per mother to 3.3 children from the current 6.7.

The recommendation came in a speech by Mr Edward J V Jaycox, vice-president of the World Bank for Africa. The bank is the largest source of aid loans to Third World countries.

Mr Jaycox' speech was prepared for a conference on safe motherhood in Niamey, the capital of Niger, yesterday.

"Africa has the choice of filling its spaces quickly with many relatively ill-fed, unhealthy, uneducated, underemployed people — or of spacing its children so that both they and the society as a whole have a better chance of a much better life," said Mr Jaycox.

Speaking in Luanda yesterday, the bank's senior vice president for operations, Mr Moeen E Qureshi, said there were signs of a turn-around in eight countries that are among the poorest in the southern part of the continent.

He reported that in Botswana, Lesotho, Malawi, Mozambique, Swaziland, Tanzania, Zambia and Zimbabwe the average rate of economic growth had overtaken the rate at which population was growing — from 3.3 percent to 4.5 percent — for the first time in 15 years.

The reversal would mean that average incomes are now rising after a steady decline that goes back to the days when they were emerging from being European colonies.

The improvement was due in part to better weather, but also to higher prices for farmers and lower exchange rates for the countries' currencies. The cheaper currencies make it easier for African countries to earn money by exporting their products, he said. — Sapa-AP.



# African nations gather for talks on economic dilemma

815-11/3/87 (356)

BLANTYRE — Finance experts from 51 African nations began discussions on economic reform and debt management yesterday in preparation for the Economic Commission for Africa's third meeting of finance ministers next week.

Top of the agenda at the talks is a critical appraisal of the economic adjustment programmes sponsored by the IMF and the World Bank in more than 30 African countries.

Delegates will be discussing alternative strategies and solutions to Africa's economic crisis in the light of what many countries see as the unacceptable social and political impact of tough economic measures recommended by the IMF and World Bank.

The conference was opened yesterday

by Malawi's Minister of Trade, Industry and Tourism Robson Chirwa.

Chirwa said that in many African countries adjustment had increased taxes, led to a decline in real wages and a rise in unemployment.

The conference is being organised by the Economic Commission for Africa, a UN think-tank on development set up in 1958 to promote regional co-operation.

Conference director Bingu Mutharika of the commission said investigation conducted by the commission over the last year had shown orthodox structural adjustment had aggravated rather than resolved Africa's economic crisis. — Reuter.



# Africa debates alternative to IMF and World Bank reforms

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Star 8/3/89

By Rory Channing  
BLANTYRE — International Monetary Fund and World Bank reforms have failed to cure Africa's economic ills, said the executive secretary of the UN Economic Commission For Africa (ECA), calling for a radical African policy shift in the 1990s.

Adebayo Adedeji warned that the continent faced possible irreversible economic decay unless it dramatically shifts course.

Adedeji, addressing a meeting of African finance ministers and monetary officials, said reforms such as those prescribed by the IMF and the World Bank had proved inadequate.

He outlined a framework for a so-called "African Alternative" which, he said, attempted to lay new foundations for major re-orientations of policy in the 1990s.

## LONG TERM

Broadly, it entailed a long-term process of diversification, reducing Africa's dependence on exports of primary agricultural and mineral commodities, accompanied by measures to protect the poor and vulnerable against changes.

"It is our view that the basic norm of adjustment is that of national and collective self-reliance with the concomitant reduction in external dependence," he said.

He said that during the period 1980-88, some 33 African countries had adopted IMF-sponsored reforms and 15 had implemented World Bank-sponsored programmes.

But despite the sacrifices involved, social and economic conditions in most African countries had continued to deteriorate, he added.

"This lack of positive and sustained results is becoming impossible to ignore," he declared.

## DICHOTOMY

As a result the ECA, aided by the UN Development Programme, had carried out in-depth studies of 25 African countries that had adopted such reforms.

It had found a dichotomy between the long-term development objectives endorsed by African countries in several policy statements, and IMF and World Bank-type adjustment programmes geared mainly to short term balancing of domestic and external finances.

"The human dimension is almost totally ignored," he declared.

ECA findings, reinforced by those of agencies like the UN Children's Fund (UNICEF), showed most of the poor had suffered from the reforms.

They entailed significant cuts in public spending on social services such as education, health, water and housing — the areas in which transformation of economies and sustainable development should focus, he said.

Politically, the study showed an increasing erosion of the sovereignty of African countries in the design and implementation of such reforms.

He referred specifically to "one-sidedness" in negotiations and the

overwhelming role of international institutions in dictating conditions for aid.

Moreover, Africans had agreed to follow such programmes on the understanding they would be sustained by adequate foreign financing.

In most cases this had not materialised. Even where pledges of assis-

tance had seemed firm, disbursements had either been substantially delayed or become subject to increasingly tougher conditions.

Adedeji portrayed the proposed African Alternative as part of an extended process — "a process for finding the ways and means of reversing the deterioration in the

African economies which has been going on now for more than a decade and installing in its place self-sustained and sustainable development.

"Unless this is done between now and the beginning of the 1990s, the economic tragedy which is now the lot of Africa may become irreversible." —  
Reuter.



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# Bankers welcome US plan to cut Third World debt

NEW YORK — The US Treasury's plan to spur Third World debt reduction was a welcome initiative but its success would depend on details not yet apparent, bankers said.

In a key policy shift, the US proposed on Friday that World Bank and IMF resources be used to reduce debt and guarantee debtor interest payments.

A banker said: "There is a danger that people will look at this and assume the debt crisis is solved. The success or failure will depend on the details."

"It's a major change because it focuses on debt relief and debt reduction which previously were a no-no."

But others said the proposals, outlined in a speech by Treasury Secretary Nicholas Brady, raised many questions.

While welcoming the acknowledgment that major industrial nations and multilateral agencies needed to be involved to tackle the debt crisis, they said this could raise thorny issues.

In particular, they expected Japan — in return for providing increased financing — would demand a bigger say in the operations of the IMF and World Bank at the

expense of the US.

A banker said: "The Japanese monies could be conditional on the US relinquishing some of its authority at the IMF and World Bank."

Japanese officials said Japan's Export-Import Bank would increase loans made in parallel with the IMF to debtor countries which took advantage of the new strategy.

US officials said new IMF and World Bank support would go to countries undertaking debt-reduction programmes that included IMF-approved structural reforms.

Brady said: "Both institutions could offer new financial support to collateralise a portion of interest payments for debt or debt-service reduction transactions."

But bankers said to do that, capital increases would be needed for both bodies. □ AP-DJ reports from Boston that the Boston Sunday Globe reported that US Secretary of State James Baker may have violated a Justice Department conflict of interest ruling while he was Treasury Secretary in 1987.

It said Baker rejected a proposal to force US commercial banks to forgive a large part of Brazil's debt while he owned stock in one of the banks. — Sapa-Reuter.



# Africa's debt burden in spotlight

Star 3113187  
WASHINGTON — Industrial nations must step up their efforts to reduce the debt burden of Africa's poorest countries and measures taken so far have yielded only modest benefits, the World Bank says.

In a confidential report to next Tuesday's meeting of the World Bank/IMF development committee, Bank president Barber Conable says a package of debt relief measures agreed by industrial nations last year has raised several concerns.

"It appears that the initiatives to provide debt relief are unlikely to reduce debt service repayments substantially over and above that occurring in conventional rescheduling," Conable says.

For some countries, the benefit has been as little as \$10 million a year.

The development committee, which

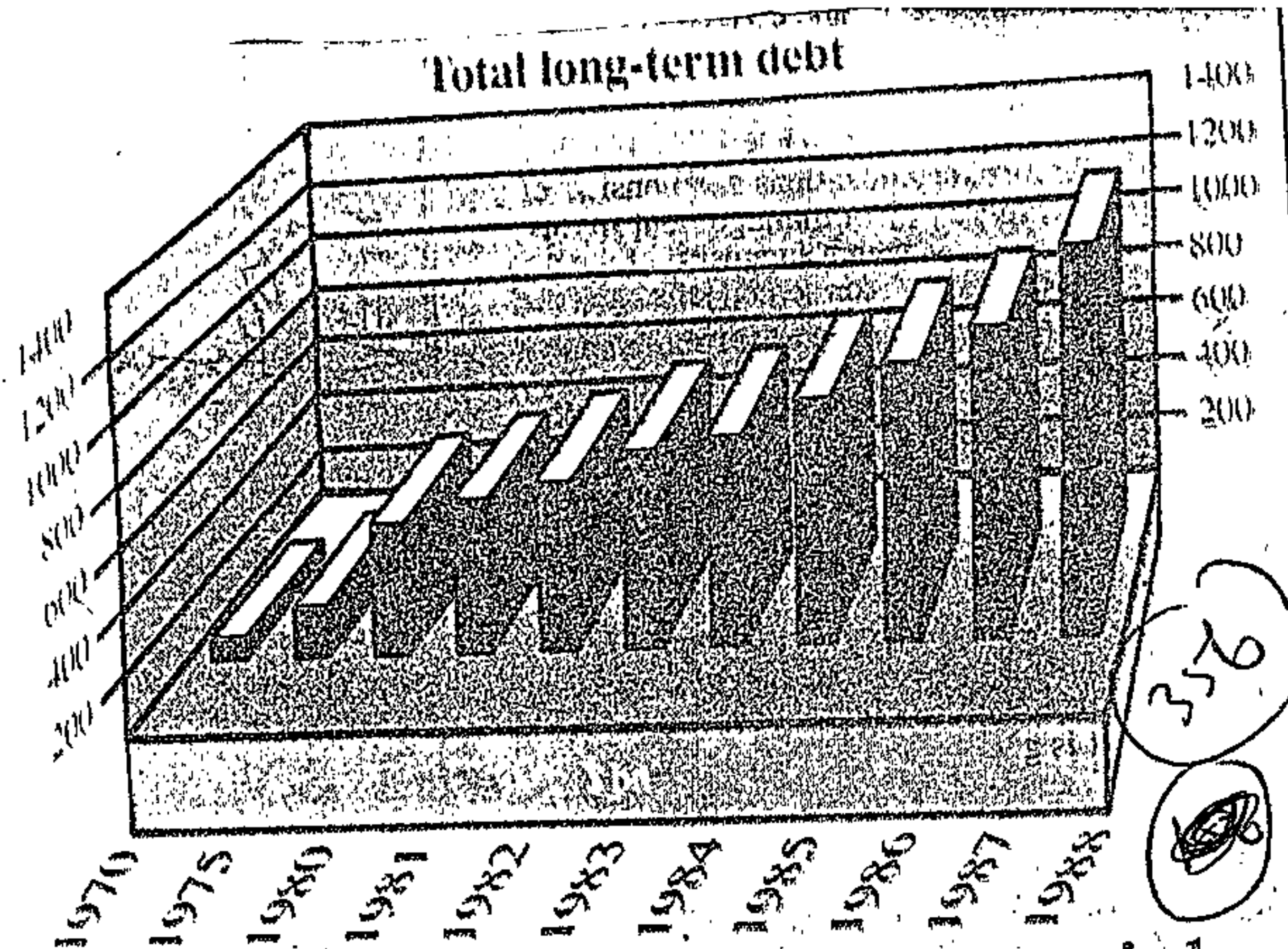
356  
traditionally examines third world problems, convenes at the end of the semi-annual meetings of the World Bank and International Monetary Fund, which begins today.

Talks will concentrate on the soaring dollar and a new US initiative aimed at lowering the debt of "middle income" countries such as Brazil, Mexico and Venezuela, but officials will also review on Tuesday a 1988 scheme to ease the \$130 billion burden on sub-Saharan African countries.

The World Bank's briefing paper says there have been some signs of progress in sub-Saharan Africa, with more than half the governments persisting with economic adjustment programmes and recording stronger growth rates. But the report adds: "Clearly a huge task remains."

— Sapa-Reuter





## IMF, World Bank pledge quick action on debt-reduction plans

WASHINGTON — The United States won a pledge of prompt action this week on its Third World debt-reduction programme from the world's two most powerful lending agencies.

On the final day of an International Monetary Fund (IMF) and World Bank session in Washington, the groups' steering committee said it considered moving ahead with the proposal to be a matter of urgency.

The plan, authored by US Treasury Secretary Nicolas Brady, marks a major change from past

policy by placing more emphasis on debt forgiveness.

The plan got a major boost when the Japanese stepped forward with a pledge to provide up to \$4.5 billion in new loans to Third-World debtors over the next several years.

The funds, however, did not match the \$5 billion to \$10 billion expected from the Tokyo government.

The \$1.3 trillion Third World debt burden (see Trust Bank graph) has crippled the economies of developing nations and sparked economic and po-

litical unrest in many emerging democracies in Latin America.

Riots left about 250 people dead in Venezuela last month, by official estimates, after the government announced a new austerity programme to please creditors holding the nation's \$33 billion debt.

Under the plan, commercial banks that have lent money to debtor nations would be encouraged to cancel voluntarily or reduce part of the loans, or cut the interest charges. — Sapa-AP.



## ECONOMIC REFORMS AND SUB-SAHARAN AFRICA

| Indicator                                        | Period  | ALL COUNTRIES                       |                                         | COUNTRIES NOT<br>AFFECTED BY STRONG SHOCKS |                                         |
|--------------------------------------------------|---------|-------------------------------------|-----------------------------------------|--------------------------------------------|-----------------------------------------|
|                                                  |         | With strong<br>reform<br>programmes | With weak or<br>no reform<br>programmes | With strong<br>reform<br>programmes        | With weak or<br>no reform<br>programmes |
| Growth of GDP (constant<br>1980 prices)          | 1980-84 | 1.4                                 | 1.5                                     | 1.2                                        | 0.7                                     |
|                                                  | 1985-87 | 2.8                                 | 2.7                                     | 3.8                                        | 1.5                                     |
| Agricultural production                          | 1980-84 | 1.1                                 | 1.3                                     | 1.4                                        | 1.8                                     |
|                                                  | 1985-87 | 2.6                                 | 1.5                                     | 3.4                                        | 2.6                                     |
| Growth of export volume                          | 1980-84 | -1.3                                | -3.1                                    | -0.7                                       | -5.7                                    |
|                                                  | 1985-87 | 4.2                                 | 0.2                                     | 4.9                                        | -3.3                                    |
| Growth of import volume<br>excluding oil exports | 1980-84 | 1.7                                 | -2.7                                    | 6.1                                        | -4.0                                    |
|                                                  | 1985-87 | 4.8                                 | -3.7                                    | -3.5                                       | -7.0                                    |
| Growth of real domestic<br>investment            | 1980-84 | -0.9                                | -7.0                                    | 1.9                                        | -4.8                                    |
|                                                  | 1985-87 | 9.9                                 | 2.3                                     | 7.8                                        | 0.9                                     |
| Gross domestic savings<br>(percentage of GDP)    | 1980-84 | 10.7                                | 6.0                                     | 10.7                                       | 5.6                                     |
|                                                  | 1985-87 | -2.3                                | -1.1                                    | -2.4                                       | -1.5                                    |
| Growth of per capita<br>consumption (real)       | 1980-84 | -0.4                                | -0.5                                    | 0.7                                        | -0.9                                    |
|                                                  | 1985-87 |                                     |                                         |                                            |                                         |

Countries with strong reform programmes: Burundi\*, Central African Republic, People's Republic of Congo\*, Ivory Coast, Gambia, Ghana, Guinea, Guinea-Bissau, Kenya, Madagascar, Malawi\*, Mauritania, Mauritius, Niger\*, Nigeria\*, Senegal, Tanzania, Togo and Zaire.  
Countries with weak or no reform programmes: Benin, Bourkina Faso\*, Equatorial Guinea, Ethiopia\*, Liberia, Mali, Sierra Leone, Somalia, Sudan\*, Zambia and Zimbabwe\*.  
\*Countries affected by an external shock.

Source: World Bank/UNDP

# Africa shows bankers a 'less dismal picture'

SUB-SAHARAN Africa had an image of "unrelenting decline", but the statistics commonly reported "mask a more complex, less dismal picture", said a study of the region published this week by the World Bank (WB) and UN Development Programme.

African countries adopting the structural adjustment measures advocated by WB and the International Monetary Fund (IMF) could point to better economic performances than other countries on the continent, argued the appraisal.

More than half the 45 countries of sub-Saharan Africa had initiated policy reforms since 1983. Results "suggested a strategy of adjustment with growth is viable".

The report focused on the period 1985-87, making some tentative assessments for 1988, and assessed domestic growth, developments in trade and commodity prices, aid flows and debt relief measures, and domestic policy reforms.

### Hopeful

Before comparing records of countries which undertook adjustment policies with those that had not, the report examined sub-Saharan Africa's overall economic performance. GDP had grown at an average annual rate of 2.3% since 1984 — less than the region's 3% population growth, but reversing the annual 1.1% rate of decline since 1980.

The report pointed to hopeful developments in agriculture — the dominant sector — which averaged 4% growth between 1985 and 1988. Other developments were less encouraging: the domestic savings rate in the region was only half the rate for other developing countries and gross domestic investment declined in real terms by about 3.5% a year in 1986 and 1987. Import purchases fell almost 40% during 1981-85 and had only risen 3% since. Sub-Saharan Africa's current account deficit rose from \$5.3bn in 1985 to \$10.3bn in 1987.

But excluding oil exports, "sub-Saharan Africa's most recent export

**MICHAEL HOLMAN of the Financial Times reports that structural adjustment measures in Africa appear to be bearing fruit.**

performance is encouraging, with increasing volume beginning in 1985 and increasing earnings beginning in 1986". A decline in the region's share of world trade for major exports, excluding oil, began to reverse in 1984: market share for coffee and cocoa (accounting for 15% of total export earnings) rose more than 4% a year in 1985-6, after falling at an annual rate of nearly 2% from 1970-85.

Consequences of the region's poor export crop performance were starkly set out. "If African countries had simply maintained their 1970 market share of non-oil primary exports from developing countries, export earnings would have been \$9-\$10bn a year higher in 1986-7", said the report. The shortfall was about as great as total debt payments, or donor aid.

Turning to terms of trade, the report calculated that when oil was excluded, purchasing power of exports since 1985 did not decline.

On capital flows and debt, the report found total net financial flows to sub-Saharan Africa "increased significantly in 1986 and 1987, rising \$3-\$4bn over the 1985 level to more than \$13bn in 1987." Total net flow in real terms for 1987 remained about 15% below the 1980-83 average.

The external debt burden continued to constrain growth. Sub-Saharan Africa's outstanding and disbursed debt increased from about \$6bn in 1970 to \$129bn in 1987 — equal to 100% of its GNP and more than 350% of total exports. Debt service obligations amounted to 45% of sub-Saharan Africa's export revenues in 1986 (for International Development Association recipients the ratio was 47%), but in 1987 the ratio fell to 36% for sub-Saharan Africa, but rose to 49% of IDA countries.

The region's share of official development assistance (ODA) rose from

23% in 1980 to almost 30% in 1987. But real growth of net ODA was lower in 1987 than in 1986 and 1985.

Drawing general conclusions about benefits derived from adjustment policies was difficult, but "evidence suggests reforms and economic adjustment generally led to better economic performance in the region."

Countries implementing the new policies enjoy one clear advantage: "Multilateral and bilateral donors have gradually but significantly shifted aid flows to give greater support to countries with strong, sustained adjustment programmes, while aid to non-reforming countries has begun to decline."

The report compared performance of the two groups in several key areas:

- Despite their larger devaluations, inflation rates were lower in reforming countries than in the first half of the 1980s;
- Governments in reforming countries substantially reduced their fiscal deficits;
- Agricultural price policy became more favourable to farmers in reforming countries;
- Decline in investment was almost arrested, compared with continuing decline;

### GDP improved

- Domestic savings rates improved;
- Agricultural production, exports and GDP improved. Agricultural production more than doubled between 1980-84 and 1985-87, compared with stagnation in the other category;
- Food production grew twice as fast in countries that liberalised food marketing or did not enforce controls;
- Average annual export growth rose 5 to 6% from the early 1980s to 1985-87, about double the rate of non-reforming countries;
- Excluding countries faced by strong external shocks — notably the oil producers — GDP growth rose from just more than 1% during 1980-84 to almost 4% on average in 1986-87. The other group increased only a third as much in 1986-87.



# Medicine exemptions

31 Dec 1987  
REPRESENTATIONS regarding the exemption of certain medicines from the import surcharge list were being considered, the Board of Trade and Industry (BTI) said yesterday.

BTI chairman Laurence McCrystal said apart from exempting selected items of medical equipment from the list last week, it had also exempted certain agricultural implements.

He confirmed government had exempted certain medical equipment from surcharge retrospectively to August 15.

Items taken off the list included X-ray equipment, therapy and surgical appliances, electro-diagnostic apparatus and dental instruments, while those still on it included microscopes, thermometers, artificial joints, hearing aids, heart pacemakers, blood and plasma transfusion equipment.

DIANNA GAMES

Sectors of the medical equipment industry whose products were not taken off the list are to continue making representations to government to get more items exempted.

Frik Prinsloo, financial accountant of Research Instrumentation, which specialises in microscopes, said they had reapplied last week for microscopes to be removed from the surcharge list.

He said they had originally applied for removal when the surcharges were introduced but had been turned down.

Barry Furnaux, of Laboratory and Scientific, said the surcharges were a constraint on stockholding and cash flow and would push up the already high cost of health research and development.

## African ministers want new aid deal

31 Dec 1987  
356  
ADDIS ABABA — African finance and planning ministers want to strike a new deal with foreign donors on a strategy for economic reforms, they said after a joint meeting here yesterday.

They adopted a strategy giving high priority to social and long-term development needs neglected in traditional reforms sought by the IMF, the World Bank and other donors in return for aid.

The strategy necessitated partnership among African governments and with development partners, a communique said.

The UN Economic Commission for Africa played a leading role in preparing the strategy, yet to be made public. — Sapa-Reuter.



# The world banking chiefs squabble over turf

US MAIL 14-2014/89.

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WASHINGTON is watching an almighty row between the pre-eminent sisters of multilateral finance — the World Bank, the premier development agency, and the International Monetary Fund, the capitalist system's chief firefighter. It amounts to a battle for turf, brought to a head by the failure, in seven years, to resolve the Third World debt crisis and restore sustainable economic growth to large swathes of the globe.

The row is over which of these two agencies is going to play the lead role in the next act of this evolving drama. New US treasury secretary Nicholas Brady has outlined a change of policy towards Third World debt, and other key members of the seven top industrialised countries, such as Japan and France, have been pressing for a new initiative.

Expectations among debtors are high. This is why a territorial battle between the World Bank and the IMF is so serious. It makes it harder for a clear, coherent and bold new strategy to emerge. Instead of being part of the solution, the Bank and the Fund are in danger of becoming part of the problem.

Attempts at peacemaking were made this month when finance ministers from the 151 member governments — the Bank and Fund shareholders — held one of their twice-yearly meetings. But tension between the two institutions has been simmering for a long time, and previous attempts to deepen co-operation have failed.

The problem is that the Bank and the Fund are on convergent courses. When the institutions were set up in the mid-1940s, the division of labour was clear: the Bank was designed as a long-term development agency and the Fund was to provide short-term support for countries suffering unmanageable balance of payments problems.

The international debt crisis of the 1980s has forced the Bank to venture

**The International Monetary Fund and the World Bank are involved in a battle for turf which could make them part of the Third World debt problem rather than part of the solution, say the editors of *South*, a business magazine "for the developing world".**

into medium-term lending for economic reform and obliged the IMF to provide resources for longer periods and with similar objectives, particularly in Africa.

From the onset of the debt crisis, the Fund took the lead role. This has been a source of disappointment and resentment for many at the Bank. As the IMF has run into increasing controversy, and the countries borrowing from it have slid into mounting arrears on their repayments, the Bank has tried to seize its chance to regain the initiative.

The situation came to a head last September, when World Bank president Barber Conable announced his agency was taking the unprecedented step of approving US\$1.2-billion in loans to Argentina even though the IMF disapproved of the country's economic policies and had refused to back them with a loan of its own.

IMF officials whispered that the Bank had been pushed into this action by the Reagan administration, which regularly tried to force the institutions to lend to countries deemed strategically important for the US. Conable was not strong enough to stand up to the US, officials at the IMF hinted, somewhat unfairly, as the Fund had itself been pressed into lending to Egypt and Zaïre against its better judgement. The Bank has now suspended some disbursements on its loans to Buenos Aires, saying it had failed to meet the conditions.

Michel Camdessus, French managing director of the Fund, who was



**World Bank's Conable**



**IMF's Camdessus**

said to be livid at the Bank's unilateral action over Argentina, has fought back against what is seen as Conable's expansion on to his turf. Until last September other lenders — both public and commercial — only acted when the Fund gave the green light. Camdessus prepared a paper insisting that the IMF primacy be restored.

Unusually, neither Conable or other senior Bank managers were consulted during the paper's preparation. When they discovered its contents they were said to be outraged.

Conable and Camdessus have apparently agreed to try and work out their differences. One idea sometimes mentioned is a merger between the two institutions. But this would just internalise disagreements. The Bank, anyway, is more likely to prevail in the long run — it has about four times as many staff and vastly larger sums to lend.

The more intelligent officials of both institutions admit that mistakes were made in the early 1980s. But they were venturing into uncharted seas, they say.

Some in the Bank want to facilitate fresh commercial lending by providing guarantees that new loans will be repaid. Camdessus is said to favour a

Japanese idea that the IMF should be used to buy developing countries' debt at a discount. Brady seems to support both ideas.

But ad hoc measures will not do. What is needed is a bold strategy — going beyond Brady's initial timid steps — to end the debt crisis and restore economic growth in the Third World, backed in full measure by leading industrialised countries. Once a coherent framework has been set, the roles of the Bank and Fund can be tailored to fit. — *South Magazine*



# UN team attacks Africa report

NEW YORK — A UN team this week attacked a report which said that much-criticized reforms prompted by the World Bank and International Monetary Fund were helping solve Africa's economic woes. The UN Economic Commission for Africa said the World Bank report

contained contradictions and lacked documentation. The recent report said sub-Saharan Africa's economic plight was less dismal than believed. It said there were signs of a turnaround, particularly among nations that made adjustments with World Bank and

IMF support. Third World countries had often accused the two agencies of imposing overly harsh conditions for their aid, creating risks of social unrest.

"The question is whether this sudden turnaround is in fact a turnaround of Africa's economic situation, or whether it merely reflects a turnaround in the perception of some observers," the UN panel said.

## Suffers

"The essence of the World Bank's conclusions... emanate from a compilation and presentation of basic statistics which differ from what is common practice, for example in other World Bank reports," the commission said.

"The report suffers from a lack of documentation regarding basic data, concepts and criteria which would allow the reader to replicate its analyses.

"It further does not show the degree of consistency commonly deemed necessary in serious economic research."



# Conditional offer from bank to cut Third World debt

LONDON — The World Bank is ready to help cut Third World debt if developing countries carry out economic reforms and commercial banks provide significant relief, bank president Barber Conable said yesterday.

In a speech at Reuters' annual luncheon here, Conable said swift, concerted action to lighten the debt load was needed because expectations were running very high.

"They can be met only if all parties in the debt crisis — governments, private creditors, private investors and international financial institutions like the World Bank — move with dispatch to do their part," Conable said.

A country had to carry out sweeping economic reforms to be eligible for debt reduction. "We will only help those willing to help themselves."

Conable stressed the need for a return of flight capital, and said the need for structural reform was as urgent as ever.

"It was not external debt that produced massive subsidies, reduced incentives to export, drained national

budgets, undermined free enterprise, and created inefficient public sectors," he said. "External debt cannot be made the scapegoat for internal deficiencies."

Industrial nations should act to encourage full commercial bank participation in financing trade, investment and debt reduction programmes.

"Changes in regulatory practices are needed to provide incentives for such participation. This action must proceed without delay," he said.

## Implemented

He also touched on worries that financing debt reduction might mean less money was available for traditional World Bank lending, and that standing behind bank loans to the Third World could jeopardise the bank's top-flight credit rating.

The way debt reduction was implemented and the extent of the bank's involvement should not affect its ability to continue as a multinational development institution, Conable said. — Sapa-Reuter



# World Bank

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Conable said a country must carry out sweeping economic reforms to be eligible for debt reduction. "We will only help those willing to help themselves," he said.

For their part, industrial nations must act to encourage full commercial bank participation in the financing of trade, investment and debt reduction programmes, Conable said. — Sapa-Reuter.



# Third World markets shine

12/5/89

(356) small

Taiwan has become one of the world's 12 largest stock markets and the fifth most active, though requiring reform of its investor protection and accounting standards.

A detailed analysis by the International Finance Corp (IFC), a World Bank affiliate, notes that the stock markets of several developing countries have been among the best performers over the past four years — well ahead of both Japan and the US in dollar terms. In its latest fact-book, IFC, which encourages the growth of developing countries' capital markets, highlights a number of increases both in activity and share prices, notably in several Pacific Rim countries. In 1988, total returns, including dividends, in nine emerging markets were higher than in the Japanese market in dollar terms, adjusting for exchange rates.

On a longer-term comparison, between the ends of 1984 and 1988, the Philippines, Korea, Zimbabwe, Taiwan, Chile and Mexico all outperformed Japan, with Thailand and Columbia not far behind.

The report highlights the sharp increase in the market capitalisation of the emerging markets, up from US\$95bn in 1984 to \$377,4bn last year — though in total they are still less than a tenth the size of the Tokyo market and half that of London.

Over the same period, the value of shares traded has risen from \$31,9bn to \$407,8bn. This is a sixth the level of Tokyo and two-thirds of London.

The figures have, however, been significantly influenced by the phenomenal growth of share prices and trading in Taiwan. In 1988, the market capitalisation of the Taiwanese market rose 120% and the value of shares traded jumped nearly 3.5 times to \$275.6bn, well over half the level of London. Taiwan last year accounted for nearly a third of the capitalisation of the 30 emerging markets and two-thirds of the value of shares traded.

## Turnover ratio

The turnover ratio — value traded as a percentage of year-end market capitalisation — was nearly 233% in Taiwan, compared with about 60% in New York. Apart from Korea and Thailand, the ratio is less than 20% in most emerging markets. Nonetheless, even excluding Taiwan,

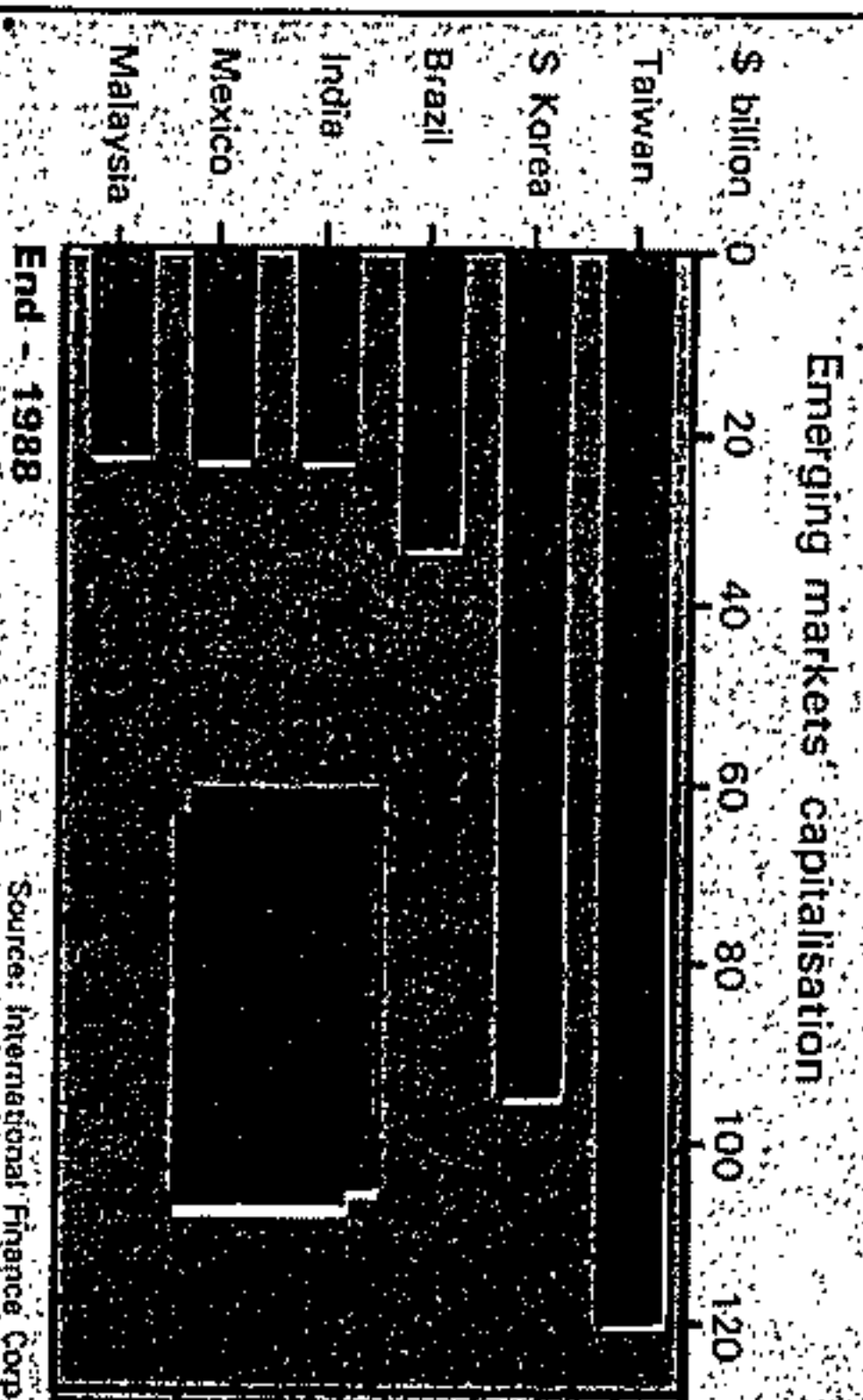
there has still been sharp growth in levels of both activity and prices in several Asian and Latin American markets. In terms of capitalisation, Korea is now larger than Hong Kong and roughly the size of Sweden. In pointing to the potential for further development, IFC notes that while the countries with emerging markets in 1988 accounted for 12% of world GDP, they represented less than 4% of total world market capitalisation.

The report, however, notes varying standards of market information and investor protection. On both counts, Brazil, Chile, Mexico, Korea, India and Malaysia are counted good, but Taiwan is recorded in the category of "poor, requires reform." The Philippines is rated as good on accounting, but merely adequate on investor protection. There are also large variations in the extent to which emerging countries have adopted automation in settlement systems. Big differences also exist in comparative valuations. East Asian markets follow the lead of Japan in having very high p/e ratios.

Taiwan was on a ratio of more than 40 at the end of last year, against just under 13 a year earlier, and Korea was up from 21.7 to 39.5. This compares with 53.8 for Japan and a world average of 18.1.

Apart from India and Malaysia, most emerging countries, particularly in Latin America, are valued on p/e ratios of less than the world average.

## Growing, but still small





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# Debt plan bogs down

WASHINGTON — The World Bank and International Monetary Fund are trying to get the stalled Mexican debt talks off the ground.

But even with prompting from the Bush Administration, the commercial banks are refusing to join the parade.

Using the international monetary conference in Madrid as a staging area, aides

to Treasury Secretary Nicholas Brady and officials of the bank and fund tried to jumpstart the Latin American debt vehicle with a \$6.2-billion package of promises for Mexico. The hopes were that the bankers would rush to settle their differences with the Mexican Government before they were left behind in the restructuring.

But there is only a slight

prospect of a debt rescheduling agreement among the Mexicans, the banks and the aid agencies by the time of the Group of Seven leaders meeting in Paris in mid-July.

The queue of soon-to-be-defaulting nations continues to grow. Brazil needs \$4.2-billion in promised new money if it is to avoid a moratorium on the \$14.6 billion in arrear interest payments.



4/8/89

356 ~~356~~ Email



Brady

World Bank's general quota increase of new capital.

The Mexican share of the World Bank capital increase is \$14bn, of which 97% is something called callable capital — that is, the US need not actually put up the money in hard cash,

but pledges to do so should some economic disaster make it necessary. This enables the World Bank to go into the international money markets and borrow funds at favourable market rates.

This still leaves the Americans a cash contribution of \$420m (or 3%). Though most World Bank member nations have paid their cash dues in full in one payment, the US has been allowed to pay up in six equal instalments. Last year, Congress appropriated \$50m instead of \$70m. And this year, instead of \$90m, the House Bill contained not a penny. Congressional leaders said it was their way of protesting the original version of the Brady Plan — most of these lawmakers favour outright debt forgiveness.

While the old Brady Plan was suspect in Congress, the new plan is doubly damned as being too little, too late. Altogether, the plan offers Mexico about \$1.5bn a year in reduced debt burden and \$1.5bn in reduced interest payments if all the banks go along with all or most of the options.

Since Mexico's annual debt service obligation has been running about \$1bn a month or higher, the plan gives the government of President Carlos Salinas at best a couple of months' breathing space. The new pact does not come near to meeting the Mexicans' own goal of reducing its annual debt service outflow by \$10bn a year to \$3bn. Nor does it provide any incentive to recapture the roughly \$55bn in Mexican capital that has flown the country for safe haven investments in the US and Europe.

In the final analysis the new deal is more like a traditional rescheduling of debt with stretched-out repayment periods and reduced interest rates than a real reduction of Mexico's debt.

The banks themselves are now indicating that as few as 20% will opt for serious debt reduction; 60% may take interest stream reductions while another 20% will agree to put up new cash.

Totals being bandied about put the result at a one-time reduction in Mexico's debt of roughly \$3.8bn and a cut of \$1.5bn in interest payments each year.

In turn, Mexico will have to borrow and pay interest on \$7bn in loans from the World Bank, the IMF and Japan in order to pay for the roughly \$40m a year in zero coupon bonds bought from the US Treasury.

All that presupposes that Congressman Charles E Schumer (a New York liberal Democrat) abandons his threat to attach an amendment to upcoming foreign aid legisla-

tion to discourage banks from lending new money by requiring them to set aside reserves against these new loans. ■

## THIRD-WORLD DEBT

### Domino effects

If the Bush administration cannot rescue its contribution to the World Bank from the US Congress for the second year running, how does it expect the World Bank to help rescue Mexico?

There is no answer so far. Indeed, it is one of a number of unanswered questions about the new Brady Plan on Mexican debt which was announced last week as a major breakthrough in the seven-year crisis over the roughly US\$384bn in foreign debts owed by the leading Latin American and other Third-World nations.

After months of heavy negotiating, Nicholas Brady, the Treasury secretary who has lent his name and reputation to the Third-World debt plan, was able to announce a rescue agreement vastly different to the one first proposed.

But the key difference of Brady Plan 2 is that it shifts from the commercial banks to the World Bank and International Monetary Fund (IMF) the task of providing the flow of new up-front money necessary to finance the subsequent stages of rescheduling and reduction. And where is the bulk of that new money to come from if not largely from the budget-strapped US Congress?

The commercial banks — owed a whopping \$53bn of the \$107bn Mexico owes to foreigners — will have three options, none very pleasant for bankers to contemplate.

Each bank could take an outright 35% reduction in the principal owed it; cut the current average interest rate on loans; or provide new money for Mexico. Those writing down loan principal will swap their debt for new Mexican bonds due in 30 years, which will be guaranteed by \$7bn worth of US Treasury zero coupon bonds purchased by Mexico with funds loaned by the IMF.

But, at the same time the revised Brady Plan was taking its bow, key Democratic leaders in the House of Representatives sent an unmistakeable signal to the Treasury and the White House. The House voted a Foreign Aid Appropriations Bill for this year which provides not a penny of the already pledged American annual instalment of the



6/Day 17/7/89.

# France shelves debt-easing plan

PARIS — Major industrial nations have persuaded France to shelve a new plan to ease Third World debt, fearing it could sink delicate talks between Mexico and world banks.

French President Francois Mitterrand wanted his partners at the Paris summit to put up more money to help reduce Latin America's \$500bn debt burden.

But with the US piling pressure on banks to clinch an agreement with Mexico to reduce its \$54bn commercial debt, summit officials said any suggestion at this stage

of more cash on the table could prompt the Mexicans to draw back in the hope of a better deal.

A senior Group of Seven (G7) official said at the weekend that Mitterrand, who on Friday put a request from four Third World countries for a new North-South summit to his six partners, had concluded

world aid agencies had adequate funds for the time being.

French Finance Minister Pierre Berégovoy said Mexican debt was "one of the most important issues the summit will be addressing".

"We want an agreement as soon as possible, because this will be an example for other countries — the Philippines, Morocco, the Ivory Coast, Venezuela," he said.

But he hinted that France may only have temporarily shelved its plan. "Are the resources sufficient? Countries such as France think this is just a first step."

Despite misgivings by Britain and West Germany, the summit endorsed a March plan by US Treasury Secretary Nicholas Brady calling on banks to negotiate directly with borrowers on moves to cut debts.

Canadian Finance Minister Michael Wilson told journalists on Saturday the G7 nations accepted that the Brady Plan must be seen to work as it stands.



● MITTERRAND

Talks between Mexico and a 15-member panel of its main creditor banks have dragged on in New York for nearly three months. The US has become increasingly worried that failure to reach a quick settlement could be the spark that ignites Latin America's political powder keg.

It has held out a \$2bn bridging loan to Mexico as an incentive to sign an accord with the banks.

A banker at the talks in New York said an agreement in principle could be reached at the weekend.

Jose Sarney, president of Brazil, the world's largest debtor, warned Mitterrand in this week that the Western world "will be surprised by the torrent of violence that could be unleashed in Latin America" if its debt burden was not reduced.

Meanwhile community workers and peasant leaders from the world's seven poorest states staged an alternative Paris summit "on behalf of the forgotten poor".

Shortly before the G7 leaders arrived for a lavish dinner, representatives from Brazil, Bangladesh, Burkina Faso, Haiti, Mozambique, the Philippines and Zaire handed a petition to the G7 saying: "We refuse to allow the seven (rich) the right to speak in the name of the entire world and to decide for the whole of humanity."

While the G7 leaders tucked into various duck dishes, broiled salmon and a 1928 vintage wine, the fare at what has been dubbed "the low-calorie summit" consisted mainly of riceballs and vegetable fritters.

A spokeswoman for the poor seven said Mitterrand's top aide, Jacques Attali, had been extremely polite when he received them at the Louvre Pyramid, where the G7 summit was held. But he did not have time to read their petition immediately.

The alternative summit organisers said they had failed in their request for a meeting with Mitterrand, who has spared no expense on a lavish summit show and celebrations marking the 200th anniversary of the French Revolution. — Sapa-Reuter.



vey July 2, 1989

# Tax anomaly causes fears of backlash

320 300  
51 Times 2/17/89

A SERIOUS tax anomaly between pension and provident funds has arisen as a result of the abolition of prescribed assets and the amended taxation of life-assurance companies.

The result is of great concern in the pension industry.

The different tax rates of the two types of funds were offset by the varying prescribed assets requirements. But because of the abolition, the imbalance could cause industrial unrest.

Provident funds in an assurance company could pay as much as 50% tax on investment income.

Bill Haslam, managing director of Timelife Insurance, says: "The officials at Inland Revenue understand the argument, acknowledging the anomaly.

"But they are worried they cannot change it until they understand why the anomaly was there in the first place. Since it is an anomaly, it cannot be answered, which leaves the industry in an impasse.

## Vital

"It is vital for Inland Revenue to move fast because most provident fund business concerns the black trade union movement. Most unions have decided that members' interests are best served by a provident fund which permits the payment of a cash sum at retirement. The pension fund benefit is payable in the form of an income.

tax on investment income. It is not difficult to see that they might interpret that as being selective taxation on their members and it could result in industrial unrest.

"The alternative is for the trade unions to withdraw their funds from the assurance companies and run their own provident funds so as not to be taxed.

"They would then be faced with the investment problems and the volatility of the equity market and a possible repeat of the October 1987 crash. They prefer the security of guarantee-type funds which are only available through assurance companies."

## Dilemma

Guarantee funds are similar to a building society account where money is invested and interest or a bonus is added annually. Guarantee fund annual bonuses average 16%.

It is understandable, therefore, that there is a dilemma for the black trade unions. If they wish to eliminate tax, they have to take their money from the assurance company — but suffer the swings and roundabouts of market movements.

"This is a situation which could provoke union leaders to adopt a tough stand which we hope will not reach a point where they are moved to encourage industrial unrest. But if 1981 is anything to go by, this is a sensitive issue to be handled speedily and with care.

"I fervently hope that Inland Revenue will move



# Call to cancel Africa's 'small change' debts

NAIROBI — The foreign debt of Africa's poorest nations is "small change" in the Third World debt crisis, but they are least able to carry the burden, says a UN-sponsored report.

The report, commissioned by the UN African Recovery Programme, proposed that creditor governments cancel all debt on aid owed to them by low-income sub-Saharan countries.

"The 31 countries which fall in that category are the ones least able to cope with the debilitating drain of resources," said the report released here this week.

It put the sum owed by such countries at \$68bn, calling it "small change" compared with Third World debt totalling \$1.3-trillion.

## Weakness

About 86% of the 31 countries' debt was owed to official creditors. "Thus low-income Africa's debt poses no threat to the international financial system..."

The countries include the Comoros, Lesotho, Madagascar, Malawi, Mozambique, Tanzania and Zambia.

Underlining the fundamental weakness of African economies, the report noted that in sub-Saharan Africa the ratio of debt to economic output, measured by gross domestic product, was nearly twice that for the world's most indebted countries.

The proposed write-off of aid debt was one of several recommendations. Others included pruning a menu of options for debt relief drafted at the Toronto summit of the seven biggest industrial democracies in June last year.

The leaders of the seven — Britain, Canada, France, Italy, Japan, the United States and West Germany — were meeting

again in Paris this past weekend and the debt crisis was on the agenda.

The UN-sponsored report urged the Paris Club of official creditors to scrap the third and last option on the Toronto menu, which allows longer debt repayment terms.

This merely contributed to an increase in debt stock and future debt service obligations unless it was expected that the principal would be paid when due.

It would therefore offset relief provided under the menu's other options which offer partial debt cancellation and interest rate cuts.

The report said creditor governments should also cancel more than one-third of the debt incurred by low income African countries on export credit, extended on mainly commercial terms.

Alternatively they should consider concessionary terms such as the 0.5% annual interest and 40-year repayment period set for credits extended by the World Bank's soft-aid affiliate, the International Development Association.

## Aid debt

It proposed rescheduling agreements should cover three years, which would avoid costly and time-consuming annual negotiations.

The report noted that some donors, notably the US, Saudi Arabia and the Soviet Union, had not cancelled any aid debt owed by low income African countries.

Canada, West Germany, Scandinavian countries and the UK had by the end of last year already cancelled nearly all aid debt owed by such countries and France last May announced it would cancel all their debt to Paris. — Sapa-Reuter.



# Summit endorses debt plan

PARIS — Leaders of the world's seven largest industrialised democracies wrapped up their abbreviated summit yesterday saying decisive action was urgently needed to protect the environment.

The summit leaders also gave an endorsement to Washington's strategy for solving the Third World debt problem and touted their efforts in improving the world economy, according to a draft of the final communique that was to be read by French President Francois Mitterand late yesterday.

The leaders planned to adjourn earlier than scheduled, citing the harmony of the summit, which was caught off-guard the day before by Soviet President Mikhail Gorbachev's request that his economy be linked to that of the West.

For the first time in 15 years of econom-

ic summits, an extensive portion of the final communique was devoted to environmental problems.

In the draft, the leaders said: "There is growing awareness throughout the world of the necessity to preserve better the global ecological balance.

"This includes a serious threat to the atmosphere, which could lead to future climate changes."

The leaders of the US, Britain, West Germany, Japan, France, West Germany and Italy said: "Protecting the environment calls for a determined and concerted international response and for the early adoption, worldwide, of policies based on sustainable development."

The summit nations also endorsed the debt-reduction strategy unveiled on March

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## Summit

10 by US Treasury Secretary Nicholas Brady. US officials had hoped that Mexico, the plan's test case, would come to an agreement with its creditors before the end of the summit.

While the so-called Brady plan was not mentioned by name, the communique clearly endorsed it, urging commercial bankers to "increasingly focus" on reducing debt service costs to complement new loans to those countries.

The leaders found much to boast about in the performance of the economy this year, but they called for continued vigilance against rising inflation.

"Inflation, where it has increased, will continue to receive a firm policy response so that it will be put on a downward path."

The draft singled out the US, Canada and Italy as countries where further reductions in budget deficits were needed. Sapa-AP.

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B Day 13/7/89

# Poverty casts shadow over French festivities

PARIS — Leaders of poor and indebted nations, gathering in Paris yesterday to honour the French Revolution, hope the heady spirit of 1789 will infuse a summit of the world's seven wealthiest powers.

The bicentenary celebrations and the Group of Seven summit, staged simultaneously at French President Francois Mitterrand's personal request, will turn Paris into a diplomatic epicentre for the next four days.

At least 30 leaders were expected in the heavily-policed French capital, and many from Africa, Asia and Latin America were clearly bent on pushing the Third World Debt crisis to the top of the agenda.

The presidents of Mexico and Brazil, the top Third World debtors, held a tete-a-tete last night — signalling the will to extract maximum relief from the G-7 summit.

## Bread

Julius Nyerere, Tanzania's founding father and for many a spokesman of the world's dispossessed, appealed in stark terms for action on the \$1,3-trillion Third World debt burden.

"Bread is being taken from the poor of the south and millions of children are being allowed to die or go naked in order to balance the books of the bankers," he said in an open letter to G-7 members France,

Japan, the US, West Germany, Britain, Italy and Canada.

The three-day annual summit opens on July 14 as the bicentenary festivities reach their apogee with a stunning musical parade down the Champs Elysees.

American soprano Jessye Norman will sing the revolutionary anthem La Marseillaise recalling the day 200 years ago when a poor mob — the *sans-culottes* who could not afford noble breeches — stormed the Bastille prison, heralding the end of monarchical rule.

Socialist Mitterrand adopted the unofficial title of "Third World advocate" when he was first elected in 1981. He has encouraged other summit partners to make debt a priority in talks which will also cover monetary policy and the environment.

But he has been stung in the past week by accusations from the French left that his notion of starting the rich man's summit on Bastille Day was an insult to the modern world's *sans-culottes*.

Critics noted that the G-7 leaders and the rest would dine at different banquets on the 14th.

Others decried the presence of leaders like Zaire's Mobutu Sese Seko, who is accused of having a personal fortune approaching the size of his impoverished country's debt.

Jacques Attali, Mitterrand's closest aide and the summit organiser, was forced to reply. He said all the

leaders in Paris would eat together at least three times and have ample opportunity for bilateral meetings.

Asked about Mobutu, he said both the invited leaders and those who requested to come were welcome. But Mitterrand agreed, in a magazine interview, that some requests for an invitation had been embarrassing.

## Guillotine

Understandably none of Europe's crowned heads will be at the party. Many are related to King Louis XVI and his wife Queen Marie-Antoinette, who both lost their heads in the revolution.

Another absentee in the celebrations is the guillotine, the sophisticated instrument which beheaded at least 17 000 French during the bloody post-revolutionary era known as The Terror.

The Mitterrand government has preferred to flip through that chapter and recall instead the 1789 Declaration of the Rights of Man which it says inspired the pro-democracy movement in China.

But British Prime Minister Margaret Thatcher, who has sparred with Mitterrand for years, declared bluntly in pre-summit interviews that the revolution had no universal message and that The Terror could not be forgotten. — Sapa-Reuter.



825 11/7/89

# US to end (356) opposition to debt write-offs

By JOHN LICHFIELD

The United States decides to write off some African debts.

WASHINGTON — The United States is to write off about 20 percent of its loans to 16 of the poorest countries in Africa, bringing its debt policy more or less in line with other Western countries.

The Bush administration will abandon from October 1 America's opposition in principle to the forgiveness of inter-government debt, stubbornly maintained by the Reagan administration.

The shift in policy will affect only about \$1 billion (R2,7 billion, or less than one percent of the total Western debts of black African countries).

But the decision, announced by President George Bush, is seen as a significant departure from the rigid international debt policies of the Reagan era.

In part, Washington's aim is to encourage large commercial banks to sign up for the new, private debt forgiveness strategy for middle-income countries announced by the US Treasury Secretary, Mr Nicholas Brady, earlier this year.

## Programmes

Administration officials said the African debt write-off would extend only to US development aid and economic assistance loans to countries with economic programmes approved by the International Monetary Fund or World Bank.

Only 16 of the 40 or so black African countries would be affected.

Loans for military equipment, food or other export credits would not qualify.

The 16 countries to benefit would be Benin, Cameroon, Ghana, Guinea, the Ivory Coast, Kenya, Madagascar, Malawi, Mali, Niger, Nigeria, Senegal, Somalia, Tanzania, Uganda and Zaire.

They owe between \$4,5 billion (R12,15 billion) and \$5 billion (R13,5 billion) to the US government.

According to the World Bank, black African debts to the West totalled \$109 billion (R294,3 billion) in 1987, a crushing 85 percent of the region's GNP.

Most was owed to governments rather than private banks.

At the Toronto Summit of the world's seven leading Western economies last June, six countries agreed in principle to forgive some debts to African countries.

## Refused

President Reagan refused to commit the US to cancellation of debts, but agreed to spin out the nominal repayment of the loans indefinitely.

Other countries argued that forgiveness was a more helpful policy because it allowed the countries to seek new investment loans.

The Reagan administration refused to accept debt cancellation, largely for ideological reasons.

"They simply took the view that debts were debts," said Mr John Williamson of the Institute of International Economics.

This announcement follows the pattern of Mr Bush's disposing of some of the more extreme and indefensible positions of his predecessor.

Negotiators have reported the first signs of progress in talks between large US commercial banks and the Mexican government on the voluntary reduction of the country's \$95 billion (R256,5 billion) foreign debt.

The negotiations are seen as a crucial first test of the Brady plan for reducing the debt burden of middle-income countries, mainly in Latin America.

After talks last week between 15 of the largest US banks and the Mexican Finance Minister, officials said plans were emerging for a 35 percent reduction of Mexican commercial loans worth \$54 billion (R145,8 billion).

— The Independent News Service.



## UN says IMF-World Bank programmes for Africa have failed

NAIROBI — More African countries were turning to the IMF to bail out their economies although, the UN Commission for Africa said, IMF and World Bank programmes on the continent had failed.

About 30 countries in sub-Saharan Africa have accepted, or plan to accept, reforms approved by the IMF or World Bank.

They often include steep currency devaluations, budget and subsidy cuts, relaxation of price and trade

controls and introduction of producer price incentives for farmers.

When Zaire ditched a programme of reforms agreed with the IMF in 1987, the then Prime Minister Sambwa Pida Mbagui complained: "They tend to treat us like a colony."

Last month, however, Zaire announced a new agreement on a recovery plan for 1989-90.

Critics of the IMF argue its reform packages focus too much on

short-term balancing of finances through spending cuts which undermine health, education and other social needs.

The UN Commission for Africa said: "There is mounting evidence that stabilisation and structural programmes are rending the fabric of African society."

It recommended gentler treatment of Africa's economic problems. — Sapa-Reuter.



# SA's income rating drops

SA has slipped to a lower category in the World Bank's classification of countries according to income.

Statistics in the latest World Development report show SA has dropped to the lower-middle income group of countries from a previously firm position in the upper-middle income group.

According to the data, SA's Gross National Product (GNP) per capita was \$1 890 in 1987 — the latest year for which figures are available. This places the country just in front of Mexico (\$1 830) but still worse off than other middle-income countries such as Poland (\$1 930), Brazil (\$2 020), Hungary (\$2 240) and Gabon (\$2 700). *61 day 217/87*

GRETA STEYN

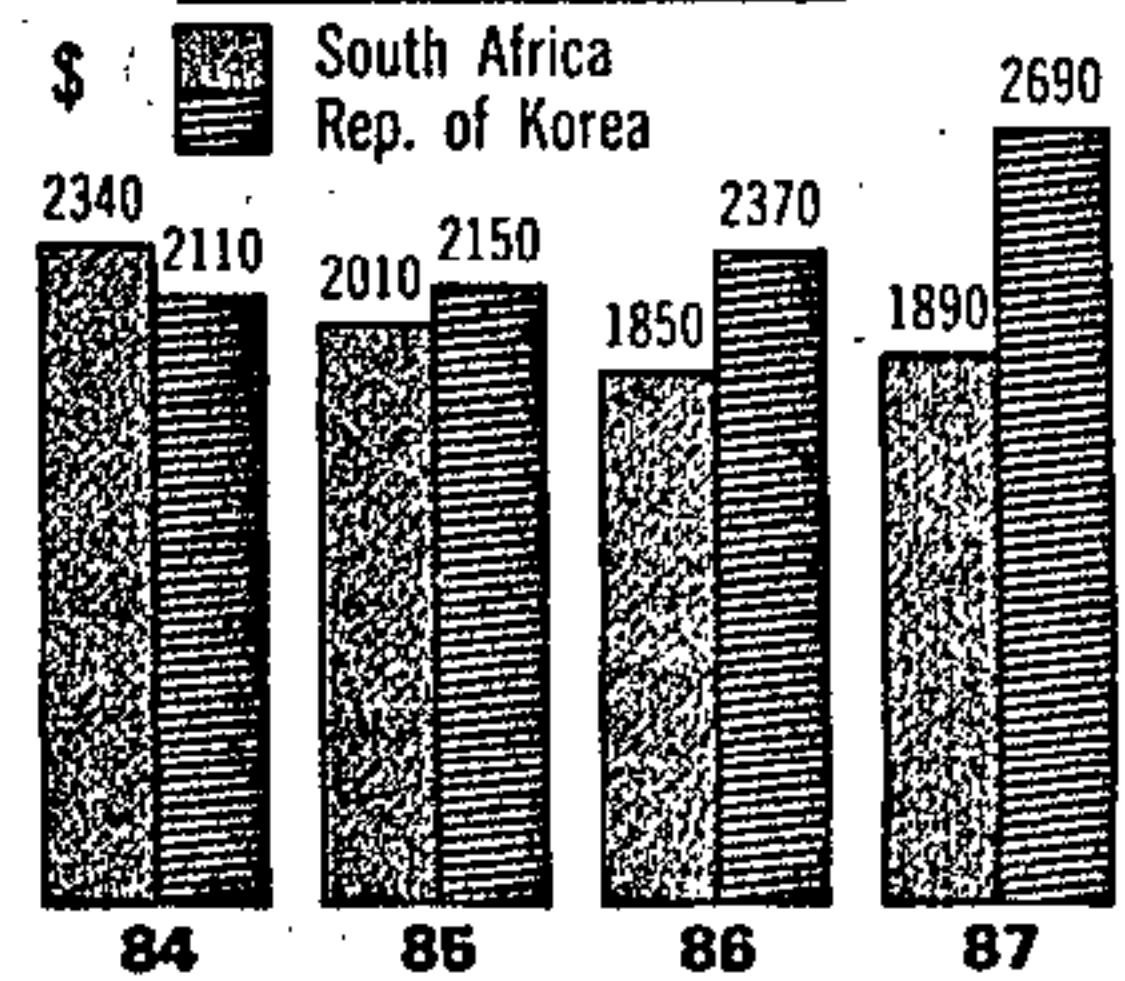
In 1984, SA was still better off than the Republic of Korea, Portugal, Argentina and Brazil. It could report a GNP per capita figure of \$2 340 and an average annual growth rate of 1,4% between 1965 and 1984.

By 1987, the picture had changed to a significantly lower GNP per capita and an average growth rate of only 0,6% between 1965 and 1984. This compares badly to Korea's average of 6,4% during the same period.

Botswana, also a lower-middle-income

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## GNP per capita



Source: WORLD DEVELOPMENT REPORTS 1986 - 1989  
Graphic: FIONA KRISCH

## GNP down

group country, boasts an average annual growth rate of 8,9% for 1965-1987. Its GNP per capita (\$1 050) is lower than SA's but rose by \$210 between 1986 and 1987 compared with an increase of only \$40 in SA's case.

SA is hampered by the fact that it has no access to foreign capital but the World Development report notes that other developing countries are also faced with a decline in foreign capital flows.

"Saving determines the rate at which

productive capacity and hence income, can grow."

Developing countries which have grown fairly rapidly have had high savings rates and high real rates of interest.

Of the high-income countries, Singapore and Hong Kong had the best growth performance since 1965 with average annual rates of 7,2% and 6,2% respectively. The highest GNP per capita belongs to Switzerland with \$21 330, followed by the US (\$18 530), Norway (\$17 190) and the United Arab Emirates (\$15 830).

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# World Bank pledges \$23-bn in new loans

Skw. 3/1/89 356

WASHINGTON — The World Bank, pledging a new commitment to the developing world, said on Sunday that total new loans approved for the year ended June 30 were a record \$21.4 billion compared with \$19.2 billion for the year to end June 1988.

In a briefing for reporters, officials said they anticipated that lending would increase an additional \$1.75 billion in the current fiscal year.

Noting that content of bank activity was more important than the amount of money that is lent, bank officials said that growth alone does not necessarily reduce poverty.

The officials said the bank is in the midst of a major expansion of programmes that will invest directly in what it called human capital — in education, health, nutrition, and in efforts to address issues of population planning and the enhancement of the role of women.

Bank officials said that total bank loans in the year just completed amounted to \$16.4 billion compared with \$14.7 billion in

the prior fiscal year.

Total credits approved under the International Development Association, which makes money available on essentially an interest-free basis to the very poorest countries, were \$4.9 billion compared with \$4.5 billion.

Bank funds actually disbursed in the year just ended amounted to \$11.6 billion, identical with last year, while IDA disbursements amounted to \$3.8 billion from \$3.4 billion.

Bank senior vice president for operations, Moeen Qureshi, speaking with reporters, also said that Bank loans to the highly indebted countries amounted to 48 percent of total loans in the year just ended compared with 43 percent in the prior year.

He estimated that a similar percentage commitment would be made this year.

He said the bank goes into the final decade of this century in strong shape.

"There is a new momentum to our operational work today," he said. — Sapa-Reuter



(356)

## World Bank handed out \$21bn in new loans

WASHINGTON — The World Bank reported yesterday it had authorised nearly \$21.37bn in new loans to Third World nations, including the major debtor nations, in the year to June.

At a Press conference, Moeen Qureshi, a senior vice-president of the 151-nation agency, said the World Bank and its affiliate, the International Development Association (IDA), planned to step up their lending commitments to about \$23bn during the next 12 months.

World Bank and IDA loan authorisations had totalled about \$19.22bn in the year ending in mid-1988. (356)

While gross loan disbursements, representing the actual outflow of funds from the World Bank and IDA to borrowing nations to finance long-range development projects and shorter-term structural adjustments, totalled about \$15.4bn in the year to last Friday, this was not much more than a year earlier.

But Qureshi said the international agency would be pumping money out faster to Third World nations in the coming year, when gross loan disbursements were expected to increase by about \$1bn. 61 Day 317184

Lending commitments and gross disbursements were both moving upward, partly because quite a few of the new World Bank loans to major Third World debtor nations were relatively fast disbursing credits to support economic reforms and structural adjustments in these countries, Qureshi said. — AP-DJ.



# New World Bank aid package mooted

WASHINGTON. — The World Bank plans grants from a new \$100m. package to help some of the world's poorest countries pay off loans to commercial banks, a spokesman said this week.

It is expected the governments will be able to buy back some of these commercial bank loans for small amounts. Bolivia, which may be a candidate, has bought back some for as little as \$0.10 or \$0.11 on the dollar. *Bidm 719189*

"I don't think there'll be much criticism

if we can get discounts like that," said World Bank spokesman William Brannigan. He suggested the amount owed by any one country to any one bank would be small, and the bank would be glad to get it off the books.

Other possible candidates are Bangladesh and Nepal in Asia, and some southern African nations. Those countries that are up to date on repayment of loans to the World Bank itself, and have set up new economic programmes satisfactory to it or the IMF, are expected to be eligible.

Big debtors like Brazil, Argentina and Mexico would not qualify.

Brannigan said approval from the Board of Governors was needed because the World Bank wanted to take the \$100m. from \$1bn earned annually by its International Bank for Reconstruction and Development and use the money for grants by its International Development Association. IBRD makes a profit by borrowing money at low rates on the market and lending it out at higher rates. — Sapa-AP.



# \$100-m package to help poor nations pay debts

WASHINGTON — The World Bank plans grants from a new \$100 million package to help some of the world's poorest countries pay off loans to commercial banks. (356)

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Other possible candidates are Bangladesh and Nepal in Asia, and some southern African nations. Those countries that are up to date on repayment of loans to the World Bank itself and have set up new economic programs satisfactory to it or the International Monetary Fund are expected to be eligible for the grants.

Big debtors like Brazil, Argentina and Mexico would not qualify.

Brannigan said the plan has

been approved by the Board of Executive Directors, 22 representatives chosen by the 151 governments. But he said approval is still needed from the Board of Governors: US Treasury Secretary Nicholas Brady, who controls the largest single block of shares, and ministers of finance of the other member governments.

The Board of Governors will hold its annual meeting in Washington at the end of this month.

Brannigan said its approval is needed because the World Bank wants to take the \$100 million from \$1 billion earned annually by its International Bank for Recon-

struction and Development (IBRD) and use the money for grants by its International Development Association (IDA).

IBRD makes a profit by borrowing money at low rates on the market and lending it out at higher rates, but for longer periods than commercial banks give. *Staw 719189*

IDA makes loans to the poorest countries for as long as 50 years at less than one percent interest, but normally does not make outright grants. It gets most of its money from direct contributions by 33 donor countries.

Brannigan pointed out that money owed by the poorest countries was lent largely by governments and intergovernment bodies like the World Bank. It is estimated that the total they owe commercial banks is about \$2 billion.

Juergen Warnke, West Germany's minister for co-operation, told reporters last week that his country alone had canceled Dm8.8 billion (more than \$4.4 billion) in loans over the past 10 years.

US President George Bush announced in July that the United States will also be cancelling some debts, estimated at \$1 billion, to the poorest countries. — Sapa-AP.



# Economies grow but debts cast a shadow

WASHINGTON — World economic growth has proved to be surprisingly strong, but the burden of debt is still crushing many poor countries, says the IMF annual report.

The 151-nation lending agency welcomed the continuation of healthy growth in output and investment in the industrial world and said developing nations as a group enjoyed one of their highest growth rates in a decade in 1988.

But the IMF warned that the current prosperity is threatened on a number of fronts and said governments must co-ordinate their policies better.

How to sustain economic growth and ease the burden of Third World debt will be major topics when thousands of officials and bankers gather here next week for the annual meetings of the IMF and its sister agency the World Bank.

## Resources 356

As in the past, the IMF aimed its bluntest warning at the US, whose massive trade deficit remains a major source of vulnerability in the agency's view.

The fund said the best way to reduce the trade deficit was to close government's budget gap, which would allow resources to be channelled into exports without adding to inflation or crowding out investment.

As well as the need for "urgent and forceful" action to reduce the budget deficit, the IMF said measures might also be needed to end the US tax code's bias against private saving.

## Deregulation

The IMF had kinder words for Japan than it had for the US. It commended the authorities on their handling of the budget and said the scope for unilateral financial action by Tokyo to reduce its external surplus was limited.

West Germany, the IMF said, must act more boldly to free goods and labour markets. "Progress in relaxing structural rigidities has been limited... Action on deregulation has been slow and disincentives in some critical sectors continue to hamper economic activity."

Further improvements were likely this year, but the IMF warned: "The debt burden nonetheless remains particularly onerous for the heavily indebted middle-income countries and low-income sub-Saharan African nations." —

apa-Reuter.



Star 19/9/89

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# Economic reforms put Africa back on track

WASHINGTON — Economic growth in Africa recovered in 1988, counter to the general perception that the continent is in unrelenting decline, but per capita incomes remain 15 percent lower than they were a decade ago, the World Bank said.

The Bank's annual report estimated growth last year at 3.0 percent after a contraction of 1.4 percent in 1987.

The recovery, which was shared by most countries in the region, reflected better weather, improved terms of trade and the implementation of structural economic reforms.

However, because population growth outstripped output growth, per capita incomes fell 0.4 percent last year, the Bank said.

Despite a decline in oil prices, the oil-exporting countries of West

Africa grew an estimated 4.5 percent.

A striking performance by Nigeria, especially in the manufacturing sector, contrasted sharply with that of Cameroon, which is only just beginning to introduce the type of economic reforms needed to reverse a steep drop in output in the past three years, the Bank said.

Ghana continues to stand out among the countries of West Africa, growing six percent last year, the Bank said.

Per-capita output in the Ivory Coast, by contrast, shrank by around 12 percent in 1987-88, in part because a distorted farm pricing system put undue emphasis on cocoa at the expense of more promising export crops.

In Eastern Africa, Uganda recovered from early setbacks to its

economic stabilisation programme to grow 4.5 percent last year, while Kenya continued the increase in per-capita income that began in 1984.

Mauritius, which has chalked up average annual growth of seven percent since 1984, has been so successful that it must contend with a set of problems unusual for Africa, the Bank said — a tight labour market and an excessive concentration of export activity in garments and textiles.

The countries of southern Africa enjoyed positive per capital growth for the first time in a decade, due to four factors — good weather, the initial benefit of economic reforms, growth in donor-financed imports, and, in the case of Zambia, an improvement in the terms of trade, the Bank said. — Sapa-Reuter.



# Net lending by World Bank falls

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Star 11/19/89

Net lending by the World Bank fell sharply from \$3.4 billion to \$1.9 billion in the fiscal year to June 30, and the most heavily indebted countries paid a net \$1.93 billion to the bank, despite repeated commitments by the world's biggest development agency to increase its assistance to poor countries.

The bank's 1989 annual report published yesterday shows that a small rise in net disbursements by the International Development Agency, the concessional loan arm of the bank, from \$3.2 billion in fiscal 1988 to \$3.4 billion, was insufficient to offset the steep decline in lending by its sister institution.

But even the bank's gross disbursements fell by \$300 million to \$11.3 billion. The fall was partly offset by a \$200 million increase in IDA disbursements to \$3.6 billion.

The bank said that higher repayments were caused by the mounting stock of borrowing from the bank and exchange rate adjustments to the bank's currency pool which increased the dollar value of repayments.

## EMBARRASSING

Perhaps most embarrassing for the bank was a contraction in its net lending to the 17 most highly indebted countries such as Brazil, Mexico and Argentina. Net lending to this group was \$720 million lower at \$1.19 billion. Gross disbursements also fell, from \$5.4 billion to \$4.74 billion.

But the bank's long campaign to improve assistance to sub-Saharan Africa, which includes many of the world's poorest countries, did produce results. Disbursements to the region rose from \$1.87 billion to

\$2.26 billion, and commitments to lend were a third higher at \$3.92 billion.

The bank can derive some comfort from the likelihood that disbursements will increase because commitments rose in the last fiscal year. Total new commitments went up from \$14.8 billion to \$16.4 billion, while IDA commitments were \$400 million higher at \$4.9 billion.

## POOREST

Combined bank and IDA commitments to the poorest countries, defined as those with per capita gross national product of \$480 or less, rose by 12 per cent to just over \$10 billion in fiscal 1989. Of the total, the bank contributed \$5.78 billion.

In all, 119 bank loans were made to 38 countries, and 106 IDA credits were approved for 42 countries. Moreover, 33 countries received support for their adjustment policies, now a mainstay of bank strategy.

The two biggest lending sectors were energy, to which \$3.86 billion was committed, and agriculture and rural development \$3.49 billion.

Barber Conable, president of the World Bank, has tried to counter criticisms of environmental deficiencies in lending by, among other things, preparing environmental issue papers for all the countries with which the bank does business.

The annual report says that about 70 such papers were completed last fiscal year and the rest are due to be finished in this calendar year. A series of 30 studies of major environmental issues in member countries should be completed by the end of fiscal 1992.—Independent News Service.



# Capital outflow up for discussion

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GRETA STEYN

LONDON — SA's huge, unidentified capital outflows will be one of the main economic issues on the agenda when SA and its foreign creditors hammer out a new repayment agreement on about \$8bn of debt caught in the standstill net.

A banking source, speaking on condition he was not named, said these outflows indicated SA might be able to afford more substantial debt repayments than it had made in terms of the Second Interim Arrangement of 1987. The agreement expires in June 1990 and SA and the technical committee representing its major creditors have to reach a new agreement before then.

Efforts to obtain on-the-record comment this week from SA's main British creditors, Barclays Bank, Standard Chartered and National Westminster, met with a unanimous "no comment". The three banks' exposure to SA is about £1.5bn.

Rescheduling SA's foreign debt is a sensitive subject, especially in the run-up to the Commonwealth heads of government meeting in Kuala Lumpur next month, when the issue of tightening financial sanctions will be voted on.

However, apart from political pressure on SA's creditors, the country's

capital account on the balance of payments (BoP) could aggravate its difficulties in obtaining a favourable agreement. Outflows of short-term capital — not debt repayments — have continued at a rapid pace and, the source said, the country's creditors could well ask why more of this foreign exchange is not coming their way.

## Unrecorded

Repayments of debt inside the standstill net represent only a fraction of total capital outflows. Reserve Bank figures show that of the R25bn in total capital outflows since 1985, only R3.6bn was for debt inside the net. Another R1bn was repaid on debt outside it.

Questions are being asked about the remaining R10bn, which is accounted for by short-term (trade-related) outflows — and unrecorded transactions. The banking source noted International Monetary Fund (IMF) statistics showed SA's outflows under "errors and omissions" on the BoP capital account had become "big money".

Politics aside, the issue between SA and its creditor banks is affordability. The banking source said SA's foreign debt ratios were another indication that

it could, perhaps, afford to pay more.

The Bank's Quarterly Bulletin shows the ratio of interest payments to total export earnings declined to 6.5% in 1988 from a high point of 10.7% in 1985, despite the uptrend in international interest rates.

The source said the banks would press for the largest repayments possible while the South Africans would obviously want the opposite. Reserve Bank Governor Chris Stals has said the two groups will have to reach consensus on the SA economy and what it can afford.

Stals's strong stance on the need to replenish reserves stands in sharp contrast to the arguments that SA could afford to pay more.

SA's bargaining power was stronger than widely believed, the source said. Any agreement between SA and its creditors was informal and hinged on SA's willingness to repay.

Even though the South Africans wanted to maintain their links with the international banks, they could not be pressured into an unreasonably harsh agreement.

Political activists seem to have overlooked SA's bargaining power.

SA's credit record should also stand it in good stead. Barclays bank recently wrote off \$233m against doubtful sover-

ign debt, but its provisions did not include its SA exposure (about \$570m) because, it said, that would amount to "robbing the shareholder".

There is little doubt an agreement will be reached and evidence of this is the activity in the secondary market for Third World debt. A trader said the market was assuming a third agreement on the affected debt would be reached before the expiry date of June 1990. Many buyers of SA debt, which is trading at a 30% to 35% discount, are buying for investment purposes.

But although an agreement seems almost certain, the question is still the terms of the agreement.

## Recommendations

Commonwealth pressure is focused on the terms and conditions and on making it as hard as possible for SA to stay in its bankers' good books.

SA's creditors are currently studying the recommendations of the Commonwealth committee of foreign ministers.

Behind-the-scenes negotiations between SA and its foreign creditors are likely at the IMF conference next week at which both the mounting political pressure and the SA economy will be discussed.



# G-7 to ponder the dollar question

BIDEN 2019/189

FRANKFURT — Key officials from the Group of Seven (G-7) top industrial nations will stress commitment to economic co-operation this week but this may only mask growing differences on how to deal with the strong US dollar.

European economists worry that by just paying lip service to the idea of currency co-operation they may provoke a further rise in the dollar which most countries want to avoid.

G-7 finance ministers and central bank chiefs will meet in Washington on Saturday on the eve of this year's autumn meeting of the IMF and World Bank.

The seven nations — the US, Japan, Britain, West Germany, France, Italy and Canada — will be able to congratulate themselves on guiding the industrial world into a seventh consecutive year of growth in 1989.

But on the currency front, no new major initiatives are expected, in spite

of worries about continued dollar demand.

A senior US official said last week no firm decisions had been taken on how to deal with the high dollar, which he said was causing "considerable concern" in Washington and abroad.

## Imbalances

Japan's Nihon Keizai Shimbun newspaper said yesterday a G-7 statement draft warned the current dollar rise could slow the pace of improvement in international trade imbalances.

The dollar climbed to DM2.00 on Friday and is still clearly above the DM1.90 level previously seen as a G-7 ceiling.

The most damning appraisal of the

G-7 came last week from US economist Fred Bergsten, who said G-7 co-operation was a shambles and had lost credibility.

While a European central bank official said the dollar would feature high on the G-7 agenda, he added: "It may be best to sit on your hands a bit. It is not a crisis."

UK Chancellor of the Exchequer Nigel Lawson told a news conference that the dollar's present level was tolerable, although he added G-7 leaders were concerned about it getting too strong.

Economists said the strongest signal to markets would be interest rate rises in West Germany and Japan, matched by a loosening of the monetary reins in the US.

But while Germany could defend tighter money because of the strongest growth in a decade and plans for fiscal relaxation in 1990, Tokyo officials see no imminent Japanese discount rate rise.

## Intervention

US economic growth indicates no US relaxation.

Economists believe a persuasive G-7 stance on currency market intervention is even less likely than an agreement on interest rates.

In spite of sporadic concerted dollar sales this year, the main thrust of the intervention has come from the US and Japan.

The other key player — the Bundes-

bank — has said repeatedly intervention does not work. "The Bundesbank only intervenes so it won't be accused of being uncooperative," a German banker said.

A G-7 project to monitor individual economic performances by reviewing economic indicators, including commodity prices, is also unlikely to make much progress in Washington.

West Germany in particular refuses to allow indicators to become binding for policy.

While skirting round the currency problem, economists believe the G-7 statement will make its standard deficit for the US to reduce its budget deficit and for deregulation in West Germany and Japan. — Reuter.



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22-28/9/89.

## Poor countries bleed capital

THE pace at which developing countries have been transferring money back to the richer nations accelerated dramatically last year, hitting a record \$50.1-billion (about R135-billion), up almost \$12-billion from 1987, the World Bank revealed in its annual report published at the weekend.

The figure is \$7-billion higher than the preliminary estimate for 1988 published at the end of December in the World Bank's global debt tables. "So the situation in the Third World is getting worse, not better," observed a Bank official.

The figure is technically called the net negative transfer and represents payments of interest and principal that are greater than new lending.

For the 17 most highly indebted nations, the net outflow rose to \$32.8-billion. Of these, Mexico led the list with resource transfers of \$9.4-billion.

The trend in net outflows from the poor to the rich nations began in 1984 when the borrowing nations transferred \$10.2-billion to the rich. In 1981, at the peak of private bank lending to the Third World, the 'positive' flow of money to the Third World had been \$35.2-billion. —

The Washington Post



## World Bank helps to develop Beira

~~2/22~~ GRETA STEYN (356)

WASHINGTON — The World Bank is helping Mozambique develop Beira into a port that can compete with Durban, according to the latest issue of the World Bank News.

The bank's International Development Agency, its soft loan arm for the poorest countries, has approved a credit of \$40m towards the upgrading of the Beira corridor.

"Reduced transport costs and increased efficiency as a result of the project will allow the port of Beira to compete with Durban and thus provide a cheaper transport alternative. 8/12/87 25/9/87

"Expanded traffic along the corridor will increase Mozambique's foreign exchange earnings and generate more jobs," the bank says.



# JP Morgan delivers a bleak message to Third World debtors

NEW YORK — JP Morgan's painful decision to add \$2 billion to its reserve cushion against loan losses is bad news for Third World nations in debt, analysts say.

Morgan, America's third-largest banking company, late last week cited intensifying political and economic problems in debtor nations as it announced that the addition to its reserves would result in a \$1.8 billion loss in its current quarter.

Chase Manhattan and Manufacturers Hanover announced similar steps earlier in the week, but

Morgan's was the most drastic.

It boosted its reserves to 100 percent of its medium- and long-term loans to developing countries, more than double the reserve fraction established by the others.

Morgan's action could complicate talks on debt-reduction plans that are part of the annual meetings in Washington of the World Bank and International Monetary Fund.

Delegates from 152 nations began arriving for the talks last week. Morgan and other big banks that have begun fac-

ing up to the likelihood of huge losses on loans to developing countries are unlikely to resume large-scale lending to those nations for many years, analysts say.

Bankers do have short memories.

"But once a bank loses a billion dollars on any sort of a loan, it doesn't come back very quickly. Maybe 20 years from now," says Stephen Ber- man, an analyst at Coun- ty Securities USA in New York.

Morgan, the parent of Morgan Guaranty Trust, said it would continue

doing business in develop- ing countries, but would focus on merchant bank- ing rather than general lending.

Merchant banking in- volves providing advice, trading and investing, and finance.

"We will continue to consider lending in ap- propriate specific transac- tions. We intend to con- tinue to play a constructive role in devel- oping countries," Morgan spokeswoman Kathleen Baum said.

The talks in Washington concern US Treasury Sec- retary Nicholas Brady's

plan to relieve the \$1.3 tril- lion Third World debt through debt forgiveness rather than new lending.

Some banks are con- cerned that the Brady plan may have caused debtor nations to lose their sense of urgency about keeping up on their loan payments.

Morgan said debtor na- tions seemed to have overestimated how much help was forthcoming from the industrial na- tions.

"We are very concerned about debtor countries' ris- ing expectations of the magnitude of debt reduc- tion possible" under the

Brady initiative," said Lewis T Preston, Morgan's chairman.

The Treasury Depart- ment said Morgan's in- crease in reserves was not a direct result of the Brady plan.

It said banks would ac- tually need lower reserves under the plan, since they would be scratching some shakily loans off their books.

But analysts say the Brady plan is forcing bankers to acknowledge the depth of their troubles in developing countries.

They are responding by doing everything possible to extricate themselves.

Morgan's financial strength has allowed it to cleanse its books more completely than Chase or Manufacturers Hanover.

It means the company will not suffer any further losses, even if developing countries don't pay an- other cent on their me- dium- and long-term loans.

"Some banks just want out," Mr. Berman says. "Early on in this process everybody sort of pulled together, following the lead of Citibank.

"Everybody is sort of cutting and running now and pursuing their own in- terests."

Morgan now has a total of \$3 billion in loan-loss reserves, with \$2.8 billion of that unofficially allocat- ed to loans to developing countries.

That \$2.8 billion is equal to 70 percent of Morgan's total loans to developing countries and to 100 per- cent of the medium- and long-term loans to those nations.

In an indication of Mor- gan's strong finances, Moody's Investors Services and Standards and Poor last week both confirmed their investment-grade ratings on Morgan senior debt.

The last big round of ad- ditions to loan-loss re- serves came in late 1987.

Many banking com- panies have not taken any action since then.

For example, Chemical Banking's loan-loss re-

serves equal just 28 per- cent of its medium- and long-term loans to devel- oping countries.

At Chase and Manufac- turers Hanover, the corre- sponding reserves are 46 percent and 36 percent re- spectively. — Sapa-AP.



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# West must assist East bloc reform

WASHINGTON — Finance ministers from the world's richest nations said yesterday the West must be prepared to do everything possible to assist the political and economic reforms occurring in the Communist world.

The upheaval in the Eastern bloc grabbed centre stage as the annual meetings of the 152-nation International Monetary Fund and the World Bank got under way, although more traditional global economic issues such as huge trade imbalances and Third World debt were also addressed.

Treasury Secretary Nicholas Brady said the events occurring in the Soviet Union and Eastern Europe were changing the world and were "the most significant event perhaps since the end of World War II."

Brady and British Chancellor of the Exchequer Nigel Lawson told reporters that the meetings of the so-called Group of Seven — the United States, Britain, Japan, West Germany, France, Italy and Canada — had been dominated by the discussions concerning Eastern Europe.

"What is happening in Poland and Hungary is of historic and momentous importance and the

## AT THE IMF Washington

major nations of the West must be prepared to do all we can to help them change their economies, just as they are changing their politics, from Communism to a democratic system," Lawson said.

Both Poland and Hungary are members of the IMF and World Bank, making them eligible for financial assistance. Just last week the Soviet Union said it too was applying for membership in the two international lending organisations.

### Third World recovery remains doubtful

Seven years after the Third World debt crisis began, prospects for a sustained improvement in economic growth remain doubtful for many indebted developing countries, says the IMF.

In its latest World Economic Outlook, the lending body said the outlook for such countries was less favourable than for developing countries that have avoided

difficulties in repaying their foreign debt and for industrial nations.

It said the projected modest improvement suggested debt reduction in itself was no more a panacea for the difficulties of Third World debtors than new lending would be on its own.

Third World economies in general will slow this year, growing 3.25 percent following 4.25 percent growth in 1988, but would recover to expand 4.0 percent in 1990.

This year's slowdown will reflect a rise in world interest rates, the weakening of non-fuel commodity prices, slower growth in export markets and worsening inflation, which has depressed investment and economic activity and has led to tighter financial policies in many countries.

The IMF also said many heavily indebted countries had not tried hard enough to adjust, eroding business confidence and stifling private sector initiative.

### Japan tries to buy itself a bigger say

Japan is finding out the hard way at current international meetings here that money can't buy everything, at least not right away.

Japanese officials said they will probably have to wait until a possible special meeting of the IMF in November to find out if their bid to buy a bigger voice in the multilateral body will be successful.

Even then, the IMF's policy-making Interim Committee is only likely to work out a framework for increasing the fund's resources, not a detailed agreement, they said.

Tokyo has demanded the number two spot at the fund behind the United States. It currently ranks fifth, coming behind the United States, Britain, West Germany and France.

An agreement on boosting the fund's capital through an increase in quotas — membership subscriptions — is essential if Japan is to buy a bigger voice for itself.

"Japan came to Washington to state clearly the need for changes in the IMF voting powers of member nations in line with their economic fundamentals," said a senior Japanese official who asked not to be identified.

But Japanese officials admit it is unlikely to get its way at the current IMF and World Bank annual meetings. — Sapa-Reuter-AP.



# Scepticism over Third World debt plan

13/Dec/89 26/9/89  
WASHINGTON — The West's top economic policymakers appear to have tamed the troublesome dollar, at least temporarily, but face mounting scepticism over their plans to tackle the Third World debt crisis.

Finance ministers of the seven leading industrial democracies gathered for the IMF and World Bank annual meeting, saw the dollar fall sharply in Far Eastern currency markets yesterday.

Traders found that the seven's communique after an eight-hour meeting on Saturday warning that the dollar was too high and promising close co-operation, meant they were prepared to sell the dollar heavily as soon as trading resumed.

Although it was early days, it appeared that the seven — the US, Japan, West Germany, Britain, France, Canada and Italy — had restored some measure of credibility to their policymaking after months during which the dollar defied their attempts to push it lower.

The dollar posed one major danger to the world economy by threatening to distort the pattern of global trade but the seven's debt strategy, pioneered by US Treasury Secretary Nicholas Brady, faced growing scepticism from developing countries and lender banks alike.

At a meeting of the IMF's policymaking Interim Committee, Brady called for a new spirit of realism over

his plan, which recognises the fact that a portion of some bank loans will never be paid back. Brady said his plan was sound but warned that "excessive expectations can only promote delays, increase the risk of a breakdown in negotiations and ultimately raise the economic costs both to the banks and debtor countries".

The plan has already been implemented for Mexico and the Philippines but has run into heavy criticism from US banks claiming it has made debtor nations even less willing to replay what they owe.

The chairman of West Germany's Commerzbank, Walter Seip, went further, saying a new approach should be found. — Sapa-Reuter.



# World Bank expected to lend Angola \$100m

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THE World Bank is expected to lend Angola about \$100m in interest-free loans. The country became the newest member of the bank and the IMF this month.

According to a report in the specialist publication World Bank Watch, bank officials are saying privately that Angola could get that amount in soft loans from the International Development Association, the bank's arm for lending to the poorest countries.

Moves are afoot for Namibia to join the bank and fund after independence and SA is supporting the country's membership.

Angolan membership of the IMF and bank came in the face of opposition from the US, and is the direct result of the agreement in December on a phased withdrawal of Cuban troops.

The country's quota size in the IMF, which determines its voting and share of fund assistance, is higher than SA's. SA's quota is 916 special drawing rights (SDR: the fund's currency determined by a basket of hard currencies) while Angola's is 1,45-billion SDR's. SA's quota gives it a 1% say in what happens.



GRETA STEYN in Washington

Although official Angolan projects have not yet been approved by the bank, upgrading of cities might be top of the list of priorities, while other projects could include health, education and repair of power transmission lines. The bank will send a delegation to the region in the next few weeks to decide on projects.

The WBW report quoted Angolan Finance Minister Augusto Teixeira de Matos as saying his first priority

would be to work with the bank and the IMF to restore Angola's basic economic structure.

"Once an accord on bank targets is reached with the IMF, Luanda will probably start a structural adjustment programme at the bank that should lead to major currency devaluations, reorganisation of the financial sector, and market-oriented production incentives."

The bank fully realises that Angola's civil war with Unita may not be over, in spite of moves to end the war. If so, the bank's work will be limited to areas controlled by its client government, as it is in Sudan, Ethiopia and other African countries. The report quoted a Unita spokesman as saying the bank was "wasting its money" as Angola would use it in the war effort.

However, Unita is being disregarded and the bank's private investment unit, the International Finance Corporation (IFC) is eager to get involved. The Angolans plan to approach the IFC about western investment in new fisheries, mining, oil and agricultural projects and are aggressively courting private investors.



## SA's status unchanging

SA IS no longer considering a change in its status at the IMF and World Bank.

Sources in Washington said it was unlikely that the world bodies would have allowed SA to become a recipient of aid rather than a donor.

However, the source said, this was not a setback for the country as a change in status had only been considered and had not in any way been formally decided on.

He said SA's position in the IMF had, in fact, improved over the past year. (356)

However, the country still had to undertake significant political reform if it was to be fully accepted by the world bodies again. — Sapa.

B1241 26/9/87



# Pressure building up for tighter financial sanctions

WASHINGTON — The Archbishop Tutu-inspired anti-apartheid campaign for co-ordinated financial sanctions against South Africa is given prominence in the *Institutional Investor*, an IMF/World Bank publication released this week.

Under the headline, "Banks Pressed for Tighter Sanctions Against South Africa", the publication points out that the effort is specifically aimed at European and North American commercial banks that face a June 1990 deadline for completing a new repayment schedule for \$8 billion in South African loans falling due next year and in 1991.

Seventeen percent — \$1.6 billion — is owed to US banks, including Citibank, Chase Manhattan, Morgan Guarantee Trust and Manufacturers Hanover.

According to *Institutional Investor*: "The anti-apartheid movement wants the banks to apply the most stringent terms, including maximum interest rates, a denial of new loans and trade credits and refusal of South African requests to extend payments over 10 years."

## The IMF

JOHN SPIRA



The publication speculates that action could come soon on several fronts.

"Commonwealth leaders, meeting in Kuala Lumpur next month, will be asked to approve financial sanctions already endorsed by a foreign ministers' committee that included representatives from Canada and Australia, but not Britain.

"In the US, a legislative working group has been considering similar measures as a supplement to the 1986 sanctions law."

*Institutional Investor* says the House of Representatives banking committee, still hoping for a Bill that would gain Republican support, views a prohibition on US bank participation in a generous rescheduling as a test of the Bush administration's pledge to move beyond the "generally discredited constructive engagement policy of

the Reagan years."

However, the publication suggests that anti-apartheid groups believe public opinion has shifted in their direction and they are stepping up their campaign against British, French, West German and Swiss banks.

It is acknowledged that US banks are bitterly opposed to more sanctions, but are nonetheless feeling the heat.

*Institutional Investor* recognises that if the need for international capital is the Achilles Heel of the South African economy, as anti-apartheid activists believe, fear of provoking a loan default acts as a similar constraint on congressional action.

During banking committee hearings last month, Treasury officials argued that the leverage — far from being with US banks — actually lay with South Africa.

They argued that existing sanctions were working — that the South African economy was being squeezed — and that compelling US banks to walk away from their claims would let South Africa off the hook, while giving competitive advantages to European banks.

Commercial banks urged to help / ...



Own Correspondent

WASHINGTON — By a quirk of fate, the joint annual meeting of the World Bank and the IMF coincides with the height of the forest-burning season on the Amazon — the same week last year when the space shuttle Discovery revealed a 960 km-wide smoke blanket stretching from Brazil's east coast to the Andes.

It looks doubtful if the West's finance ministers, the commercial banks, or the Third World debtors who are gathered to air their grievances in Washington will make any but the most platitudinous attempt to link the problems of Third World debt and environmental issues.

Yet a conviction is growing, even in high places, that some kind of deal will soon have to be struck, which would

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IMF CONFERENCE

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# Greening Third World debt

include writing off the poor south's debt in exchange for the environmental clean-up now demanded by the voters of the north.

To put the problem starkly, the rich nations are calling for developing countries to halt the destruction of the forests, close the hole in the ozone layer and so on, at a time when the South is becoming more impoverished and less able to do so.

The World Bank and the IMF have long been blamed by both the free-market right and the environmentalists for white-elephant projects and loans with unplanned-for destructive effects.

Now the bank's first "green" president, Barber Conable, is making pre-

emptive strikes on environmental opinion. Last week in Tokyo, Conable offered \$13bn in loans and credits for environmental projects in developing countries. Developed countries, he warned, could not go on despoiling the world.

One of the more adventurous proposals with which the World Bank and the US Treasury are being lobbied is that the bank should be given the new task of buying up Third World debt in return for forest protection and other "sustainable development" policies.

They are being put forward by former banker Karl Ziegler, who is also associated with Sir James Goldsmith's debt-for-nature swap proposals.

The idea of debt-for-nature swaps is

not new; but the packages are getting more sophisticated. Their attractiveness rests on the reality that much of the money lent in the 1970s will never be repaid.

Previous debt-for-nature swaps, like that agreed to protect a national park in Costa Rica earlier this year, have involved conservation agencies and sums of only around \$10m. But huge deals are theoretically possible.

But Goldsmith's plan drew an angry reaction from countries like Brazil, which saw it as an attack on national sovereignty, an attempt by the gringos to annex the rainforest. Other debt-ridden countries were not interested in it either.

The more elaborate "debt-for-sustainable development" concocted by Ziegler offers debt-swaps for a more catholic range of projects, such as clearing up the sewage problems of Sao Paulo and strengthening law enforcement in the Amazon, as well as forest protection.

The plan's merits for the north are that it can be exported to the Mexicans, the Filipinos and Indonesians, whose own forests have already been damaged or nearly destroyed. The advantage for politicians in developing countries such as Brazil is that it would give them something to offer their electorate.

Now that the pressure is on world leaders to draw up their own action plan to prevent climatic change, the time has come for these ideas to be discussed in the mainstream of international financial affairs. — Daily Telegraph.



**I**F USED to be said that if one Swiss banker saw another jump out of a window, he would instinctively follow as there was sure to be money to be made on the way down. Apocryphal the story may be, but experience shows that limiting it to the Swiss is misleading.

At the annual meetings of the International Monetary Fund and World Bank in Washington this week there were uncanny signs that the herd instinct — perhaps lemming instinct would be more appropriate — among bankers has not diminished. The outcome could be worrying.

The irony is that international banks have never before had at their disposal as many skills or as much information about customers, potential customers and the economies in which they operate. Yet, despite all that, one after another of these banks has become entangled in the \$1.3-trillion of doubtful Third World debt that might never be repaid.

**T**he mystery is that having witnessed the political depredations of governments in South America and Africa that had relatively recently emerged from colonial rule, the banks seemed to think that their economic policies would somehow be more enlightened. Maybe avarice is blind at times to risk assessment.

What emerged in Washington this week was that, having turned their backs on the indigent Third World, the bankers are about to rush their loan officers into liberalising eastern Europe.

The burning question, of course, is whether the banks will in 1998 be shovelling into reserves once again the billions that Third World doubtful debts are costing their shareholders now. Indeed, the enlarged Third

# Once-bitten banks

## now starry-eyed

By Day 28/9/89

# Over eastern Europe



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**NIGEL BRUCE, editor of the Financial Mail, filed this special report for Business Day from the IMF meeting in Washington**

World debt provisions that three large American banks announced last week, the latest in a long line of similar bank provisions, suggest that the lemming instinct has not been retarded. They follow each other in and are following each other out.

Bankers themselves deny that these provisions necessarily mean a withdrawal from the Third World. But the borrowers believe otherwise. Brazilian newspaper headlines screamed this week, after leading American bank J P Morgan had put an additional \$2bn into debt provision: "Morgan is telling us to go to hell."

The reason for the banks' impatience with the Third World is not entirely to do with an inability or unwillingness to repay. The banks themselves have stars

in their eyes over eastern Europe, the Iron Curtain colonies whose economic deprivation just about matches that of the Third World, whose economic prospects were very different a few decades ago when the banks moved in.

**T**hey were still enjoying some of the benefits of sensible colonial rule, especially market orientated economies.

World commodity prices on which they became increasingly dependant were buoyant. They had little debt. And aid flows were substantial.

All this changed during the late '70s and early '80s. And Third World governments avoided the hardship of economic adjustment to these less

affluent circumstances by fixing prices unrealistically, impeding the mobility of resources and getting deeper into debt. And the banks, despite this, continued to lend. Eastern Europe today has none of the early advantages enjoyed — and subsequently squandered — by the Third World. It has at best only a semblance of a market economy. Both prices and outputs are administered haphazardly, thereby giving no reliable indication of supply capability. And it starts out with an already taxing debt burden.

In short, despite having achieved a democratic government, it has still to pay the price of economic adjustment to reducing circumstances that the communist overlords tried to mask behind rationing and subsidies. Western governments, and the aid

agencies, fear that if the unavoidable pain of adjustment is not ameliorated by some financial underpinning of the liberalisation process, it could be aborted — at substantial loss to the West in prestige and trade.

So the International Finance Corporation, the aid affiliate of the World Bank, is ready with offers of joint ventures, privatisation efforts, the development of a capital market and so forth. Indeed, from what the IFC's Sir William Rytie told bankers here this week about the enormity of the problem, bankers should — aid notwithstanding — be viewing eastern Europe with the greatest circumspection. But their enthusiasm is not diminished.

These are their reasons:

The eastern European economic situation is so bad that it cannot get much worse. So substantial recovery is in prospect.

Recovery will be underpinned by the existing skills and traditions of a workforce that is reliable, hardworking and which will respond to a profit motive.

**T**he economies and opportunities of enlarging the Common Market to include eastern Europe, especially after the 1992 economic liberalisation, could create a trading bloc with the ability and wherewithal to rival the US and Japan.

Put that way, the prospects could be attractive. Comparison with the Third World is only partially appropriate. The risk, on the other hand, if it should not come off, could dwarf the banks' losses in the Third World. But if the Third World's experience of fickle bankers is anything to go by — as well as SA's in 1985 — the international banks are not about to forgo either their lemming instincts or eastern Europe.



# Bank urges cut in defence spending

WASHINGTON — World Bank President Barber Conable said on Tuesday the new spirit of East-West détente sweeping through world politics opened up the way for a decade of prosperity and growth.

But he warned that it would be impossible to improve the quality of life unless rich and poor nations cut huge military spending and did more to protect the environment.

"As we begin the new decade, the potential for progress is great," Conable said in a speech to the opening session of the annual World Bank and IMF meeting.

"The political and ideological forces which have polarised the world for half a century are diminishing."

But he said poor nations were spending \$200bn a year on arms. Military budgets

in the mid-1980s outstripped spending on health and education combined and were often a prime reason for large foreign debts.

"All countries have the sovereign right and responsibility to defend themselves," Conable said. "But let us hope that in the changing political climate of the 1990s, resources are increasingly allocated to more productive purposes."

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Developing nations had to adopt sound policies and turn their back on "white elephant projects in industry" and stop diverting scarce resources to luxuries for select groups.

The 1980s, Conable said, had been a painful decade for many developing na-

tions in Latin America and Africa but a new recognition of the pressures that bind countries together and desire for peace augured well for the next decade.

Conable said the World Bank's challenge was to improve the quality of life for hundreds of millions of poor worldwide, overcome stagnation in Africa, poverty in Asia and move beyond the \$400bn debt paralysis of Latin America.

He said international co-operation was essential to reduce the dangers of global warming but industrial nations had to bear the brunt of responsibility since they accounted for 75% of all carbon dioxide emissions.

The bank is planning to lend \$1.3bn over the next few years for projects to protect the environment.

Half of all projects in the past year contained specific components aimed at the environment.

But Conable said the Third World's \$1.3-trillion debt burden represented a major obstacle to development, adding: "We are far from the end of the debt crisis."

He said the Brady Plan, named after US Treasury Secretary Nicholas Brady and concentrating on debt reduction, was a major breakthrough but new solutions continued to be needed for each individual country.

Conable called for more support from the industrial world for the bank's soft loan agency, the International Development Association, and urged donor nations to agree an increase in its resources that at least kept pace with inflation.

"Anything less would let down hundreds of millions of people living in conditions of squalor," he said. — Sapa-Reuter.



IMF AND WORLD BANK MEETINGS

# To a new frontier

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■ This year the focus has shifted from Third-World debtors to Eastern Europe

As leading bankers from most Western countries — as well as some from the Eastern Bloc — arrived in Washington this week for the annual International Monetary Fund (IMF) and World Bank meetings, they took up with enthusiasm the cause of Eastern Europe. Poland in particular needs urgent and immediate financial assistance to underpin economic liberalisation.

Aid to eastern Europe was the subject that dominated the meeting last weekend of the Group of Seven (G7) major industrial nations whose heads of state or government meet annually at economic summits. US Treasury Secretary Nicholas Brady remarked afterwards that the whole meeting became electric when talk began on changes in the USSR and Poland.

Poland, under a fledgling Solidarity government, faces repaying debts of US\$39bn and the inevitable hardship it will face in doing so will certainly require political re-

solve. For unlike highly distorted Third-World economies struggling with similar problems, Poland and other Eastern European countries have first to introduce market economies capable of generating output.

So enthusiastic are Western bankers over the prospect of what they believe to be the enormous economic potential of an enlarged and enlightened Europe — one that could even incorporate Soviet Russia — that the \$508bn middle-income countries (like Mexico, Brazil and Argentina) are expected to owe by year-end raised little response.

There were no new initiatives at this year's meeting — such as the 1985 Baker plan, last year's Japanese plan and the Brady plan — to assist the Third World in making the harsh economic adjustments that will lead ultimately to their being able not only to pay their debts, but enhance their prosperity. The Brady plan envisages a reduction of debt, easier repayments and some new loans

guaranteed by the IMF and World Bank.

Only days before the IMF meeting began some large American banks (JP Morgan was one) increased substantially their provisions for Third-World bad debts. JP Morgan added \$2bn to its reserve and is expected to have a \$1,8bn loss in the third quarter as well as a loss for the year. In doing so it followed closely on the heels of Manufacturers Hanover and Chase Manhattan, both of which had announced earlier substantial but not identical provisions (see *World*).

This has been taken as more than a hint from the banks that not only are they unhappy with the Brady plan — which they regard as Brady's giving away of their resources — but that they do not intend to continue lending to the profligate Third World, or certainly not within the foreseeable future.

Of course, theoretically, the risk of lending to the Eastern Bloc, the fountainhead of



collectivism, could be as high as lending to an incompetent Third World. The difference is that Western bankers see the Eastern Bloc both benefiting from and being incorporated in post-1992 Europe. They have greater confidence, too, in the skills and endurance of eastern Europeans than in many Third-World populations.

So the Brady plan — despite its application to Mexico and one or two other smaller Third-World countries — appears unlikely to gather much momentum in the years immediately ahead. Even if it should be applied to some countries its scope is limited. It will not benefit all. Nor, by its very nature, can it apply to all Third-World countries. For instance, 60% or more of debts in Africa are to institutional or official creditors and not to private-sector banks. With a 40% debt-service ratio African countries are managing to pay only about half the amounts due, re-scheduling the balance or allowing it to fall into arrears.

What could be critical for the IMF and the Third World in the next decade is how the West decides to lend to Eastern Europe. If the IMF wants to be involved — and its MD Michel Camdessus says it does — then an important precedent will have been set from which, because of the amounts most likely to be involved, there could be no turning back. But it could ultimately be to the Third World's advantage by freeing for it more institutionalised credit.

If the IMF becomes the conduit for Western loans to the Eastern Bloc it could, however, jeopardise its role as a world central bank, providing last-resort assistance to countries with balance of payments problems. The fund, which has been inching that way for some years, would become another development agency.

Perceptions of the fund's role in the future are also a matter of controversy in Washington. Some of the industrialised nations see Camdessus' attempts to have members' quotas doubled to meet contingencies, despite the fund's substantial liquidity, as a subtle way of preparing for a substantial change in its role. They believe these resources, provided by taxpayers in the West, could find their way to some profligate Third-World dictatorships where, despite Camdessus' best efforts, they will be squandered.

Fund officials are not themselves averse to its gradually assuming more the role of a development agency. The fund was established 45 years ago to administer the Bretton Woods system of linked exchange rates which lasted until the early Seventies, when most countries decided that floating exchange rates were a more reliable means of achieving economic adjustments than relying on spenthift politicians and recalcitrant central bankers. Since then the fund's traditional role has been slowly changing.

Fund officials fear too that after 1992 and a monetary union in Europe — possibly including the creation of a European Central Bank — the fund's traditional role will become even more circumscribed as fewer in-

dustrialised countries will have a need for balance of payments facilities.

Over the past decade the fund has increasingly become involved in what amounts to development aid — the fund calls it structural adjustment — for which it has more than one programme. This means simply that instead of concentrating on macro-policies of fiscal and monetary restraint, it attempts to use supply-side economic measures over the medium term to make economies more productive and efficient — through, for instance, deregulation, trade liberalisation, and the removal of impediments to the mobility of resources. The trouble is that too often structural adjustment becomes a euphemism for avoiding fiscal and monetary discipline.

The fund has, moreover, allowed some countries to use about 25% of their normal fund assistance to buy back debt at a substantial discount. The net outcome is that the debt of these countries to the private sector is reduced more than their debt to the fund. That is probably a questionable practice.



Camdessus ... Quota proposals in question

Those who do not want to see the fund change its role are, therefore, opposed to its increasing its resources to the extent Camdessus is advocating. But that doesn't mean they oppose any increase. It is the quantum that is causing misgivings. If Camdessus' recommendation were accepted members would be able to draw up to 400% of a much enlarged facility at a time when inflationary pressures, even in industrial countries, were on the increase.

There are other reasons for the US and UK not wanting such a large quota increase. It would most likely mean that Japan would become the second largest shareholder after the US with Britain falling to a shared third place with France. Both argue that Britain's experience in international financial matters should be worth more than Japan's money. This follows the rejection last year of a Japanese plan to assist Third-World debtor

nations. The US is just too suspicious of Japanese motives.

These developments suggest a growing politicisation of the fund's affairs so far as members (not officials) are concerned. The irony is that most of those who want to assist Poland, because it is moving towards the West, also oppose a large quota increase and a change in the fund's traditional role. They are also against the fund giving further assistance to China since its recent Beijing massacre.

The US's insistence on Brady-type aid to Mexico has more to do with the US's Latin American regional policy than anything else. And, of course, the block that the US has effectively placed on SA's use of standby fund facilities is a political act. It has simply required its ambassador to refer any vote on SA's access to these facilities

to Congress, thus ensuring what would amount to an emotional and unreasonable Congressional discussion.

A change in the role of the fund is probably inevitable. It is a fact of life that today industrialised nations need its traditional facilities much less than in the past. It is just as true that banks are unlikely to lend again in the decades immediately ahead to the Third World. The debt of more than 70 developing countries is now subject to re-scheduling arrangements. Clearly the only capital facilities available to the Third World are going to be from institutions like the World Bank and IMF.

But it would also be premature to begin dismissing the traditional role of the fund. Even if these facilities are progressively less in need, they could be critical in an uncertain world. Nor does the short-term and revolving nature of the fund's facilities fit easily into the financing of an institution whose function it is to promote structural adjustment and development. There is a danger that the financial integrity of both would be jeopardised. Certainly there could be tensions over confused objectives and differing ideas of priorities which in one organisation could create tension that is more destructive than creative. There is already intimation of that in the fund's annual report where it deals with its relationship with the World Bank.

It is possible, too, that if there is an economic revival in Eastern Europe the role of the fund could be shaped by the Soviet Union wishing to join. But that is a question, should it arise, needing very careful consideration by the shareholders.

Clearly it is going to be many years before SA will be able to use the facilities of the fund to which it is entitled or play the part that it once did in the fund's affairs. But its limited and dignified participation does keep open some encouraging options, especially as its adherence to the enforced debt rescheduling has impressed many bankers in the US, UK and on the Continent.

Nigel Bruce, writing from Washington



# No room for the poor in the golden 1990s

**NEW YORK** — This year's annual meeting of the International Monetary Fund and World Bank ended yesterday in a new spirit of optimism.

Policy makers from the industrialised countries appear increasingly convinced that the spread of market-oriented economic policies throughout the world and a new industrial revolution, linked to the use of computer technology, may be creating a new era of sustained growth.

But the belief that the 1990s may be a golden age for the developed world has thrown the problems of the heavily indebted and poorest developing countries into sharp relief.

Mr Jacques Attali, the special adviser of French President Francois Mitterrand, summed up the mood of many when he told a private seminar on the world economy: "We are at the beginning of a long term period of growth worldwide".

According to Mr Jacob Frenkel, head of the IMF's research department, the average growth potential is now around 3 per cent, about one percentage point higher than in the 1970s.

It was left to Mr Barber Conable, the World Bank president, to remind the IMF annual meeting that the development needs of the 1990s will be enormous.

The world, he said, had to overcome stagnation in Africa, to move beyond debt paralysis in Latin America and elsewhere, to offer growth and hope to Asia's hundreds of millions of

**PETER NORMAN**

poor people, to assist reform and renewal in countries moving away from centrally planned economies and to reverse the degradation of developing countries' natural resources.

Despite buoyant world trade, eight years of growth in the industrialised world had not trickled down to many developing nations. The growing gap between the rich and poor nations may thus become the central issue for economic policy makers in the 1990s.

The catalogue of woes facing Poland were typical of many countries. Unveiling his dramatic plan to move towards a market based economy, Mr Leszek Balcerowicz, the Polish Finance Minister, said that average living standards in Poland were below those of 10 years ago.

## Polish poverty

He said the number of people living below the poverty line had risen sharply. The ecological crisis in parts of the country was catastrophic. Hyper-inflation threatened social stability while industrial production was declining.

Free market economic policies may have been instrumental in boosting the economic welfare of the industrialised countries. But they are a harsh taskmaster.

As the industrialised nations continue to grow, it will become

increasingly difficult for debtor nations to catch up.

In terms of gross national product, Japan's economy already dwarfs that of Africa. West Germany's is larger than that of India, whose population is ten times greater.

Yet this year's annual meetings offered little to the poor. The debt reduction plan of Mr Nicholas Brady, the US Treasury Secretary, is beset with problems of implementation.

There was no willingness on the part of governments to extend the so-called Toronto terms of official debt relief to poor countries outside Africa.

The US blocked a replenishment of funds for the International Development Association, the World Bank's soft loan affiliate, that provides concessional finance for the poorest developing nations.

It is debatable whether the gulf in living standards between the industrialised and developing world can continue without social breakdown.

Information crosses national borders as never before, boosting expectations and hopes and triggering emigration from the poor nations to the industrial countries. Countries with grave economic difficulties could face public order problems.

Mr Balcerowicz, for example, stressed that the hardships that will be unavoidable under the new Polish government's economic reform programme could sap the government's popular support and create potentially



**TRAGEDY:** Thousands if not millions starve in Africa and no one can help.

explosive social conditions.

One positive aspect of the past week's discussions is that longer term issues such as demographic change are getting on to the agenda of policy makers in the world's leading industrialised countries.

After many years in which policy co-ordination appeared to focus on crisis management, this year's discussions also encompassed broader questions such as the low level of savings world-wide and the consequent threat of a shortage of funds for investment.

But there was also a clear understanding that policy co-operation, while essential in an interdependent world, is no substitute for sound economic policies at home.

Nowhere is this truer than in the developing world where many countries still have to attack corruption and inefficiency.

— Financial Times.



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## World Bank points the way for Africa

KAMPALA — For African countries wary of embracing hardline capitalism or socialism, the World Bank has identified another development route — the Nordic way.

The bank noted many African governments have been reappraising the state's role in their economies.

"In the past the thinking of African policymakers has been dominated by the dichotomy between capitalist and socialist development models," it said in a report issued this month. But: "The Nordic development paradigm offers an alternative development model ..."

Countries such as Angola, Mozambique and Ethiopia appear already to have moved towards the Nordic option, softening their formerly hardline Marxist policies to give market forces a greater role in the economy.

"A root cause of weak economic performance in the past has been the failure of public institutions," remarked the World Bank in its report, *Sub-Saharan Africa: From Crisis to Sustainable Development*.

By 1987, it noted, the sub-Saharan region of 450-million people could muster an annual economic output of around only \$135bn, as measured by GDP.

About 30 countries of the Sahara had incomes per person ranging between \$130 and \$450 a year, and only four boasted per capita incomes of more than \$1 000.

Yet, in the mid-1800s the Nordic countries — Denmark, Norway, Sweden, Finland and Iceland — also had low incomes and agrarian economies.

But in 1987, the five had transformed their societies into modern industrial economies with average per capita income of \$19 670, slightly above Japan and the US.

"Their success resulted from a social market economy with its combination of free-enterprise economic policies and active social policies," the bank said. — Sapa-Reuter.

## Shipments of copper from Zambia fall

DAR ES SALAAM — Zambian metal shipments, mainly copper, through this Tanzanian port fell to 11 000 tons in the week to yesterday from 19 800t previously, shipping agents said. (356)

Copper shipments through Dar es Salaam are expected to reach 45 000t this month, below 48 170t in October but well above the port's average of 35 000t, they said.

Traffic on the Tanzania-Zambia (Tazara) railway was heavy in the week and 10 000t of fertiliser awaiting shipment to Zambia was cleared, the agents said.

Tazara faces an acute shortage of serviceable rolling stock.

Port officials said up to 16 102t of exports from Zaire, Burundi and Malawi were handled in the week, up from 11 810t. Imports reached 17 904t in the same period, from 16 700t.

The amount of general cargo awaiting shipment inland fell to 20 000t from 35 000t the previous week, while the stockpile of containers rose to 500 from 420.

Zambia's drive to move more cargo to and from the coast by road slowed down due to frequent breakdowns on the poorly maintained Tanzania-Zambia highway.

Four 35t trucks crossed the border into Tanzania, down from 12 last week. — Reuter.

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WORLD BANK

1990.



BEDEVILLED by wars, corruption, mismanagement and a burgeoning population, Africa is ending a decade of economic decline and facing what some experts say could be a "nightmare scenario" in the 1990s.

The nightmare: increased hunger, disease, poverty and conflict on a continent already desperately poor and largely unable to survive on its own without massive doses of foreign aid.

While warning of possible new violence elsewhere, many observers predict an end to war in the coming decade in Mozambique, Ethiopia, Sudan and other embattled African countries as combatants fight to stalemate and exhaustion.

Namibia ended the 1980s with an election for a constitutional assembly and will enter the world of independent nations in the coming year. Peace also seems closer in neighbouring Angola. And SA, which has long meddled in both those countries, appears to be changing some of its contentious policies.

But, with the exception of SA, the

# Africa faces 'nightmare scenario'

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REID MILLER  
in Nairobi

possibility of greater stability in those countries will not automatically bring prosperity to them, or to the vast continent as a whole, say economists for the World Bank and other institutions.

The 46 countries of sub-Saharan Africa — a region of 450-million people that includes all of the continent's nations except Morocco, Algeria, Tunisia, Libya, Egypt and SA — had a combined gross domestic product in 1987 of about \$135bn.

## Solution

That was about the same as Belgium, with a population of only 10-million.

The comparison, as well as any, illustrates the depths of poverty from which most African nations are struggling to emerge, only in many cases, to slip deeper and deeper into

debt and deprivation.

The World Bank, in a study that took nearly three years to complete and was released in late November, says there is a solution for Africa — one that depends largely on Africans themselves and calls for a sharp reversal of past practices.

The bank blames many of Africa's problems on corruption, poor government marked by bureaucratic bungling, and misguided economic practices rooted in Marxist-Leninist theory. All that, it says, must end.

It is perhaps the bluntest assessment the bank has ever made of any of the world's economies, but it may have been far easier and faster to

write than the suggested changes will be in coming to a continent whose rulers have too often equated power with plunder.

The World Bank and others have also stressed the need for a sharp reduction in Africa's birth rate. At 3.2% it is the highest ever seen anywhere in the world and one that inexorably accelerates pressures for land, food and jobs, and threatens new internal and cross-border conflicts.

## Fertility

The population of sub-Saharan Africa in 1965 was only half the 450-million it is now and if current trends continue it will double again to 1-billion in 20 years.

The World Bank estimates that even if fertility fell tomorrow to two children for each African family, the

continent's population would still grow for the next 60 to 70 years.

"No region of the world has ever managed to develop with so high a rate of population growth," the bank says.

Even in those countries where peace has arrived or is on the horizon, it is likely to take most of the new decade to revive their war-shattered economies, given optimum circumstances. Some have fallen just 10 years behind in the development process, but 20 or 30.

The World Bank's prescription for Africa calls for increased aid of about 4% a year through the 1990s from the developed nations. But many African politicians and planners worry that East European countries will siphon off aid dollars.

As if those problems weren't enough, a new peril arose in the 1980s: AIDS. Health authorities estimate that 1.5-million to 2-million Africans, mostly young adults, will die of AIDS in the 1990s, draining the continent's shallow pool of skilled workers. — AP-DI.



## Aid to Africa 'could benefit SA'

THE increasing funds being allocated by international aid organisations for infrastructural development in Third World countries offered SA's building and construction sectors many new opportunities.

This was the view of Saito research manager Paresh Pandya who said aid programmes amounted to many billions of dollars.

The World Bank alone had budgeted \$21.4bn for it in the current fiscal year.

Aid recipients include southern African countries where SA has a distinct geographical advantage as a foreign supplier and business partner.

Pandya said the most serious obstacle to Third World development was lack of foreign exchange.

It was this, rather than politics, that stood in the way of a major improvement

ZILLA EFRAT

in SA's business with southern Africa, he said. 810 am 16/11/9

On average, imports account for about 40% of the costs of infrastructural development projects and aid programmes aim to circumvent foreign exchange shortages. Aid from the World Bank may only be used to finance imports.

Pandya said SA businessmen lacked information on these aid programmes and were thus unaware of the possibilities they offered.

He said he was researching what these projects could offer SA.

His research would also examine the procedures to follow in order to be included as a potential supplier of services and goods in the programmes.



# Africa must reform or face economic ruin

star 25/11/90 356

HARARE — The World Bank has urged Africa to apply hard reforms over the next decade to avoid economic ruin.

"Africa will have to continue making tough decisions to improve its economic performance," said Edward Jaycox, World Bank vice president responsible for African affairs.

"It's not going to be an easy decade," Jaycox said during a visit to Zimbabwe this week.

He suggested African states improve agriculture, control population growth, ease controls on small businesses, set realistic exchange rates, integrate their economies and democratise their political systems.

"The cure need not be as bad as the disease provided you get to it early and you get to the root of

it," he told the local branch of the Society for International Development, an independent think-tank on development issues.

Agriculture -- which provided employment to some 80 percent of Africans and accounted for up to 50 percent of Gross National Product -- had been neglected, Jaycox said.

As a result the continent, once a net food producer, now imported up to 25 percent of its food requirements every year.

"If this sector doesn't work, then nothing will work," Jaycox told the meeting.

He said that grain output lagged behind population growth, noting that at current rates of expansion, Africa would have 2.5 billion people in the next century, up from 600 million now. — Sapa-  
Reuter.



# World Bank loans to SADCC to double

B10  
26/11/90

MICHAEL HARTNACK

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**HARARE** — The World Bank will double its lending to the nine member states of the Southern African Development Co-ordination Conference (SADCC) to more than R3,8bn over the next five years, bank vice-president for Africa Edward Jaycox announced.

Jaycox dismissed suggestions that recent developments in Eastern Europe would divert aid from SA's neighbours as they struggled to recover from "Africa's lost decade of development".

Jaycox expressed frustration about the pace of the long-awaited liberalisation of Zimbabwe's heavily controlled economy.

But he said the World bank appreciated President Robert Mugabe's government was "going through an important political process" (of consensus building about reform).

"One thing we have learned to our cost in some Latin American countries, and even in Zambia, is that any reform programme must have national backing," Jaycox said.

He was referring to the Copperbelt food riots which forced President Kenneth Kaunda to abandon a World Bank programme in 1988.

Meanwhile, the latest victims of Zimbabwe's transport crisis stemming from a critical shortage of foreign exchange for spares and new equipment have been local producers and consumers of dairy produce.

While thousands of Zimbabwean children suffer from malnutrition, dairymen have been forced to dump 400 000 litres of milk since the beginning of the month because the parastatal dairy marketing board has been unable to collect and process it.



# Africa must get itself together - World Bank

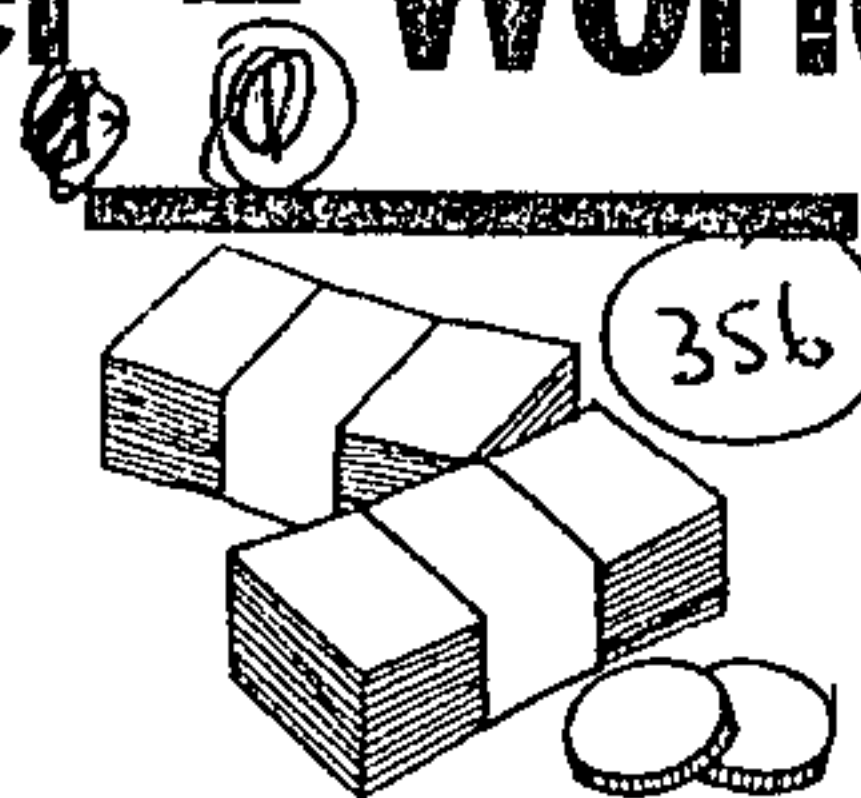
REFORM is the most fashionable word in international politics.

Europe is in the throes of the greatest reform since the Second World War. The waves of reform are even pounding at the gates of the mighty Kremlin.

And this week Africa received a dire warning from the World Bank: reform or face economic ruin within 10 years.

It is ironic that the reforms which are taking place in Eastern Europe and the Soviet Union are, in many ways bad for economic reform in Africa.

West Germany, for instance, is the largest exporter of capital in Europe. Now, with the prospect of reunification with East Germany, there is little doubt most of this capital will go there. What is left will probably go to Poland, Hungary or other Eastern bloc nations, as



## MONEY TALK

Eastern Europe offers very exciting investment opportunities.

Against this background Edward Jaycox, World Bank vice-president for African affairs, issued his stern warning to the Harare branch of the Society for International Development. His views carry weight as the bank will be the main lifeline for Africa while Europe turns inwards during the nineties.

The gross neglect of agriculture in Africa is obviously a great source of concern. "If this sec-

tor doesn't work, nothing will work," said Jaycox, pointing out that agriculture provided 80 percent of the jobs on the continent. However, due to the neglect Africa today has to import 25 percent of the food needed to feed its 600 million people while its population grows at an explosive rate.

What is the World Bank's advice to Africa for survival in the Nineties?

Jaycox suggests the following:

- Integrate many of the continent's economies and democratise political systems;
- Control population growth;
- Improve agriculture to feed the masses;
- Ease controls on small businesses; and
- Set realistic exchange rates.

CIP/NO 28/11/90



## Zambia agrees to austerity deal

LUSAKA — Zambia has reached agreement with the IMF and the World Bank on an economic austerity programme, says a government report.

Edward Jaycox, World Bank vice-president for Africa, said last week the Bank and the IMF were happy with Zambia's economic reforms, introduced three years ago after the collapse of an earlier IMF-backed austerity package.

The programme includes devaluation, cuts in public spending and food subsidies and tightening money supply.

A two-tier foreign exchange rate to en-

courage exports and increase hard currency earnings will be introduced.

Zambia, crippled by a \$7 billion foreign debt, which includes \$1 billion in repayment arrears to the two institutions, needs the blessing of the World Bank and the IMF to persuade other donors to back the programme.

"We are quite satisfied with where the government is on the issues we were negotiating," said Mr Jaycox.

Zambian finance officials will meet potential creditor countries in Paris in April. — Sapa-Reuter

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## World Bank to give \$5bn to aid reform

WARSAW — The World Bank is likely to pump more than \$5bn into Eastern Europe over the next three years, bank chief Barber Conable said yesterday.

Signing agreements granting the bank's first loans to Poland, totalling \$360m, Conable said they were to support the switch from communism to free market economics.

They would help transform economic structures, banking, industry and debt management and boost environment protection.

"You can count on the World Bank in the tough times ahead, not just in the first euphoric moments of change," Conable said in a speech prepared for delivery at the signing ceremony.

"I anticipate that the Bank will lend over \$5bn to our current Eastern European borrowers over the next three years — up to \$2.5bn for Poland."

Other East European countries who are not members of the World Bank might also receive loans if they joined, but needy nations in the rest of the world would not suffer as a result, Conable said.

"None of the World Bank's financial support for Eastern European countries will come at the expense of poor countries — or at the expense of any of our borrowers," he said.

The two loan agreements for Poland include \$260m for industrial export development and \$100m to boost exports of processed food. — Sapa-Reuter.

## US Air Force

WASHINGTON — The US Air Force (USAF) spent \$27bn more than it said it did on its main fighter and bomber fleets, according to audit results published in the Washington Post yesterday.

The USAF also mismanaged its record keeping so badly that it bought \$18bn in unneeded equipment, according to the audit.

The newspaper said it got a draft of the investigation, conducted over three years by more than 100 auditors from the General Accounting Office (GAO), the congressional watchdog agency.

The USAF issued a statement in response to the Post article saying it "has serious disagreements with both the contents of the draft report and GAO's handling of the audit".

The Post said the audit found that the USAF understated by more than \$27bn the costs of four major aircraft systems — the B-1B and B-52 bombers and F-15 and F-16 fighters — between 1975 and 1988.

The audit also found that records tracking about \$40bn in inventory were often inaccurate.

In one case, this led the Defence Department to buy \$18bn worth of items it did not need.



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**By Robyn Chalmers**

aimed at circumventing the problems posed by shortages of foreign exchange. In fact,

the foreign aid supplied by the World Bank may only be used to finance imports."

**R1 equals**

**One foreign unit  
equals (R) 100**

|                     | 23/02/90 | 23/02/89 | 23/02/90 | 23/02/89 |
|---------------------|----------|----------|----------|----------|
| US \$ .....         | 0.3927   | 0.4018   | 2.5463   | 2.4888   |
| UK £ .....          | 0.2301   | 0.2291   | 4.3485   | 4.3659   |
| Deutschemark .....  | 0.6600   | 0.7358   | 1.5151   | 1.3591   |
| Japanese yen .....  | 57.595   | 50.740   | 0.0174   | 0.0197   |
| Swiss franc .....   | 0.5796   | 0.6285   | 1.7253   | 1.5911   |
| French franc .....  | 2.2339   | 2.5109   | 0.4477   | 0.3883   |
| Canadian \$ .....   | 0.4708   | 0.4801   | 2.1240   | 2.0829   |
| Italian lira .....  | 487.40   | 541.06   | 0.0021   | 0.0019   |
| Zimbabwean \$ ..... | 0.8933   | 0.7888   | 1.1194   | 1.2678   |
| Australian \$ ..... | 0.5151   | 0.4863   | 1.9414   | 2.0563   |

Trade weighted value of rand, % change against 1974 base 40/80

## MONEY MARKET

|                                      | Friday<br>23/02/80 | Friday<br>16/02/80 | Friday<br>09/02/80 |
|--------------------------------------|--------------------|--------------------|--------------------|
|                                      | %                  | %                  | %                  |
| SARB accommodation: rediscount       |                    |                    |                    |
| rate TBs .....                       | 18.00              | 18.00              | 18.00              |
| Treasury bill tender rate .....      | 18.01              | 18.01              | 18.00              |
| Basic call of discount houses .....  | 18.25              | 18.75              | 19.25              |
| Three-month banker acceptances ..... | 18.45              | 18.45              | 18.55              |
| Three-month NCDs .....               | 19.80              | 19.90              | 20.00              |
| Three-year RSA stock .....           | 15.65              | 15.80              | 15.49              |
| Prime overdraft rate .....           | 21.00              | 21.00              | 21.00              |
| All-in yield of finest acceptance    |                    |                    |                    |
| credits .....                        | 19.55              | 19.49              | 19.65              |

## CAPITAL MARKET

## SECONDARY MARKET

## RATES ON MOST TRADED STOCKS

|                              | Average<br>Previous<br>Month | As on<br>Friday |
|------------------------------|------------------------------|-----------------|
| Long-term RSA stocks .....   | 15.53                        | 16.73           |
| Long-term Escom stocks ..... | 15.34                        | 16.53           |

Av . . . Av . . . Av

|                      | % Mv | D/Y  | E/Y  |
|----------------------|------|------|------|
| Manganese .....      | 4.2+ | 8.1  | 14.5 |
| Coal .....           | 3.9+ | 7.3  | 20.0 |
| Fishing .....        | 1.6+ | 14.5 | 17.9 |
| Transportation ..... | 1.2+ | 7.9  | 21.8 |
| Property Trust ..... | 0.9+ | 9.5  | 9.5  |

**"Foreign aid is specifically**



# US lists proviso before joining bank

WASHINGTON — The US will not join a proposed European Development Bank if the bulk of its resources are committed to shoring up the Soviet Union's flagging economy, according to US Treasury Secretary Nicholas Brady.

"We do not want to be part of the bank if a major part of its resources are devoted to Soviet lending," Brady said in testimony before a House of Representatives sub-committee on Wednesday.

Soviet Finance Minister Valentin Pavlov, meeting US officials in Washington this week, said the Soviet Union would not swallow up the bank's resources and it would be unfair to single out Moscow because of

the size of the Soviet economy.

"We have no intention of joining the bank just to swallow its capital," Pavlov said through an interpreter.

The US is currently holding talks with its European allies on taking a stake in the bank.

Brady said lending to the Soviet Union should reflect the amount of money Moscow puts in the project.

The idea of creating a bank to help the Eastern countries refloat their economies was first proposed by French President Francois Mitterrand last year.

If the US does join the bank it would take a shareholding of between 8% and 10%, Brady said.

He hinted the US could demon-

strate support for Eastern Europe through the World Bank if it did not join the European project.

However, he also indicated he was currently at odds with World Bank President Barber Conable over lending to China other than for projects related to "human needs".

The World Bank recently extended its first loans to China since a bloody crackdown last June on a student-led reform movement.

"We have voted for a total of \$90m of loans on the basis of human needs. We are against loans that do not qualify and we have made this point very clear to Mr Conable," Brady added. — Sapa-Reuter



# Third World aid spin-offs for SA

By Robyn Chalmers

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THE World Bank's allocation of \$3,8-billion to Africa for infrastructural development in the 1989/90 fiscal year could have major spin-offs for SA. *SITimes 25/3/90*

SA Foreign Trade Organisation (Safro) research manager Paresh Pandya believes SA will benefit handsomely from this and other money allocated by international aid organisations to Third World countries.

"New opportunities for SA civil engineers, building contractors and project engineers are emerging as a result of the increasing amount of finance being given by these organisations.

"The aid is mainly for projects covering rural development, energy, health services, industry, mining, transport, telecommunications, urban development and water supply."

The most serious obstacle to infrastructural development in the Third World is the lack of foreign exchange. On average, Mr Pandya says about 40% of expenditure on

infrastructural projects is on imports.

Without the necessary foreign exchange to pay for these imports, he says, such development is virtually impossible.

Mr Pandya says that, contrary to popular belief, the most serious obstacle to SA stepping up economic relations with the rest of southern Africa is not politics but a shortage of foreign exchange.

"Foreign aid is specifically aimed at circumventing the problems posed by shortages of foreign exchange. In fact, the foreign aid supplied by the World Bank may be used only to finance imports."

While foreign aid in southern Africa presents major opportunities for SA, Mr Pandya says local businessmen are as yet unaware of the possibilities.

The World Bank is one of a number of organisations he is investigating. Similar research will be conducted to identify opportunities for SA suppliers of educational and related products.



DE KLERK

# boosts tourism in Cape

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## MORE FOREIGN VISITORS EXPECTED IN SA AFTER FW'S SPEECH

**TOURISM** authorities and economists are expecting a significant increase in the number of foreign visitors because of President De Klerk's speech in Parliament a week ago.

Captour chairman Louis Kreiner says an increase of at least 30% in foreign visitors can be expected this year over last year, when a total of 218 000 tourists came to South Africa.

After the disclosure that South Africa's foreign exchange reserves have already increased by R1,5 bn this month comes news of "very positive" indications that President De Klerk's speech at the opening of Parliament last week has given a significant boost to tourism prospects. **ROGER WILLIAMS** re-

ports.

"With a fast-increasing proportion of foreign visitors coming to the Cape, we must lose no time in getting our accommodation act together in this region," he says.

"We already have excellent hotel booking figures right up to the end of April and we must ensure now that our tourism infrastructure is capable of coping with what could be a significant increase in the in-

Spencer Thomas, chief executive of Satour, says from Pretoria the corporation has had "very positive" feed-back from its overseas offices "and the indications are that we can expect a significant increase in the volume of visitors from abroad this year".

### Laboured so long

"Our marketing atmosphere has never been better, with positive perceptions of this country replacing the very negative image with which we have laboured for years."

And Professor Brian Kantor, director of the school of economics at UCT, says: "As long as we don't have violence, there is every reason to believe the De Klerk speech is going to open the tourism doors wider than ever."

"And what one would like to see now is the international hotel groups investing in this country."

Dr Okkie Stuart, director of the Bureau for Economic Research at the University of Stellenbosch, predicts that the

reaction from British Prime Minister Margaret Thatcher, will boost the inflow of tourists from Britain in particular.

### Improved image

Stuart says President De Klerk's moves could, and should, impact "very favourably" on the economy generally, in the long-term.

South Africa's improved image, he adds, should make it easier for exporters to find markets, and it will also make it

"The balance of payments situation may thus improve and the external value of the rand may become more stable."

Stuart says internal tensions may, for a while, run high and the need for a bigger police force will become clear. Fortunately, though, matters which were formerly handled by the army will now be dealt with by the police and the judicial system — and this should also bolster confidence.

"And economic prosper-



# World Bank lending declines by \$600m

WASHINGTON — Lending by the World Bank, the biggest source of aid to the Third World, has declined in the past 12 months for the first time since 1985, the bank reported yesterday.

The drop was due partly to reduced loans to China after its military stopped a pro-democracy movement.

Figures for the bank's year, which runs from July 1 to June 30, were made public by operations senior vice president Moeen Qureshi.

New loans for the year just ended came to \$20.7bn — \$600m less than the \$21.3bn of the year before.

Loans to China dropped by more than \$700 000, falling to \$590m from \$1.3bn in the year before the suppression of the democracy movement.

Just after the Chinese government deployed its military forces against demonstrators, Bank President Barber Conable withdrew \$780m worth of loans for China from consideration.

Then US President George Bush asked the bank to halt loans to China. Later there was international agreement that new loans should be limited to basic human needs.

81 Dec 6 17 90 Displaced

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The past year also brought a large drop in World Bank lending to India, where loans fell to \$1.9bn from \$3bn the year before. But bank officials said that was a coincidence and not the result of policy.

Mexico displaced India as the biggest borrower, taking \$2.6bn compared with \$2.2bn the year before.

Lending by the bank had been rising steadily and is expected to increase again in the next 12 months.

The bank is now playing a much bigger role in what used to be considered the "Second World", European countries that have been under communist rule.

At a news conference last week, Qureshi said: "We have initiated lending to Poland for a total of some \$780m this fiscal year ... and have continued our programmes in Hungary.

"We are preparing support programs for Bulgaria and Czechoslovakia, both of which are expected to become bank members in the coming year, and are ready to resume our activities in Romania."

Treasury Secretary Nicholas Brady spoke recently of creating some tie between the Soviets, the bank and its sister organisation, the IMF.

The Soviet Union will be a member of the new European Bank for Reconstruction and Development, but for three years will be able to borrow only as much as it contributes in the form of paid-in capital. — Sapa-AP.



## Drop in World Bank lending (356)

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New loans for the year just ended came to \$20.7-billion. That was \$600-million less than the \$21.3-billion of the year before. *WMA 6/7/90*

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Mexico displaced India as the biggest borrower, taking \$2.6-billion compared with \$2.2-billion in the previous year.

— Sapa-AP



# Africa beckons

THE World Bank is keen on South African civil engineering and construction companies working in the rest of Africa.

But SA entrepreneurs must look for the work, says Foreign Trade Organisation executive Paresh Pandya.

The World Bank "sees SA playing an important role in the development of Southern Africa, creating major new opportunities for our entrepreneurs".

Mr Pandya has completed a multi-client report identifying business opportunities for SA companies. He visited international aid agencies in Europe, including the World Bank.

The report is aimed at civil engineering consultants, building and construction companies, architects, machine and equipment suppliers and environmental engineers.

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# Reduce poverty or forego aid — World Bank

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Own Correspondent

WASHINGTON. — Third World countries must reduce poverty or face losing World Bank aid, the development body warns in its latest report, released yesterday.

The warning follows a study revealing that more than one billion people worldwide live on less than 60 pence a day, the World Bank's poverty line, and is the first such threat by the world's largest development body.

World Bank president Mr Barber Conable says in the report that poverty increased in much of black Africa and South America in the '80s.

Africa is projected to double its share of the world's poor from 180m people — or 16% — in 1985 to 265m — or 32% — by the end of the century, the report says. In Sub-Saharan Africa, poverty is expected to worsen because of population increases. The increases will negate a projected economic growth rate of 3.7%.

These figures contrast with a sharp decline in poverty worldwide, dropping from 1.1bn poor to 825m by the end of the century.

Poverty could be reduced by promoting economic growth through policies that harness market incentives and encourage the private sector. At the same time governments should provide education and health care to ensure that people are skilled and well enough to work, says the report. — Daily Telegraph

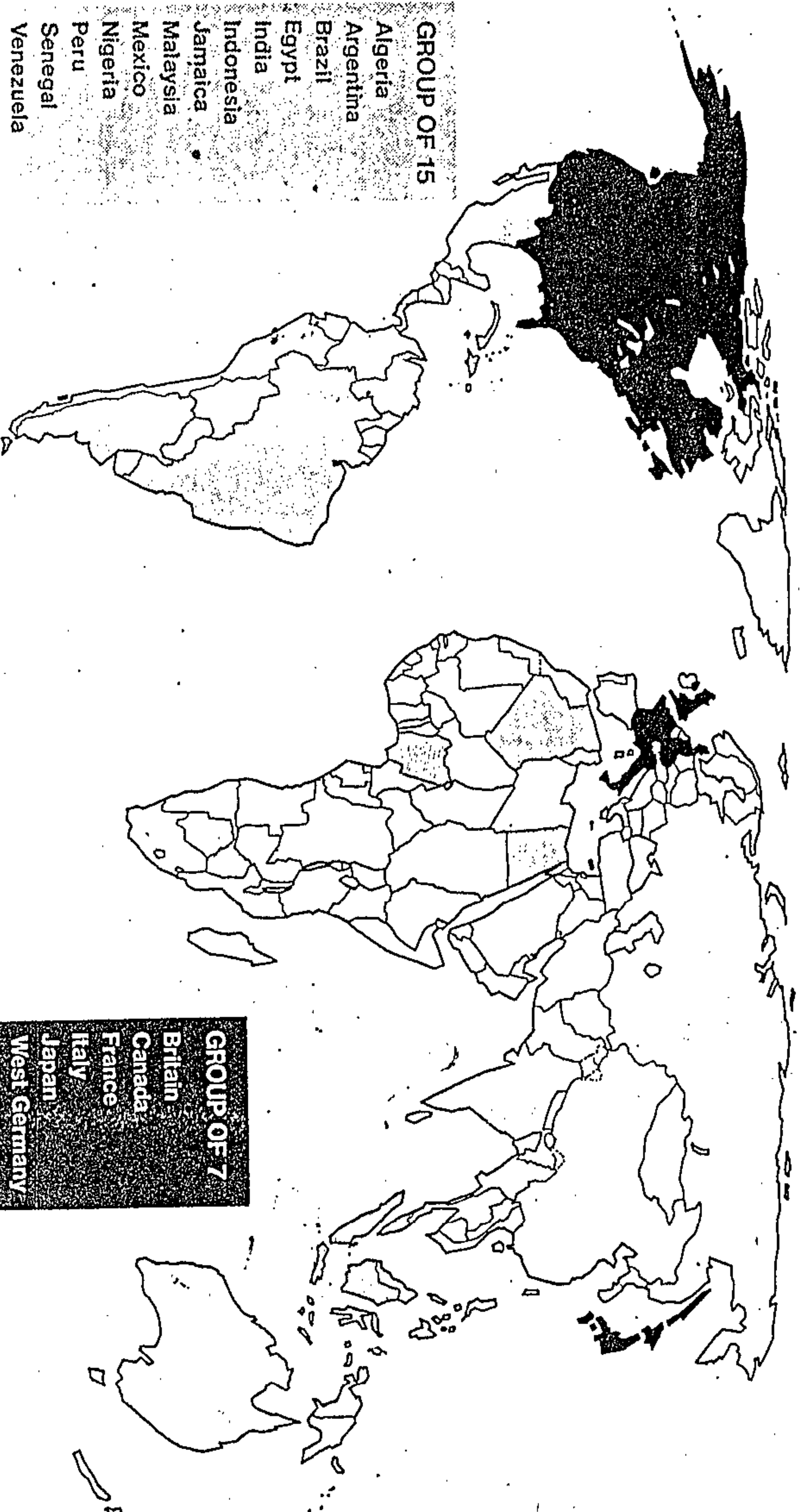


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- GROUP OF 15**
- Algeria
  - Argentina
  - Brazil
  - Egypt
  - India
  - Indonesia
  - Jamaica
  - Malaysia
  - Mexico
  - Nigeria
  - Peru
  - Senegal
  - Venezuela
  - Yugoslavia
  - Zimbabwe

- GROUP OF 7**
- Britain
  - Canada
  - France
  - Italy
  - Japan
  - West Germany
  - United States





w/E Mail

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# Economic recovery in the Third World impossible without stable export prices

EARLIER this year the United Nations General Assembly adopted a special declaration on "international economic co-operation and development" for the 1990s. Not surprisingly the UN reflected the predominance of less developed countries in its make up by calling for more economic aid, especially for "marginalised countries", and for stability of international commodity prices.

Similar policy prescriptions have been put forward on behalf of Third World countries for decades. But even a few years ago a Third World economist would have been surprised to see the UN also calling for countries "to adapt their national policies to facilitate open exchange and flexible responses to the changing world economy".

The acceptance of free market international relations and anti-statist domestic reform in the statement, and in the UN's 1990 World Economic Survey reflects major changes in the world economy in the 1980s, and changes in perceptions of development economists.

When the World Bank's 1981 Berg Report on accelerated development in sub-Saharan Africa called for the opening of African economies to the free market it was widely met with scepticism, and the suspicion that it only reflected the interests of the capitalist economies.

Each time the International Monetary Fund (IMF) imposed a "structural adjustment programme" on recipients of emergency loans, many economists suspected the conditions on cutting the role of the state in the economy, and loosening exchange and trade controls, were designed to serve the interests of the economies that control the IMF.

Many thought freer trade and money flows, and weaker state intervention would simply benefit the West's transnational banks and corporations. The economic power of rich countries and big corporations was being strengthened at the expense of the poor country that went to the IMF for assistance, it seemed.

But the wider acceptance today of freer international economic relations

Changed policies are not enough to stimulate the economies of poorer countries, says the United Nations in its 1990 World Economic Survey. **ALAN HIRSCH** examines how the advanced industrial democracies will have to adapt to help the Third World

and more subtle economic roles for government does not only come from the recognition that these policies have helped regenerate some Third World economies. It also comes from consideration of developments in the advanced capitalist economies and in the socialist economies of Europe and Asia.

Ironically, the greatest threat to free international exchange in the 1990s would seem to come, not from Third World protectionism, but from the advanced capitalist economies. The UN report reflects this in terms of the debate between "multilateralism" and "bilateralism" in world trade.

General Agreement on Tariffs and Trade (GATT) is the organ of multilateral trade agreements. GATT was formed at the end of World War II in recognition of the role played by the collapse of world trade in the Great Depression of the 1930s. At first it was a relatively small club of industrialised countries backing freer world trade, but it now has scores of Third World and socialist country members. The Soviet Union has observer status in GATT.

GATT is currently reaching the end of the four-year Uruguay Round of negotiations, the seventh series, and the most ambitious. Previously, agricultural trade and trade in services and intellectual property were not covered by GATT agreements.

Points of contention in GATT negotiations include: American proposals to target anti-dumping measures (dumping is selling off exports at uneconomically low prices) against particular countries, opposed by the newly industrialised countries; European ob-

jections to American proposals to eliminate all agricultural subsidies over 10 years; and the resistance of industrialised countries to eliminating duties on "tropical products" and textiles, which fall under a separate Multifibre Agreement.

But the major threat to GATT seems to come from developments outside the negotiations. Bilateral trade agreements between the United States and Canada, Mexico, and Israel, and the strengthening of economic links within the European Community, are seen by many Third World countries as potential threats to freer world trade. The UN report notes that there is some dispute as to whether bilateral trade agreements complement or substitute multilateral agreements under GATT.

Another factor underwriting the UN's support for economic restructuring and freer trade is the admission of the socialist countries that their policies have failed. The report sets aside a special chapter on "Inflation, stabilisation and reform" in the socialist countries, which concludes that the inflation currently experienced there reflects economic imbalances in their economies that derive from years of resisting the use of price mechanisms. It warns, however, that moving too far and too fast could "undermine key features of stability in socialist economies".

While the UN's Economic Survey recognises the recovery made by the advanced capitalist economies in the 1980s, it indicates concern that, in their desire to hold on to what they have achieved, industrialised countries might not pull the weaker Third World economies along with them.

The desire of the industrialised countries to avert a new round of inflation edges them towards a policy of relatively slow growth, rather than the rapid growth that would raise the receipts of Third World commodity-exporting countries.

Also, declining aid donations from the United States and the reluctance of private banks to extend loans compound the flow of finance out of many debtor countries.

Based on a series of wide-ranging

assumptions, the UN makes predictions for the world economy in 1990 and 1991. Among the advanced capitalist economies restrictive monetary policies are expected to slow economic development in the United States, Canada and Japan.

At the other end of the spectrum, Germany is likely to grow at an annual rate of about 4 percent over the next two years. The German economy is being stimulated by a pre-1992 (when the European single market comes into being) investment boom in Europe, as Germany is Europe's major producer of investment goods. The German boom is expected to be extended by additional demand for both consumption and investment goods from East Germany, especially after unification.

The outlook for Eastern Europe is much more gloomy, as the current recession is expected to continue for a while before a new phase of growth begins. For the Soviet Union, "averting a contraction, while at the same time coming to grips with the worst of the economic difficulties would be a good performance", says the UN report.

For Africa and Latin America, increases in financial transfers — aid, loans, and investment — are not expected to compensate for the high interest rates that deepen debt obligations, and the outlook is not bright. On the other hand, economic restructuring in several African and Latin American countries could place them on a new growth path.

In booming South and East Asia overall growth rates are expected to decline to 5.5 percent in 1990, and improve slightly in 1991, a fate that most countries elsewhere in the world would be glad to suffer.

In conclusion, the UN's Economic Survey stresses that even with restructuring in many Third World economies, real recovery and growth are unlikely unless exports are supported by stable commodity prices and unless financial transfers from the advanced countries compensate for overarchiving debt burdens in much of Africa and Latin America.



# Three more people every second... Population explosion causing a cash crisis

## FOCUS

WASHINGTON - The World Bank is renewing its public criticism of population growth as a cause of poverty and environmental destruction - after a decade of treading softly on the controversial issue.

Bank President Barber Conable has been making the case both publicly and privately that curbing population growth is a basic ingredient of economic development and a major goal of bank activity.

### Estimates

"The policy is coming from the top," said one bank official.

The World Bank expects the world's population to reach 6.3 billion by the end of this century, up from 5.3 billion currently. Other estimates are even higher.

Increasing population adds new problems to the bank's role as a development institution. Its goal of reducing poverty and improving economic growth is undercut by the relentless march of new mouths to feed and jobs to provide.

In a recent World Development Report, the bank said that more than one billion people - at least one quarter of the global

population - live on less than R880 a year.

In the past, many bank officials have been wary of advocating population control. The United States, the bank's biggest member, took the position under the administration of President Ronald Reagan that family planning should not be supported by government or multinational assistance.

The Reagan administration seemed to equate family planning with abortion and coercive measures to slow the birth rate.

### Bush agrees

President George Bush, while agreeing with this approach, has been less strident on the issue as it applies to the World Bank.

Bank officials familiar with the population approach at the lending agency say Conable has decided to fill this leadership vacuum, convinced the bank should press for family planning and take a leading role in the population issue.

"The United States used to be the leader in this area, but under Reagan it went in the opposite direction," says Fred Sai, a former Senior Population Adviser at the World Bank.

The new emphasis by Conable is being backed by lending. Bank loans for population, health and nutrition stood at R130 million in the 1987 fiscal year, or 0.3 percent of total lending.

### Figures

By 1988, the figure was R750 million, or 1.6 percent, and last year it was R1 550 million, or 2.9 percent.

The figure was almost R2 500 million for the fiscal year ended June 30.

The Bank estimates that one-fourth of these amounts are earmarked strictly for population issues and officials believe that loan growth in the sector will continue.

"Real momentum is building within the population field at the bank that portends big increases in the years ahead," says Steven Sindling, recently named Senior Population Adviser at the Bank.

The United Nations Population Fund, which tracks population levels, said that in 1984 it seemed

likely that the total would stabilise at 10.2 billion people towards the end of the next century.

New figures, however, indicate that stabilisation will occur at closer to 11 billion than 10 billion. The UN group says the population is increasing by three people every second - about a quarter of million every day.

"Between 90 and 100 million people - roughly equivalent to the population of Eastern Europe or Central America - will be added every year during the 1990s; a billion people - a whole extra China - over the next decade," the Fund says.

### Optimistic

Even some of these estimates may be optimistic. The World Resources Institute, an environmental group, believes that without an heroic effort, population levels will continue to rise to about 14 billion.

The greatest increases will be occurring in regions and countries that can least afford them.

Nigeria, for instance, could grow from 30 million people in 1950 to 300 million in 2020 - a 10-fold increase in just one lifespan. - Sapa-Rewriter

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THE World Bank is renewing its public criticism of population growth as a cause of poverty and environmental destruction - after a decade of treading softly on the controversial issue.

WB president Barber Conable has been making the case both publicly and privately that curbing population growth is a basic ingredient of economic development and a major goal of WB activity.

"The policy is coming from the top," said one WB official.

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# World Bank is critical of population growth

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on less than 370 dollars a year.

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The new emphasis by Conable is being backed by lending.

Bank loans for population, health and nutrition stood at R140.66m in the 1987 fiscal year, or 0.3 percent of total lending.

By 1988, the figure was R790m or 1.6 percent and last year it was R1 619m or 2.9 percent.

The figure was R2.426m for the fiscal year ended June 30.

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## Increasing

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people - a whole extra decade," the Fund says. Even some of these estimates may be optimistic.

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The greatest increases will be occurring in regions and countries that can least afford them.

Nigeria, for instance, could grow from 30 million people in 1950 to 300 million in 2020 - a 10-fold increase in just one lifespan. Sapa-Reuter



TV2 news reporter Thandi Mesatsywa celebrated her birthday with a party at her home in Pinville, Soweto. Pic: MBUZENI ZULU



MICHAEL HOLMAN

LIBERIA's slide from dictatorship into anarchy is terrible, even by the standards of a continent used to upheaval. But far from being an aberration, Liberia could prove to be just the first of several states to collapse under the weight of economic mismanagement and ethnic tensions, compounded by policy failures on the part of the superpowers and aid donors.

Other wars in sub-Saharan Africa highlight the continent's fragility: Angola, Mozambique, Sudan, Somalia and Ethiopia are torn by conflict. Uganda has yet to recover from the Idi Amin era. Chad and Libya may again come to blows. Senegal and Mauritania keep an uneasy peace.

Almost wherever one looks, from Angola to Zambia, from Mali to Mozambique, the ossified political structures of post-independence Africa are cracking.

From across the continent come calls — endorsed by Western governments, aid donors and lending institutions — for multi-party systems. Political ad-

# Africa's ossified structures are cracking

France will link its contributions to efforts designed to lead to greater democracy," Mitterrand told African leaders at the Francophone summit last June.

But the cry for democracy is as much a moan of pain caused by the economic failures over three decades of independence, and Africa is delicately poised between reform and further decline.

"Good governance" — the World Bank's term for better management and democracy — is essential to recovery from disaster.

The causes of the upheaval are complex. The most frequent explanation invariably couples the renewed search for freedom with Eastern Europe's revolution.

Even the OAU, that club of autocrats so tolerant of each other's failings, last month conceded it was necessary "to democratise further our societies and consolidate democratic institutions".

SA's search for a constitution which accommodates the aspirations of the majority, while coping with the fears of minorities, is gripping the attention of the rest of Africa. Above all, a decade or more of sharp economic decline has made impoverished citizens throughout the continent angry with their rulers, and impatient to find leaders with alternatives.

President F W de Klerk to embark on radical change. The spectacle of mass demonstrations against elitist governments evoked the worst white South African nightmare. And the collapse of communism as an ideology encouraged Pretoria in the belief that it was safe to unban the SA Communist Party.)

France, Britain and Portugal decided that the price of the colonial relationship was too high.

Whatsoever the roots of the African unrest, one thing is clear. Despite World Bank-supported economic reform programmes adopted in varying degree by about two-thirds of sub-Saharan Africa the continent remains in deep economic crisis.

Many economists believe this underestimates Africa's needs, but even the comparatively cautious goal might be hard to attain. — Financial Times.



# World Bank looks at SA office

GRETA STEYN

THE World Bank was considering opening an office in SA soon to get involved in regional development well before SA gets a new constitutional dispensation, a senior government source said yesterday.

This followed a visit to SA by World Bank officials earlier this year. The officials spoke to government, the Development Bank, the ANC and other extra-parliamentary groups, the source said.

SA officials will meet World Bank representatives again in Washington at the end of the month during the bank's and the IMF's joint annual meetings. Direct World Bank involvement in SA will be on the agenda when they meet, although monetary officials have not wanted to confirm this.

SA's status as a donor country in the World Bank, rather than as a recipient of aid, will also be discussed with SA pushing for classification as a recipient. SA's rela-

tively high per capita income has kept it from qualifying for World Bank aid until now.

The source said an office of the World Bank in SA would foster further economic integration in the subcontinent and would get involved in economic research on regional development issues. The bank, which had excluded SA from all its statistics on sub-Saharan Africa, would also start at once with work to include SA. Such an update of World Bank figures, with the help of information previously withheld by the SA government, would present an entirely different picture of the subcontinent.

The Development Bank would work closely with any World Bank group in SA and the ultimate intention of the World Bank would be to join forces with the

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## World Bank

Development Bank to create a large bank to serve the needs of the subcontinent. The World Bank would contribute finance to the creation of such an organisation, even though SA was at present classed as a donor country and not a recipient of bank aid.

The source said the World Bank was in a difficult situation as it did not want to be seen to be in cahoots with the white minority government. At the same time, it preferred to get involved before a transfer of

power took place, as occurred in Namibia. In that country, the bank became involved before independence through the UN Development Plan (UNDP). It was unable to open an office as Namibia was not a member of the bank.

Another source said the fact that President F W de Klerk's visit to Washington coincided with the bank/IMF AGMs was "pure coincidence" and he was not expected to try specifically to put SA's case for IMF balance of payments assistance.

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# Poor nations pushed to back of aid queue <sup>(356)</sup>

NAIROBI — The world's poorest nations, among the hardest hit by the Gulf crisis, could find themselves pushed to the back of a lengthening queue for aid when global finance talks get under way this week in Washington.

The World Bank and the IMF, whose annual meetings create a forum for discussing the world's economic ills, say they want to help compensate least developed countries (LDCs) for higher oil prices and lost export markets because of the threat of war in the Middle East.

But, in an initial report on the impact of the crisis on LDCs, World Bank economists said: "It is too early to be specific or to talk about special global facilities."

## Democracies

Meanwhile, middle-income economy nations Egypt, Turkey and Jordan — on the front line since Iraq invaded Kuwait on August 2 — already have billions of dollars in special aid pledged by industrial countries keen to make a punitive UN economic blockade of Baghdad work.

And, the World Bank has already set aside \$2.5bn for emerging Eastern Europe democracies in the fiscal year ending June 30 1991, up from \$1.8bn in 1989-90.

Officials in the reforming East bloc countries say they will be reminding donors that the Gulf crisis occurred at the worst possible time — just when cheap Soviet oil has been cut off and they are struggling to introduce market economies.

With such geo-political considerations piling up, World Bank officials say the

plight of more than 1-billion poor in Asia, Africa and Latin America who live on a dollar a day or less will be overshadowed in Washington this week and next.

The bank had hoped to persuade donors to redirect aid towards Third World governments that are tackling poverty.

"Because of the Gulf crisis, that (call) is likely to fall on deaf ears for some time," said one World Bank economist recently.

So far no international effort has been launched to help the farther flung, poorer victims of the crisis.

From Somalia, Sudan and Morocco to India, Pakistan and Sri Lanka, families living in poverty will miss hundreds of millions of dollars sent home by relatives working in rich Gulf states.

Bangladesh — one of the world's poorest nations with a per capita annual income of \$170 — stands to lose \$100m in remittances and an oil import bill up by \$320m.

IMF MD Michel Camdessus pledged in Paris last week to boost aid to the other LDCs if the Gulf crisis deepens.

Unlike industrialised countries which increased fuel efficiency and built up stocks, developing nations face the latest price hikes in a weaker position than in previous oil shocks of 1973 or 1979.

For the poorest that means more hunger, fewer jobs, reduced health care and a rise in infant mortality. For governments, it means harder debt repayments, a brake on major economic reforms undertaken on the advice of the IMF and World Bank and possible political instability. — Sapa-Reuter.



## WORLD

# Few changes to policy expected at G-7 meeting

BONN — Finance ministers and central bankers of the G-7 industrialised nations are expected to make few, if any, changes to their five-year-old economic policy coordination when they meet in Washington tomorrow.

Gathering against the backdrop of a recession-prone US economy, a near record low dollar, soaring oil prices, the potential for war in the Persian Gulf and the still unclear but undoubtedly high costs of German unification, the G-7 will, however, have a full agenda.

The meeting is a regularly scheduled gathering at the outset of the joint annual meeting of the IMF and the World Bank.

Most policy makers in the major industrial countries appear little worried about the dollar, which dropped to a record low of DM1,5385 in late August and is now trading just above that level.

B 1 Day 21/9/90  
US Treasury under-secretary David Mulford said earlier this week the decline of the dollar against other currencies had been "orderly".

G-7 policymakers will review the impact of the crisis in the Persian Gulf on their respective economies and the world economy as a whole, but are not likely to decide on drastic policy changes.

### Focus

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IMF MD Michel Camdessus said last week the oil price increase that had followed Iraq's invasion of Kuwait would cut about 0,25 of a percentage point off world economic growth now and half a point in 1991.

More worrisome will be the effect of more expensive oil on world inflation levels, which will be increased 0,25 percentage points this year and 0,75 percentage points in 1991.

In the IMF/World Bank meetings, which started yesterday and last for

seven days, officials of IMF member countries will focus on debt and capital flow issues.

French officials, in briefings ahead of the meetings, have expressed serious concern about a growing imbalance of savings and investment.

G-7 deputies were said to be worried that a lack of savings would stifle Third World investment.

The French are particularly insistent that industrial countries stop draining funds from the Third World.

"We are running an annual current account deficit of \$60bn with the Third World. That's crazy. If we could eliminate it you would see interest rates come crashing down worldwide," an official said.

With regard to Eastern Europe, Bulgaria and Czechoslovakia will become new IMF members, while the Soviet Union will for the first time have observer status at the annual meetings. — AP-DJ.



# World Bank plans study of SA economy

By Sven Lünsche  
WASHINGTON — The World Bank will not set up an office in South Africa until a political settlement has been achieved.

A source at the Bank's Africa section squashed recent suggestions that the World Bank could cooperate with the Development Bank of SA (DBSA) to foster economic integration in Southern Africa.

However, the official indicated that the World Bank would be meeting South African officials at the Bank's annual meeting here next week to discuss the possibility of an economic study on South Africa.

"We are definitely not thinking of setting up an office in South Africa," the official, who did not want to be named, said.

"The World Bank is following the political developments in South Africa, but only at some juncture in the future will we consider direct financial support."

South African monetary officials admitted recently there was little hope of financial assistance by the Bank or its sister agency, the International Monetary Fund. But privately many officials are still hopeful for direct aid and assistance as a reward for reform.

There has been approval of recent political changes, but World Bank

and IMF assistance is blocked by US officials, who have to abide by anti-Apartheid legislation.

The Bank source also disclosed that a change of status for South Africa, from donor country to recipient of aid, was not on the cards at the moment.

South Africa is a donor to the Bank's International Development Agency, which is a lender to "the poorest developing nations". The country's relatively high per capita income, however, excludes it from qualifying for World Bank aid.

It had been speculated that the DBSA could use World Bank financial backing to expand its role as developing bank for the whole of the sub-continent, but the official said that, so far, no relationship with the DBSA existed.

The World Bank has, however, been studying various projects to alleviate poverty in sub-Saharan Africa, and an economic study of South Africa will provide vital new information for development issues in the region.

This information, previously withheld by South Africa, could prove to be the first step for international assistance to allow South Africa to play a larger role in boosting the depressed economies of sub-Saharan Africa.



## World Bank takes new stand on Pretoria

WASHINGTON — For the first time in nearly 25 years, the World Bank is examining SA with a view to playing an active role in a post-apartheid society. (356)

The Bank, the world's primary body for channelling aid funds, will provide only scant details about its new stance on SA, but says that it "at this time feels it is appropriate to educate itself about SA".

But independent sources familiar with World Bank activities say it is gearing up to see what role it can play in SA.

"They want to be in a situation to hit the ground running on day one," a US-based source says. B10am 24/9/90

A World Bank spokesman denies a

KEVIN DAVIE

recent Business Day report stating that the bank intends opening an office in SA. At this stage it will focus on getting research data and evaluating what role it can play.

SA has had very little contact with the bank since the mid-'60s. Its relationship has been limited to being a donor nation, last year contributing \$1.6bn or 1.27% of the total subscriptions of \$125bn.

Development Bank of SA CE Simon Brand, who is in Washington attending the annual meetings of the bank and the IMF, says SA's relationship with the bank began

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## World Bank

changing over the past five years. B10am 24/9/90

"A factor was our involvement in the Lesotho Highlands scheme."

He believes the bank can play a major role in SA, particularly in the areas of research, policy analysis and training.

It could also play a role with the training of returning exiles, he says.

"This is especially the case with prepar-

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ing people for public sector work. The World Bank has some attractive programmes which could play quite a role".

Brand also says that SA may re-evaluate its relationship with the bank, benefiting from World Bank loans.

"It certainly would help if we could get some long-term financing of the kind which the World Bank makes available," he says.



**P**RESIDENT F W de Klerk's visit to Washington this week helped confirm the switch in the financial community's attitudes to SA which Finance Minister Barend du Plessis and Reserve Bank Governor Chris Stals have experienced at the IMF and the World Bank.

Pressure to repay debt has eased. SA may consider applying for an IMF loan when the next economic upswing affects the balance of payments, and bankers are starting to think about putting new money into the country.

Stals says that investment and banking attitudes towards SA have changed drastically in the past year.

"Bankers say they are positioning themselves for the future, upgrading files and looking at who potential borrowers might be.

"It's more than just wait and see. The attitude now is more positive in the sense that more banks and investors are prepared to retain existing exposures."

**T**he next phase, which we've not reached yet, says Stals, is for banks to increase their exposures.

He says this is in sharp contrast to just a year ago when investors were still trying to get their money out of SA.

"That has changed. Most foreign investors in SA are happy to retain the status quo.

"There's not as much pressure on us to repay the loans. That's why we find it possible to roll over some of the loans."

Stals says De Klerk's visit to the US was very favourable.

"This is a process of improving the image of SA, of increasing our creditworthiness and our credibility. I think there is a better understanding as far as the banking community and the world is concerned. It is important that they see that the president is accepted in the US.

"This is confirming again that we are in an irreversible process of political reform. This is also the minimum the financial community of the world is looking for.

"The State President made it clear he was not coming here to try to get sanctions lifted, but it will make a

# Switch in financial community's view of SA almost complete

KEVIN DAVIE in Washington

very important contribution to the process of improving the image of SA in the financial markets."

Stals believes it was a coincidence that De Klerk's visit was timed to fall within the week of the IMF maximum advantage as the international financial community was gathered in Washington.

The Governor says at this stage SA's prospects of borrowing from the IMF and World Bank are restricted by US legislation.

"Before we have a change to that legislation it will be extremely difficult for us to borrow because the Americans hold 20% of the voting rights within the IMF, which gives them a veto."

If there was an easing of the American attitude, then the issue would become a normal matter based on IMF requirements.

"This will require difficult negotiations between us and the IMF as it is not straightforward that we will qualify."

"Our balance of payments is in surplus, and our foreign reserves have been increasing recently.

"But we can obviously negotiate with the IMF and say we can develop a balance of payments need almost overnight as the only reason we have a balance of payments surplus is that we apply all kinds of restrictions."

These included restricting domestic demand, the financial rand system and the debt scheduling arrangement.

"We want to get rid of all these restrictions."

Stals says SA has not qualified for loans from the World Bank since 1966 because the country's per capita income has been too high.

"If we should start talking to the World Bank there will be quite diffi-

cult negotiations to convince them that SA should qualify."

Stals says it will make no sense to approach either of the two institutions as long as the restrictions remain in the American legislation.

Du Plessis, SA's governor at the IMF, says from SA's point of view "we have long since complied with the Gramm Amendment (a law which requires the US to vote against IMF loans to the SA).

He says it is significant that the US administration is separating the

Gramm Amendment from the Comprehensive Anti-Apartheid Act, the US umbrella sanctions law.

"This works to our advantage", he says.

Du Plessis says SA is not considering applying for an IMF facility at the moment. He says political and technical considerations will have to be kept in mind.

"After having had the (political) path cleared, and nobody can say when that will happen, we have not yet accumulated sufficient reserves, the parameters are not yet in place to start the growth phase.

"In other words there will have to be certain fundamental needs from our side before we apply. The most opportune time will have to be identified."

The Finance Minister says SA may see a resumption of the economic upswing by the end of next year, although the Gulf crisis may delay this.

Asked when SA might make an application, Du Plessis says: "If's only under normal conditions that we will begin the next upswing at the end of next year, and only when we've gone into that will we begin to experience balance of payments problems."

**T**he IMF was quite happy about SA's economic programmes and policies but realised that SA had to manufacture a surplus on the current account.

"The price we pay for that is slower economic growth. Half of our savings have been required to service the outflow of capital from SA, at least halving our economic growth rate."

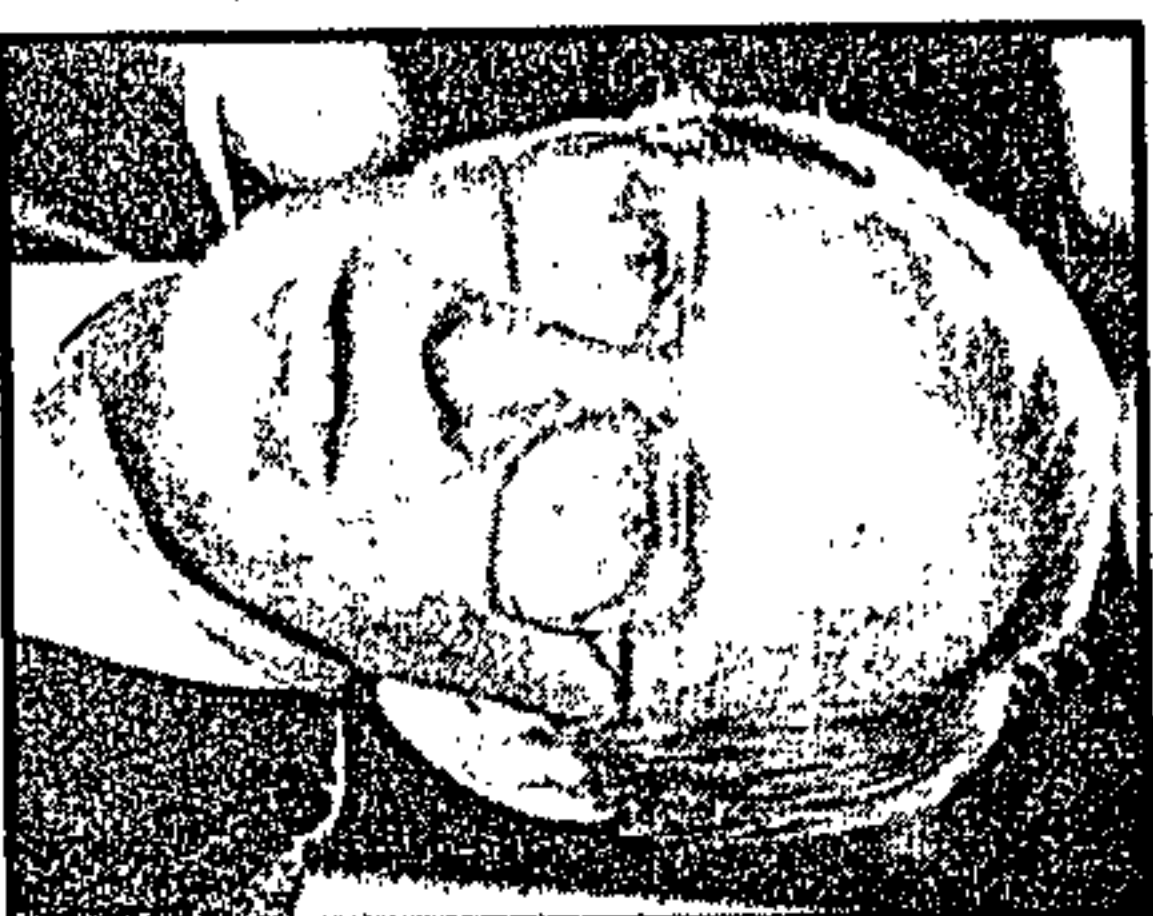
Du Plessis says he met World Bank president Barber Conable, and spoke about SA's involvement in cross-border projects in southern Africa and the role SA and the Development Bank was willing to play.

The fact that the World Bank was involved in the Lesotho scheme created common ground.

"They have been quite open about the importance of the role SA can play in the region. If and when we restore normal participation, then we should explore World Bank help in restructuring the economy of SA," Du Plessis said.



□ STALS



□ DU PLESSIS



# ANC stops delegate

Star 29/9/90

OWN CORRESPONDENT

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DURBAN — The World Bank has declined an offer to send a delegate to a conference organised by the Durban City Council after being urged to boycott it by the ANC.

This was disclosed last night by city councillor, Mr Peter Corbett, who said the World Bank's refusal had been confirmed by the office of the Town Clerk.

The call was made by the ANC because of the way the so-called "ultra-right" on the City Council had ousted more liberal councillors from positions of power in last week's council committee elections, said an ANC statement.

The ANC called on all delegates not to attend the conference and made a special appeal to the World Bank.

The conference was to be followed by an international seminar next year designed to bring overseas and local investment to the greater Durban region.



# SA regaining international favour

WASHINGTON — International

banks are preparing to re-establish normal business links with South Africa in the wake of improved political sentiments.

Reflecting on their discussions with international financiers at the IMF/World Bank gathering, Finance Minister Barred du Plessis and Reserve Bank Governor Dr Chris Stals say the attitude towards South Africa is more open than it has been for some time.

"Particularly among African countries there is a greater degree of stability in their approach to us and contacts are more visible," says Mr du Plessis.

However, Dr Stals says the time has not yet arrived to apply for new loans from the two agencies.

"The restrictions placed on loans by the US Bretton Woods Amendment would force the US delegation to refer South Afri-

**IMF and World Bank**

SVEN LUNSCHÉ



can requests to the US Treasury Secretary.

"This will undoubtedly lead to discussions in the US Congress which could embarrass us and the IMF, a situation we will avoid until the political climate is right," says Dr Stals.

However, South Africa certainly has paved the way for future loans by repeatedly emphasising its commitment to regional economic co-operation and development.

It was the central theme in Mr du Plessis' recent address to the gathering and elicited a favourable response, particularly from African countries, he says.

Both officials had extensive behind-the-scenes discussions

with African representatives, focusing largely on initial steps for closer economic co-operation.

Dr Stals says the difference in attitudes is most marked among Western commercial bankers, who are now updating their South African files.

"One prominent European bank even inquired about the possibility of establishing a representative office in South Africa, which is a pleasant change from previous years, when we were informed about the closures of these offices," says Dr Stals.

Dr Stals is travelling to New York this week to meet prominent US bankers and expects a similar business-oriented approach from them.

Mr du Plessis says the visit to the US by President FW de Klerk and the positive response of President George Bush to recent reform measures have contributed to the new openness to-

wards South Africa.

Both Mr du Plessis and Dr Stals say, however, that the outflow of capital and the lack of access to international loan facilities had severely restricted economic growth.

"The need to generate a substantial surplus on the current account of the balance of payments forces us every single time to put a lid on economic growth when it reaches a certain level," says Mr du Plessis.

"The restoration of our full growth potential is a top priority and we could certainly accelerate the start of the economic restructuring through access to IMF facilities."

Mr du Plessis says that the discussion and tone of this year's IMF/World Bank meeting left little doubt that socialism had no future.

"Centrally managed economies have proved incapable of producing a good standard of living," he says.



# A RELUCTANCE TO RELEASE

## THE INSTITUTIONS ARE UNEASY HEIRS TO CONFUSED ECONOMIC POLICIES

At almost any international banking or economics forum nowadays, there is a plaintive cry that volatile exchange rates are inhibiting the expansion of trade and thus economic growth. After the eight years of continuous economic growth that the Western industrial nations have experienced, it is a cry that should fall on sceptical ears. But it doesn't.

There are many reasons for the volatility, not least of which is the reluctance of some of the weaker currency countries to make the domestic economic adjustments necessary to provide underlying stability to their own currencies. Invariably, the discomfort of putting to rights past mistakes is held out as the political reason for this reluctance.

But market intervention has also gained more respectability than it deserves, largely as a result of the efforts of the Group of Seven (G7), ostensibly to iron out short-term market fluctuations, and the longer-term relationships inherent in the more mechanical European Monetary System (EMS).

There are bankers and economists who, while still professing a belief in market forces, will nevertheless find justification in these more rigid and mechanical exchange rate relationships and claim that they have imparted useful stability.

The truth is that they achieve very little and tend to blind the participants to economic realities. Lord Keynes was not the only economist who persuaded himself that he could outwit the market with arrogant regularity. Former British Chancellor Nigel Lawson was clearly beguiled by the seeming importance of his G7 position into taking the wrong policy measures and once again allow-

ing inflation to gain a strong foothold.

The reluctance of Britain's Conservative Party to enter the EMS on anything but its own terms is another indication that these mini-Bretton Woods arrangements are not without their difficulties. They involve the loss of sovereignty and tend to encourage an arrogance among some participants that delays the application of more sensible underlying economic policies, like fiscal and monetary restraint or trade liberalisation.

But the interesting thing is that these market manipulative mechanisms have grown up outside the traditional structure set up primarily for that purpose — the International Monetary Fund (IMF). The reduction of market fluctuations and the administration of a fixed exchange rate mechanism was its *raison d'être*. But it failed ultimately because it threatened to breach national sovereignty too often.

In the heyday of the IMF, participants would not make what adjustments the fund might think necessary if they judged the economic or political costs at home to be too high. Nor have eight years of prosperity meant there has been much call on the IMF's other traditional facility — the provision of temporary balance of payments support for the leading Western nations.

Instead, the function of the IMF has been edged towards the provision also of developmental finance for the purpose of restructuring those economies suffering from too much collectivism and inflation. The danger is not so much that this has occurred, but that it could become cumulative.

The World Bank, for its part, is still in this

business (as are some more basic financing agencies for the very poor), but at this year's annual meetings of the fund and bank it took a much tougher line on more equitable government structures and on the integrity of government itself.

This, in turn, has created another dilemma. Quite apart from the traditional differences in the funding they provide, the IMF and World Bank are both facing a crisis of privatisation. For their facilities are made available in most circumstances directly to governments, some of whom are busy trying desperately to sell off their trading and service undertakings into private ownership. And more often than not it is the newly privatised undertaking that needs the money, not the government that has sold it off.

Besides, Lord Bauer's belief that it was foreign aid to the Third World (which has certainly had an abundance of capital in that form) that was the chief instrument of its economic deterioration, is now a view widely held within the aid agencies themselves. When governments have the luxury of relying on foreign gifts to finance their excesses and do not have to convince taxpayers of their interest, good governing tends quickly to fall into abeyance.

The IMF has been assailed on both sides: by the G7 politicians who have hijacked its former role of exchange rate supervision and by the traditional aid agencies like the World Bank and its affiliates who resent encroachment into their developmental fields, especially since they, too, have become advocates of market economics.

The situation might show some indication of being resolved if men of stronger character and greater vision were at the head of the IMF and World Bank. These are positions that require men of exceptional foresight and managerial ability, not least because they are astride an international bureaucracy of clever and determined public servants.

The top IMF job is one for which there tends to be an assumption among those nations that count that it will go to a non-English European. So it tends towards central banking diplomats such as the present incumbent, Michel Camdessus, foremost among whose manifest abilities in his own field are not special foresight or charismatic leadership. A good test of a man is his use of language. Camdessus's is elegant but obscure. He favours words such as "modalities" which are way beyond the reach of most bankers, but have become a standard feature of interim committee statements.

At the head of the World Bank is the affable Barber Conable. Like Camdessus, he expresses laudable sentiments and has put more zip into the bank's flabby bureaucracy.

## SACOB HEAD FOR FM CONFERENCE



Planning a course through SA's fast-changing political landscape has become one of business's major concerns. The questions seem endless and answers will be addressed by Raymond Parsons, director-general of the SA Chamber of Business (Sacob), at the FM's Investment Conference next month.

The title of his address is: "Business and a new political dispensation in SA."

Parsons has been one of organised business's leading and most visible spokesmen

for several years in proactive as well as reactive roles.

Apart from his Sacob executive responsibilities, he has been a member of the State President's Economic Advisory Council and serves on numerous other advisory and developmental bodies. His conference address will deal primarily with business's proactive options.

□ The annual conference will be held — as in previous years — at the Carlton Hotel, Johannesburg, on November 1-2. The fee is R1 100 per delegate, reducing to R980 for each additional delegate from the same company.

Bookings should be made through conference manager Brigitte Petty on (011) 497-2135.



# World Bank goes 'green'

By TOMASTON 12/10-14/10/90 356

IT'S official. The World Bank is turning green: The Bank will not finance projects involving the export of toxic waste; a billion-dollar environment fund has been launched to tackle problems such as ozone depletion and global warming; every project is now screened for its environmental impact.

After years of criticism and lobbying by non-governmental organisations, the Bank seems to be increasingly acting in line with the view that economic development cannot be achieved without safeguarding and nurturing the environment.

Even so, many critics of the Bank's policies argue that it has not gone nearly far enough.

Says Cam Duncan, of Greenpeace International: "While the World Bank's official policy is poverty eradication, in fact, the institution has ravaged environments and hindered chances of economic sustainability in the Third World."

The North-South umbrella organisation, The People's Network for Eco Development, held a shadow economic summit in Washington during the World Bank/International Monetary Fund (IMF) annual meetings to voice concern about the environmental impact of the institution's lending policies.

Says Duncan: "The Bank's lending patterns demonstrate a blatant disregard for the

rights of indigenous peoples and their natural resources."

Many critics of the Bank and the IMF see the fundamental issue as one of power. Patricia Adams, of the Toronto-based Probe International pressure group, says: "For four decades the people of the Third World have been shut out of World Bank and IMF decisions and denied due process in the face of the World Bank/IMF steamroller."

"Until the views of the people in the Third World prevail, we'll continue to see World Bank/IMF-sponsored destruction and destitution throughout the globe."

Though the World Bank publicly admitted in the early Seventies that the environmental impact of projects could not be divorced from an evaluation of their economic benefit, it is only in the past five years that its policies have begun to change.

The Bank has launched a pilot programme known as the Global Environmental Facility, or "The Green Fund", lending \$1-billion to \$1.2-billion over the next three years

working in four areas:

- Protection of the ozone layer
- Reduction of greenhouse gas emissions
- Preventing pollution of international water resources
- Preserving bio-diversity

The programme is intended to subsidise the costs of projects undertaken in one country which also benefit the environment in other countries.— Gemini News



"We are currently working together with the World Bank on details of the programme and its financial requirements and are moving towards a (donor) consultative group meeting," Chidzero told a seminar organised by the Zimbabwe Confederation of Industries (CZI).

World Bank team in Harare

He acknowledged the government was taking a gradual approach, noting the economy had been hit by the Gulf crisis which had raised fuel and transport costs and worsened the balance of payments position.

The fact that government is still in the process of discussing with international donors the availability of financing for the Trade Liberalisation Programme, the programme has had to start on a modest scale," Chidzero said.

The programme depends initially on export earnings and foreign financing to restructure the economy.

The African Development Bank has provided a \$300m 'loan for industrial

rehabilitation and capital goods for the export industry. The World Bank's international finance corporation has also provided a facility of more than \$300m to be operated through banks.

Chidzero estimated the foreign exchange cost of the programme at \$2bn, although economists have put the figure at between \$5bn and \$7bn.

By the end of the five-year plan, the government plans to cut the budget deficit of the GDP by half. —  
Reuter.



**HYPERETTE STORES LIMITED**

(“Hyperette”)  
(Registration number 86/02517/06)  
Incorporated in the Republic of South Africa

**Results for the twelve months ended 31 July 1990**

| Consolidated income statement |                 | Consolidated balance sheet |              |
|-------------------------------|-----------------|----------------------------|--------------|
| Audited                       | Audited         | Audited                    | Audited      |
| 12 months ended               | 13 months ended | at                         | at           |
| 31 July 1990                  | 31 July 1989    | 31 July 1990               | 31 July 1989 |
|                               |                 | £ million                  | £ million    |



## African aid programme gets \$8bn in pledges

WASHINGTON — The World Bank has received pledges for aid of between \$7.5bn and \$8bn over the next three years to help 21 poor, deeply indebted African governments that had accepted close monitoring of their policies by the bank and the IMF.

The bank's Africa vice president Edward Jaycox said that unspecified amounts would come from 20 governments and international bodies, such as the bank itself and the EC.

Major contributors included the US, the EC, France, Japan, Britain, the Netherlands, and the Scandinavian countries.

The money would not be used for big long-term projects but would be spent on the maintenance and rehabilitation of schools, clinics and machinery.

The pledged contributions would be supplemented by \$3bn to \$3.5bn from the World Bank's International Development Association and \$1bn to \$2bn was expected from the IMF.

The pledges were part of the bank's second special programme of assistance for southern Africa.

Jaycox said that during the next three years he expected countries such as Kenya, Ghana, Togo and Gambia to graduate from the programme.

Countries such as Angola and Liberia might enter the programme. — Sapa/AP



disconcerting is the dogmatic attitudes of the World Bank and the IMF and the rigidity of their prescriptions. They have one recipe that all countries must adopt or fail to get the certificate of creditworthiness from the IMF which is now the passport for all credit, governmental or private. The European Community now insists on this certificate as do many commercial banks. Furthermore, countries have to accept the total package with its underlying philosophy of monetarism and free markets. At a recent meeting in London the head of the IMF insisted that Eastern Europe will have to go down this road since all experiments with a "third way" have failed. The implications for a future South Africa which wishes to develop a mixed economy and inward looking development will be a denial of IMF support.

# Let's not borrow and be even poorer

W/Week 9/11-15/11/90

forced by the glaze of critics to admit their lack of confidence in their own prescriptions. The World Bank vice-president for Africa, E Jaycox, admitted in an official publication that "neither the World Bank nor anyone else really has all the answers on what an effective adjustment programme should look like". Even more damaging is the statement that "it is very hard to predict the social impact of a given programme ... it is incredible how little is known about where and how to manage the social side".

Also potentially damaging is the emphasis on export promotion as a means for restoring financial balance. This policy has been pressed very hard on the Third World to the point where colonial-type trading patterns are being restored based on traditional commodity exports. Unfortunately, world market prices are plummeting — the price of cocoa alone fell 50 percent in 1989 — so that the terms of trade move steadily against the Third World. For Africa the terms of trade fell by 31 percent between 1980-1987.

The emergence of a stronger Europe means that prices will remain low and protectionism increase so entry of African commodity exports into Europe will be even more restricted as can be seen from the recently adopted Lomé 4 Convention between the European Community and a large group of Third World countries, and in the debates on GATT. European farmers have the political muscle to defend their prices and profits against external forces and there

is nothing the World Bank and the IMF can do about it, nor do they seem willing to intervene in the interests of fostering development in the South. What hope has South Africa when 50 percent of its trade is with Europe and 80 percent of its exports still comprising primary products. (The imports of such products into Europe dropped 60 percent of the total between 1965-1987).

The Economic Commission for Africa, a UN body, has come out strongly against World Bank programmes, arguing that they will recolonise Africa. They also reject allegations that Africa's problems are primarily due to poor "governance" and weak management. It is conceded that Africa's elites have severely damaged the continent with consumerism, corruption and capital flight. Also that they are grossly undemocratic. But setting this to rights is an internal affair, which is actually getting the attention of ordinary people who are demonstrating across the continent for human rights and democratic government. The ECA's role is to stress the importance of people-centred development, the need for an inward-looking strategy which is rooted in developing a country's own resources, both human and material, in short, collective self reliance.

Likewise South Africa should not be mesmerised by calls for foreign investment, boosting exports, and balancing our books. Far more important is to turn attention to a people-centred development paradigm which focuses our investments in training, education, and health. We need a rapid improvement in living standards for ordinary people, as part of a scheme to make them more economically productive and incorporating their efforts in a total economic mobilisation of the country as a whole.



# Let's not borrow money that'll only make us poorer

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**A**NY parent will tell you that a child learns more from burnt fingers and grazed shins than from admonitions.

Likewise Britain's Open University, where I taught for many years, produces a course, "Learning from System Failures" which explains why some bridges fall down, why faulty road design can lead to gridlock, and poor production lines generate bottlenecks. It seems that only in economics are we poor learners from experience.

Despite the appalling track record of the World Bank and International Monetary Fund in the Third World, South Africa's business press is raising the prospect of their intervention in our economy. We also hear of efforts by World Bank officials to interest leaders of the liberation movement. Certainly World Bank officials are looking around the country and a report is promised by the end of the year.

It is therefore appropriate to raise the question of what position the liberation movement should take towards the World Bank and the IMF before these bodies are encouraged to get too involved in our country.

These institutions were created at the Bretton Woods Conference in 1944 held under United Nations auspices but at the instigation of the United States and Britain. The main purpose was to lend money to members in order to finance temporary balance of payments deficits. The Third World was only nominally involved and were not primary beneficiaries of their operations.

Subsequently the Third World fell into severe difficulties due to the massive loans of petrodollars flooding the world economy after the Opec-induced oil price rises. The IMF began making loans to these countries without recognising that their balance of payments problems were not temporary but structural, due to their subordinate position in the world economic system.

Although the World Bank and the IMF have brought benefits to the industrialised world they have not done so to the Third World, least of all Africa where massive and increasing balance of payments deficits are wreaking havoc with the economies and with peoples living standards. According to the 1990 World Bank annual report there was a net transfer of \$156-billion from the Third World to the North from 1984-1990. The net payments from sub-Saharan Africa to the World Bank and IMF was \$4.7-billion from 1986-1990. This notwithstanding that the conscience of the world was sensitive to the millions dying from famines and the growing destitution every-

Now is the time for South Africa to discuss what its relationship with organisations like the IMF and World Bank will be, before we find ourselves enticed into programmes that will make the poor poorer, argues

**BEN TUROK**

Director of the Institute For African Alternatives (IFAA) and author of a new book, *Mixed Economy in Focus; Zambia*

where. In sub-Saharan Africa (excluding South Africa) per capita incomes fell 75 percent from 1980-1988.

The reason for the flows to the Bank and the IMF is that both institutions insist on operating on a commercial basis as banks and give primacy to the interests of their principle shareholders which are the major Western governments. Their claims about sponsoring development must be seen in this context. But more importantly, the cause for these negative South to North flows is the massive external debts in the South which are now worth \$256.9-billion for Africa alone (93 percent of GDP and 328 percent of total exports) carrying an annual debt servicing of \$25.3-billion, equal to 40 percent of export revenues. Instead of moving towards a fairer world economic order we now have a dangerous polarisation between North and South with Africa being particularly marginalised.

It also seems that we cannot take very seriously World Bank claims that: "The World Bank's basic mission throughout its history has been to reduce poverty and accelerate growth. Poverty alleviation is what economic development is all about. Practically everything that the World Bank does, either in its lending or its policy work, bears directly or indirectly on poverty reduction." (1990 annual report) This has not been Africa's experience. A major report by Unicef showed that the most disadvantaged were worst affected by World Bank policies which squeeze economies and cut public spending.

The lesson for a post-apartheid South Africa is that there are no grounds for assuming that we will get better treatment than the rest of the Third World especially if new economic policies are adopted to regulate our international financial relationships.

The main problem is the kind of development model that the IMF and the World Bank are imposing on Third World governments (and now also on Eastern Europe).

This model is primarily concerned with external balances and some African experts believe that their purpose is to continue the extraction of monetary flows from the South.

While this model is supposed to spawn economic growth it actually stifles development. It is fundamentally anti-people going against the emerging consensus throughout the Third World that what is required is not short sharp spurts here and there but sustainable development which will integrate national economies, involve the marginalised masses in production and bring benefits to the population as a whole. These are no mere empty slogans but the accumulated wisdom of the Third World over decades of false starts, spurious successes which soon fade, and unbalanced economic programmes.

The World Bank and the IMF model imposes "structural adjustment programmes" (SAP) which require the reduction of demand and especially government expenditure, the increase of production for exports, and financial policy reforms. The effect is to worsen conditions for the poor by reducing employment and cutting wages, increasing the price of basic commodities, especially food, cutting government expenditure on basic services such as health, education and sanitation. In Africa between 1979 and 1983 expenditure per head on health fell by 50 percent and continued to fall thereafter. The same applies to other social services. Unemployment rates are now 60 percent among school leavers and 30 percent among graduates.

If a post-apartheid South Africa falls for this model, it will frustrate all efforts at transforming the economy and making it more democratic. It will also end all hope of humane social provision of basic needs for the millions of black people in our country.

These issues need to be raised now because of the pervasive influence of the World Bank and the IMF throughout the world. They have also perfected a technique of providing an enticing introductory offer which is however followed up by tough conditionalities later on. Angola's first rescheduling of its external debt by the Paris Club was carried out "under exceptional conditions" because it joined the IMF. Now, the second rescheduling requires the adoption of the full structural adjustment programme of the IMF and this will be very onerous considering that its debt now stands at \$6-billion.

What many African governments find so

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# World Bank is moving away from 'debt policeman' image

By BEN JACKSON

DISPELLING the gloom of this year's annual meetings of the World Bank and International Monetary Fund (IMF) in Washington, there were some surprising signs that the voice of the world's more than one-billion poor was breaking through to the highest level.

Amid bleak scenarios of economic fall-out from the Gulf crisis, the World Bank, in particular, was keen to present itself in a "kinder, gentler" light. It seemed to be trying to distance itself from recent criticism that it has strayed from its central development mission by its close association with the IMF in its role as the West's "debt policeman" in the Third World.

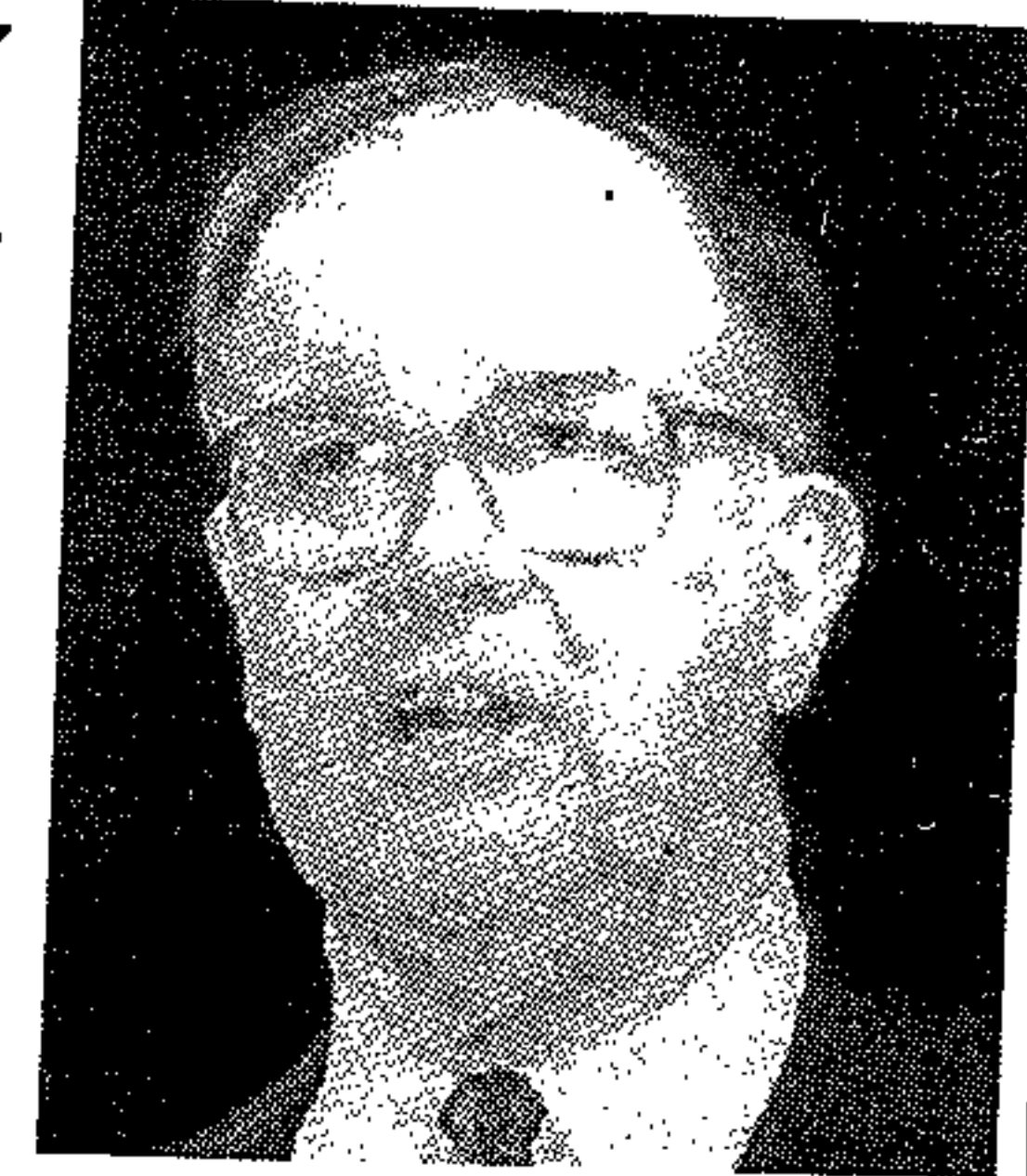
World Bank president Barber Conable emphasised the need for a renewed onslaught on poverty: "Together we can reduce poverty," he declared.

Conable spelt out a two-pronged strategy to attack poverty: First, a type of economic growth which specifically aims to increase the productive use of the poor's labour — with a stress on small-scale farming and industry; second, building up human resources by increasing basic health and educational services for the poor.

Top-level speeches employing the rhetoric of action against poverty are nothing new. But there are some signs that Conable's words could prove to be more than just a grand gesture.

It is not a lone crusade by the World Bank chief. Economic analysts have been forced to look long and hard at the issue of poverty and start coming up with practical proposals.

Recent World Bank figures show debtor countries transferred a record \$43-billion more in debt payments to



World Bank president Barber Conable ... champion of the poor

the creditors than they received in new loans in 1989.

Without decisive action on debt the prospects remain bleak for realising Conable's vision of cutting the numbers living in abject poverty by a third by 2000. — Gemini News



# World Bank may spend millions on southern African power grid

THE World Bank has agreed in principle to spend hundreds of millions of rands on a South African-Zimbabwean power link which has the potential to plug SA into electricity grids as far afield as Zaire.

Eskom communications manager Johan du Plessis said at the weekend two projects were being considered by the bank — each costing millions of rands.

Linking SA's power grid with Zimbabwe is expected to significantly improve relations between the two countries.

The first scheme proposes the construction of a 400km line from Zimbabwe to the Cahora Bassa hydro-electrical scheme in

Mozambique, which is substantially under-utilised. The link will carry 500 megawatts of power into Harare.

The second proposes the construction of a line from the most northern point of the SA grid at Ellisras, to Bulawayo. The construction of this line would take about two years, Du Plessis said.

Exact figures were not available as detailed studies had not yet been done, he said. The cost would depend on the terrain and whether or not priority was placed on the speed of construction.

The link would facilitate a connection with the power grids of Tanzania and Ke-

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TIM COHEN

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nya and, more important, would facilitate a link with the "mind-boggling" hydro-electrical potential of Zaire's Inga province, he said.

Schemes operating in the province generated thousands of kilowatts of power but had the potential to generate hundreds of thousands of kilowatts, he said.

Zaire is particularly keen to see the establishment of the link because it would mean that it could export electricity to SA. SA uses only about 75% of its capacity

for electrical consumption, but by 2 000 it could have absorbed its excess electrical capacity. SA has never borrowed money from the World Bank because it exceeds the bank's lending criteria.

The bank only lends money to the world's poorest nations, but recent reports cited Eskom CE Ian McRae saying the bank had become partial to lending money to projects involving SA participation.

This was because it believed SA involvement made projects more viable and the payback more secure, McRae said.

Relations between Zimbabwe and SA are expected to improve significantly if

the project goes ahead.

MIKE ROBERTSON reports that Foreign Affairs director-general Neil van Heerden recently said relations with Zimbabwe were improving. SA had been given permission to purchase land on which to build a new diplomatic mission in Harare.

The suspension of Radio Truth, and Zimbabwe's release of SA spy Odile Hartington, had contributed to the thawing of relations, Van Heerden said.

But Zimbabwe still felt its standing among other countries in the region could be adversely affected if SA returned to fa-



## Third World foreign debt worsens

Star 12/12/90

WASHINGTON — Third World countries' foreign debt rose to nearly \$1.1 trillion this year, up from \$1.05 trillion last year and from \$786 billion in 1984, the US Central Intelligence Agency (CIA) reports.

The figure does not include the Soviet Union, China and other countries, either still under communist rule or

emerging from it, such as those in Eastern Europe.

These add at least another \$210 billion, according to earlier estimates by the CIA itself and the World Bank.

The money is owed to more affluent governments, including the United States, Japan and West Germany, to their private commercial

banks and to inter-governmental bodies such as the World Bank.

Another \$29 billion owed to the International Monetary Fund is listed separately.

Although the CIA reports a rise of \$45 billion in the debt since last year, it shows a drop in payments to \$122 billion from \$126 billion in 1989.

— Sapa-AP.



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**Loans to Africa reach \$800m**

WASHINGTON — In a burst of year-end activity, the World Bank has announced \$436.9m worth of loans to Africa, bringing the total for last week to nearly \$800m.

All the loans except \$132m worth to Morocco are on easy terms: 35 to 40 years to pay with long grace periods during which only interest is due, at about 1% a year. The loans to Morocco are for improvements to Casablanca harbour and are for 20 years at 7.72%.

Mozambique is to receive \$53.7m to build schools and improve teaching. Lesotho will get \$21m to help small and medium-sized industry. Kenya gets \$144.8m to increase exports and improve farms and forests.

Zaire will be able to spend \$30.4m on health services, including family planning, and education. — Sapa-AP.



# Brady debt plan needs fine tuning to address problems — World Bank

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WASHINGTON — In another sign of growing discomfort with the so-called "Brady initiative" for highly indebted nations, the World Bank has suggested the plan now requires some "fine tuning" to address the problem of mounting official government debt.

The report, released as part of the "world debt tables", warns that the Brady initiative may contribute to problems for creditor governments by transferring credit risks from commercial to official sources, such as governments and the IMF and World Bank.

Although debt-reduction schemes have been worked out successfully for Mexico, the Philippines and Costa Rica, the study hinted that future agreements would be much more difficult to achieve and could result in a substantial drain on IMF and World Bank resources.

"Argentina and Brazil represent special problems," the report says. "Their commercial bank debt alone is about \$80bn. Brady initiative support would increase official exposure to these countries significantly, if carried out under the terms and mechanisms used thus far."

Under the current debt-reduction scheme, the IMF and World Bank provide financial support for debts that are reduced by commercial banks. There is also an overall trend toward more official government lending to hard-pressed nations as commercial sources of credit continue to dry up, even as arrears on payments owed to commercial banks continues to mount.

The report says the Brady initiative does not deal with the problems of severely indebted middle-income countries that have high levels of debt to official sources. It notes that seven of the severely indebted middle-income countries owe more than half of their debt to official sources.

As a remedy, it proposes that "there may be an

argument for official debt relief on the grounds that high levels of official debt and debt service can cause uncertainty that may inhibit domestic and foreign investment and can reduce the incentives to adopt strong adjustment policies".

The Paris Club of creditor governments has helped the official debt situation by rescheduling debt-service payments, and creditor governments have helped provide relief to countries that have undergone economic adjustment programmes by providing them with fresh financing.

Some creditors have also helped by rescheduling and reducing their bilateral debts to some of the most troubled nations. But these efforts have been limited. In the US, for example, Congress voted to allow President George Bush to negotiate a reduction of some bilateral concessional loans to South American governments, but then refused to approve spending for the loan reductions, effectively gutting the proposal.

The Brady initiative, launched in March 1989, helps developing countries that have implemented economic reform programmes reduce their debt burden through a "menu of options" negotiated through bank advisory committees. In the three agreements completed to date, the value of debt to commercial banks has been reduced by \$9.5bn.

But the helpfulness of these reductions has also been in dispute. Although Mexico has experienced an increase in foreign direct investment, a return of flight capital and renewed access to external capital markets, much of Mexico's improved economic performance reflects its strong adjustment programmes, rather than debt reduction.

The World Bank and IMF have repeatedly felt squeezed by the Brady plan as commercial bank lending becomes more scarce and the US urges the institutions to curb their lending. — AP-DJ.



# Top IMF man tainted by whispers of wrongdoing

WASHINGTON — Jacques de Groote is a senior executive director of both the World Bank and the IMF, and as such helps to channel the \$25bn or so a year in aid the organisations dispense.

He appears to lead a lifestyle beyond his means, with personal debts of \$1m.

It is De Groote's habit of turning for loans to people whom he has counselled on World Bank policy, however, which has led some observers to suspect a conflict of interest, the Wall Street Journal reported on Friday.

De Groote says these suspicions are false. He says that he has never used his position for personal gain, and that there is "no relation whatsoever" between his official positions and his personal finances.

De Groote's activities do not appear to violate any policies at the World Bank and IMF.

The lack of formal guidelines at these powerful organisations, and the secrecy with which they conduct their business, may have a bearing on a frequent complaint of critics: that corrupt regimes still manage to get generous aid from the two.

Zaire is often cited in this connection. It owes the IMF and World Bank more than \$1.6bn, yet President Mobutu Sese Seko has become one of the world's wealthiest men.

De Groote, Zaire's long-time adviser, explains that corruption is simply a way of life there. He has served Zaire on and off for 20 years. In 1967, it was he who urged the strife-torn Congo to adopt "zaire" as the name of its new currency. Four years later the country took "Zaire" as its name.

De Groote, son-in-law of a former Belgian foreign minister, was chief economic adviser to the Zairean national bank. He designed the Zairean economic overhaul.

## Agent

De Groote's official duties at the IMF and World Bank involve Belgium, several other European nations and Turkey; other directors are responsible for Zaire. Yet when business involving Zaire has come up, De Groote has often involved himself.

De Groote is remarkably blunt about the rumours swirling around him. He acknowledges that even at the World Bank and the IMF, some believe that he has acted as a paid Mobutu agent. "I am not a money man," he says. "If I wanted to obtain money, I could have done it very easily in Zaire."

Nevertheless, in Belgium the suspicions have taken their toll, scotching his chances of governorship of the national bank in 1980.

De Groote was also mentioned in

1982 for the governorship of the central bank. But this time the problem was his personal finances.

De Groote maintains he is not in financial distress. Besides his total income of \$119 000 from the IMF and World Bank, he also shares income of \$120 000 with his wife, who, he adds, will inherit money soon.

De Groote's more recent activities in Africa have once again focused on his old client, Mobutu. In 1989, despite worsening Zairean corruption, government misspending and economic decay, De Groote began promoting yet another IMF undertaking being planned with Zaire. The board approved the plan, and before long another \$211m in loans was on its way.

Within months, alas, the reform programme was a shambles. Mobutu was again spending too much on himself and not enough on his country. Under IMF and World Bank regulations, the spigot was closed.

Today, Zaire's economy is crumbling. Mobutu's days in power may be numbered. But De Groote says that the bank and the fund need not apologise for helping to keep Mobutu in power for this long. "We work with imperfect data sometimes, imperfect political systems, highly imperfect local people sometimes," he says. "But we try to make the most out of it." — AP-DJ.



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CAPE TOWN  
Tuesday, January 16 1991

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# Govt plans drive on poverty

Own Correspondent

JOHANNESBURG. — The government has begun a major inquiry into poverty which could have substantial policy implications, possibly as soon as in the next budget.

In September the cabinet briefed a committee to produce a policy position on poverty. The full report will be completed only by April 1992, but interim findings could be implemented in this year's budget, said an informed source.

More social spending is likely, while spending on capital projects will be cut back.

It is understood that the committee will use the World Bank's poverty alleviation programmes and its World Development Plan on Poverty as basic

material. The bank is expected to begin researching South Africa's economy this year.

This will be the first involvement of the bank with SA since the mid-60s.

The essential features of the World Bank approach are that the main economic policy must be growth-orientated, that programmes should be aimed at job creation, and that there should be balanced spending on social services.

"The World Development Report provides a useful blueprint, but will have to be modified to meet the needs of SA's diverse population," the source said.

The World Bank report said rapid and politically sustainable growth had been achieved by a strategy which promoted the use of the poor's most produc-

tive asset, their labour. A second phase was to provide basic health care, family planning, nutrition and primary education.

It also emphasises expansion of agriculture.

Poverty in SA has been an area of neglect by the authorities. Signs that this was to change emerged in the last budget. Finance Minister Mr Barred du Plessis said the economy had to be restructured to raise the standards of all, and R2bn was allocated to help remove socio-economic backlogs.

The ANC has put poverty alleviation high on its agenda and its economic policy document produced in Harare says satisfying basic needs by growth through redistribution is essential. The document identifies the budget as a major instrument for achieving this goal.



**T**HE World Development Report, published last year, is a no frills approach to tackling poverty. It assesses international poverty alleviation programmes and produces a coherent policy to help the poor.

Classifying as poor those who earn less than \$370 annually, the bank says its strategy could reduce worldwide poverty by about 400-million people by the end of this decade — down from about one billion now.

Policies must be tuned to three broad tasks: encouraging rural development and urban employment; increasing the poor's participation in growth by improving access to land, credit and public infrastructure and services; and facilitating migration from resource-poor areas where poverty and environmental degradation are interrelated.

Agricultural reform is identified as the driving force behind effective rural development, laying the foundation for growth which reduces poverty. Agricultural growth also boosts the entire economy. Countries with rapid agricultural growth typically have rapid industrial growth.

**S**outh Africa is about to embark on a major rural reform programme. This year, the Land Acts, which have prevented blacks owning land in "white" South Africa, will be repealed. This could bring large numbers of small-scale farmers onto the land, easing pressure in resource-poor areas. Development Bank studies suggest moreover that these units can be highly productive and easily financed.

The report says that countries which have performed well agriculturally are those which tax moderately and provide strong supportive state programmes. Policy should not be biased in favour of large farmers. In Zimbabwe, for instance, when the bias towards large farmers was redressed in the 1980s, smallholder maize and cotton production grew dramatically.

Growth in urban employment and wages is a second determinant of poverty reduction, both through cre-

# Using World Bank strategies to tackle SA poverty

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Government plans to use the World Bank's World Development Report on Poverty as the basis for formulating its own policy. KEVIN DAVIE reviews the report's possible applications in South Africa.

ating more opportunities for the urban poor and through increasing migration by the rural poor, the report says. This is especially important in middle-income countries such as South Africa.

Governments can play an important role by providing, or failing to provide, adequate urban infrastructure. To date the SA government has failed here. It has also put in place a maze of bureaucracy and regulations preventing blacks getting shelter and homes.

But there are signs that this is changing. A White Paper on housing, which observers believe will substantially deregulate the housing process, is scheduled for publication in months.

SA can learn much from the World Bank's experience in providing shelter schemes. The bank's shelter strategy relies on policies which the Urban Foundation and the Development Bank have been pushing for some years. The World Bank's site-and-service projects were designed to reorient typical public sector housing programmes which had benefited middle-income households, but not the poor.

In these projects land equipped

with rudimentary urban services were made available to people who either constructed their own dwellings or contributed to the construction. In Zambia's case this affordable housing approach provided homes at 20% of the cost of the least expensive government-subsidised houses. The strategy, the bank's report says, showed that housing the poor was possible.

Industrial protection often reduces both the level and growth of labour in the formal sector. As a rule, the report says, the greater the degree of protection, the greater the capital intensity of production. More neutral trade policies therefore increase the demand for labour.

**T**rade and protectionism are both under review in South Africa. A new commitment to the General Agreement on Trade and Tariffs (GATT) will reduce tariff barriers, while government has embarked on a major re-evaluation of protectionism, in order to formulate a policy for the whole economy, rather than its previous ad hoc approach. In-

formed sources say the policy under consideration would reduce protectionism and increasingly demand that SA industries be competitive.

Social security taxes, labour regulations and high wages all tend to raise the cost of labour in the formal sector. So do minimum wage and job security regulations, leading to a reduction in the demand for labour.

Studies in Zimbabwe found that job security regulations reduced the long-term demand for labour by 25%, says the report.

The SA government's ability to introduce changes in this sphere would be limited by the strength of the unions.

The report also identifies the informal sector as an important provider of employment and income, estimating that it accounts for 75% of urban employment in many sub-Saharan countries. But the report warns against attempts to protect the informal sector. Where credit subsidies have been earmarked for small businesses they have often led small firms to adopt relatively capital intensive techniques.

Cheap credit programmes have not helped the poor. The report says public funds are better spent on in-

frastucture and services, including agricultural extension programmes. Urban infrastructure, including access to public utilities, are important determinants of growth. In many cases roads, water, sanitation, and services such as electric power help small businesses because many informal businesses are based in the home. Studies have shown that access to utilities is essential for small business. Eskom's drive to electrify townships is appropriate here.

The areas of health and education also get the World Bank's attention. With a burgeoning population, SA faces major challenges in these areas. Worldwide the supply of public funds for social services is being squeezed as the population grows and ages, the report says. Slow economic growth, tight budget constraints and increasing demands on government's purse mean that priorities must be examined carefully.

The report recommends a shift in the allocation of funds from higher-level services to basic health and primary education, improving both efficiency and equity. The case for the state being the sole provider of curative care is weak, the report adds, arguing for state intervention only where the private sector cannot deliver.

**I**t says government spending on social services is often inefficient. A case in point is that health budgets usually favour hospital care, while preventive and community services are far more effective in reducing the morbidity rate and mortality.

On education it says governments in middle-income countries have been able to build enough schools and train enough teachers to make universal primary education possible. The public sector is likely to remain the dominant supplier of primary levels of education, although there is more scope for private provision.

The report is certainly not tailor-made for SA, but presents a strategy based on decades of experience at the rockface. It provides a point of departure, meaning that SA does not have to repeat the mistakes of others.



## NEWS IN BRIEF

### Trevor Tutu in court

THE cost of a four-hour flight delay and the rescheduling of five SAA flights after an incident involving Trevor Tutu was estimated at R27 770 in the East London Regional Court yesterday.

Tutu has pleaded not guilty to charges of contravening the Civil Aviation Act and crimen injuria. He is alleged to have caused a flight delay after he told airport officials there was "something" on board the plane he was travelling on, leading to a three-hour bomb-search of the plane. The trial continues today.

### Call for hit squad probe

THE National Union of Metalworkers (Numsa) yesterday challenged government to reopen investigations into the alleged existence of police hit squads or face growing community rejection of the security forces.

The union was reacting to a weekend bomb attack on the house of Civics Association of Transvaal (Cast) general-secretary Sam Ntuli.

### Britain's reserves up

BRITAIN's official reserves rose an underlying \$46m in January from December, the UK Treasury said in London yesterday.

This follows an underlying fall of \$225m in December.

### UK retail sales increase

UK RETAIL sales volume rose a revised 1,8% in December from November and was down 0,7% from December 1989, the UK Central Statistical Office said in London yesterday.

### Industrial output firms

WESTERN German industrial production gained by 0,8% in December from November and was up 5,7% from a year earlier, the Economics Ministry said in Frankfurt yesterday.

REPORTS: Business Day Reporter, Own Correspondent, AP-DJ.

# World Bank bets on SA for success

KEVIN DAVIE

THE World Bank sees SA as its possible success story in Africa, and is assigning more manpower to its study here than it originally intended.

Development Bank CE Simon Brand says the World Bank has realised that SA, with its considerable resources, represents a chance for its policies to succeed: "They see a good chance of things working here, of showing results."

"They are looking very hard to show success in Africa," he says.

This year the World Bank will begin a formal study of SA, which will represent the first real contact the world's primary development agency has had with SA in 25 years.

The bank investigation will be an economic study to provide itself with basic data on SA.

Brand says he believes SA will get World Bank loans in the future, "but not this year or the next". He suggests that SA has a lot to gain from an improved relationship with the bank. Much of mainstream government development thinking now mirrors policies which agencies such as the World Bank employ worldwide.

Brand says in the SA political debate it will be possible to show policy is not tailored to protecting vested interests, but simply reflects the outside opinion of bodies such as the World Bank which have considerable experience in the field.

Many other development agencies are visiting SA. There has been constant traffic from the development arms of most Western countries, including Germany and Sweden.

"They're generally scouting the territory, looking at available capacity and where they can contribute." He says the notion that all development finance is going to Eastern Europe is incorrect.

"It's becoming more and more clear that there are major problems with most of Eastern Europe."

An indication of SA's improving relationship with the capital markets of Europe is the intention of the Development Bank to raise foreign loans this year.

While the amounts will not be large, the exercise will be to re-establish links with these markets.

## Elderly whites living in fear study

TANIA LEVY

MOST elderly white people living in and around Hillbrow feel their safety and quality of life have deteriorated with the influx of black people into the area, a Human Sciences Research Council (HSRC) study has found.

Of the 300 people surveyed, 40% had been "victimised" in the past three years and 90% were scared of being robbed, assaulted or threatened.

HSRC researchers Monica Ferreira and Sheila Rip found that more than 80% of the residents of Hillbrow, Joubert Park and central Johannesburg felt the area had deteriorated in the past three years and the reason most frequently given was that it had

become multiracial.

More than half the respondents felt the most serious problem in the area was "the bad element moving in". This was followed by an increase in crime, particularly muggings. Littering and unhygienic, overcrowded living conditions also rated highly.

In their report, Ferreira and Rip propose more policing of the area to enhance the safety of elderly residents. Other solutions include encouraging interaction with neighbours.

The report will be presented to Johannesburg mayor Willie Janse van Rensburg today.

## October manufacturing creeps up

MARCIA KLEIN

TOTAL manufacturing production in October 1990 increased for the first time since February 1990, according to the latest figures issued by the Central Statistical Service (CSS).

The figures show that manufacturing production in October 1990 increased by 1,1% compared with October 1989.

However, SA Chamber of Business economist Keith Lockwood said yesterday that the increase in production was not an indication that conditions had improved as the longer-term outlook was still negative.

He said October was generally a month when most of the production for December sales was carried out.

In terms of year-on-year growth, the only reason October's figures would be higher was the strength of domestic demand for consumer items, as most spending in December

tended to be consumer-related.

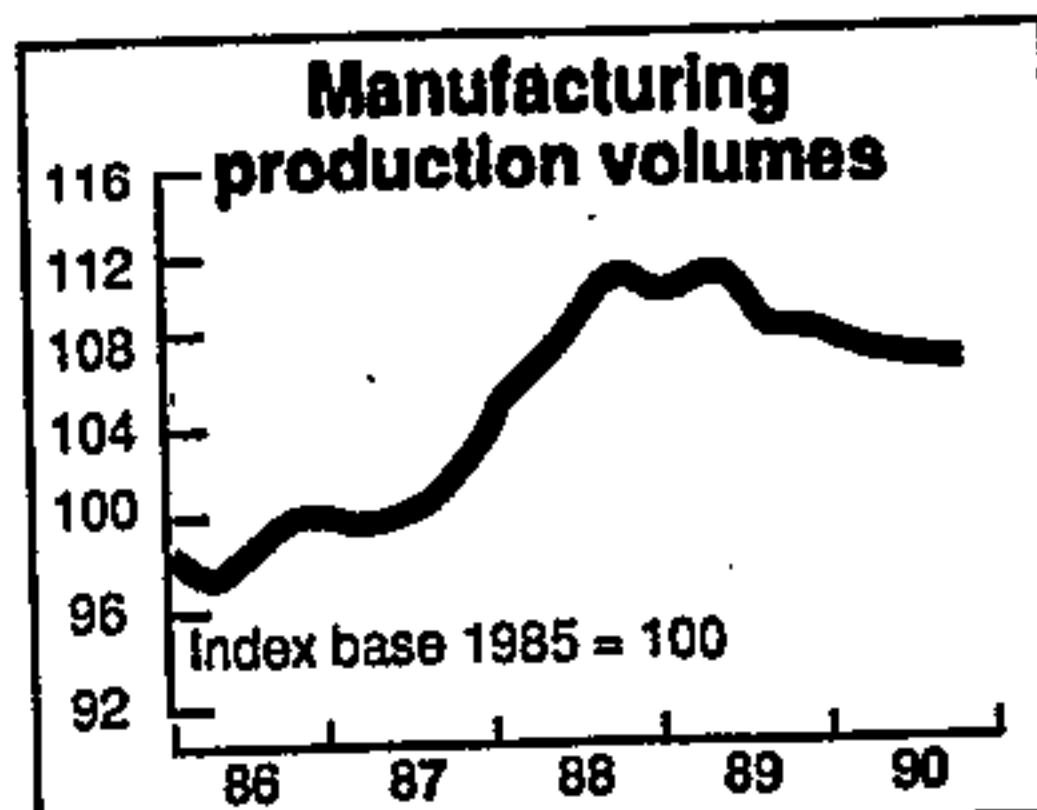
The CSS said 15 of the 27 major manufacturing groups showed an increase in production, with the largest increases being recorded by beverages, tobacco products, other chemical products, rubber products and glass industries.

The value of sales of manufacturing for October 1990 showed an 11,4% increase over October 1989, with the largest contributors to growth being food, other chemical products, metal products and electrical machinery.

Actual sales of R44,58bn for the August to October 1990 quarter were 9,4% up on October 1989, while seasonally adjusted sales of R41,96bn for August to October 1990 were 0,1% up on the previous quarter.

The Bank of Lisbon Economic Focus said growth in the manufacturing sector over the last decade had been sluggish at 0,7%.

Between January and August 1990 employment in the manufacturing sector had decreased by 3% in line with a 3% fall in output over the same period.



Graphic: LEE EMERTON Source: CSS



# SA companies register with World Bank

CML 7/19/91 25/2/91  
356

Own Correspondent

JOHANNESBURG. — Fifty SA companies have registered as consultants with the World Bank so that they can tender for business on bank-financed projects in southern Africa worth about R3,5bn annually.

Finance Department deputy director of economic information Fred Browne said the bank would spend \$800m in southern Africa this financial year. This represented about 40% of project cost as normally its deals included co-financing by commercial banks.

The reason for greater local involvement is that European companies which have traditionally done development work in Africa are now focusing their attention on Eastern Europe.

The bank is keen for SA companies to participate in its projects, and a bank team will soon begin a detailed study of SA.

Browne said SA companies were showing a great interest in registering as consulting firms. "The bank feels SA can play a major role even as far as north Africa," he says.

"The name of the game is to get in now while the vacuum is there," he

said. A year ago only eight SA companies were registered with the bank. This figure had now grown to 50.

Browne said there had been approaches to get SA companies involved in bank projects. Present projects included the Lesotho water scheme, the upgrading of the Maputo harbour, the provision of infrastructure for the Botswana soda ash project, and social programmes.

Eskom was in the process of registering, an Eskom spokesman said. Possible projects included a powerline from Cahora Bassa to Harare, and a power station in Botswana.

The bank's registration list, known as the Data on Consulting Firms (Dacon) system, is also used by other major development agencies active in Africa.

The list is for consultants only and excludes manufacturers, other suppliers of goods and contractors. Last year the bank bought \$60m in supplies from SA.

Founder member SA has had almost no contact with the bank for 25 years, but government intends using some bank strategies to assist with economic and social reconstruction.



# SA queue at World Bank

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8 Day 25/2/91

KEVIN DAVIE

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# Third World suffers as rich concentrate on war

NAIROBI - Africa, the world's poorest continent, is growing more desperate as the rich nations pour their financial resources into the Gulf War, African economic officials say.

They say Western and other creditor countries have forgotten pledges made only last year to help Africa, which is plagued by a R375 billion debt crisis that is being aggravated by the conflict in the Middle East.

"There's no action (on debt reduction) -- it's just pronouncements," Abdelrahim Dirar, director of the economic development department at the Organisation of African Unity (OAU), said by telephone from Addis Ababa.

He said that despite a drop in spot oil prices from their 1990 highs to around 17 dollars a barrel, financial fallout from the Gulf crisis is still hurting black Africa's fragile economies.

## Lost deals

Many of them have lost special deals with Middle East producers since Iraq invaded Kuwait last August.

Transport costs for all imports have risen due to higher freight and insurance charges. East coast states especially are being hit by soaring shipping rates through the Suez canal.

"Sub-Saharan countries will have to divert whatever resources they have from exports or aid to pay for imports," said Dirar. "Debt servicing will definitely be affected."

With Western markets slowing or in recession, there appears little prospect of exports boosting hard currency earnings - needed not just for debt service, but also for essential imports and investment to reverse 12 years of deepening poverty.

## Cannot pay

"If you haven't got an export market you cannot pay your debt," noted Jonathan Chileshe, head of the trade and finance section of the UN Economic Commission for Africa (ECA).

The World Bank says poor African nations are more vulnerable to outside shocks than other indebted Third World regions.

They start with greater poverty - one third of all Africans are underfed - and are too dependent on a few primary export crops to adapt to a sudden change in the world economy.

But Africa's debts - which account for about 12 per cent of the estimated R5 trillion of all Third World debts - apparently remain a low priority in Western capitals.

Washington has concentrated far more on the Latin American crisis, which threatened the US banking system, even though debts in low-income Africa are twice the level in Latin America.

## Exaggerating

With African debts increasingly owed to official creditors, after commercial lending dried up in the past decade, regional debt issues have become more a political than financial concern.

Some experts say African officials are exaggerating the impact of the Gulf War to gain negotiating points with foreign governments - the region's largest single group of creditors.

"Many African countries aren't servicing their debts...so there is no direct impact on resource flows," said Kirimi Mwarania, senior finance lecturer at the University of Nairobi.

## Fresh measures

"You see the numbers rising and rising...on international debt tables. But it's just a book problem," he said.

Nevertheless, creditor and debtor experts agree that fresh measures need to be taken to stop the time-consuming practice of rescheduling debts which neither side expects to be repaid.

A recent World Bank debt report illustrated how far short existing relief options have fallen, experts said.

It showed that even if all current relief measures were applied to severely indebted low-income countries, scheduled servicing would still have outstripped actual payments in 1989.

## Concessions

The data also showed cash flow savings for 17 poor African states who have rescheduled under the so-called Toronto terms - the latest available concessions on official bilateral debts - were only R250 million a year.

"The Toronto terms manifestly haven't solved the problem," said Tony Killick, senior research fellow at the Overseas Development Institute in London. - Sapa-Reuter



# World Bank brings SA firms in from the cold

Star 4/3/91 356

By Sven Lünsche

In what amounts to a tacit recognition of the role South Africa can play in the economic development of Southern Africa, a World Bank team has been making contact with local companies, which want to invest in Madagascar.

The two-man team from the World Bank met 25 South African companies over the weekend, in a meeting facilitated by the South African Foreign Trade Organisation (Safto).

Until recently the World Bank and its twin agency, the International Monetary Fund, have shied away from financing projects which could

be awarded to South African contractors.

But lately the agencies have adopted a more pragmatic approach and recognised the role the relatively sophisticated SA economy can play in infrastructural development in the region.

This has important implications for other capital projects in Southern Africa, which are financed by Western governments, and which until recently have excluded SA tenders.

## Madagascar

According to Martin Smith, head of Safto's Southern Hemisphere operations, the World Bank team was here to make contact with SA com-

panies who are willing to participate in relevant projects in Madagascar.

Madagascar last year re-established political and economic links with SA.

The finance for the projects will be provided by the International Finance Corporation, which is associated to the World Bank and deals with financial aid to private enterprise in developing countries.

Mr Smith said this is the first time Safto had facilitated such contacts, but he envisaged more such meetings in the near future.

Safto on Friday announced a wide range of projects involving bi-lateral trade between South

Africa and 21 countries worldwide, but particular attention was focused on the opening of African markets to local companies.

As part of the drive to re-establish and develop business between South Africa and other African countries, Safto has recently hosted a number of visits by trade delegations, ranging from neighbouring states such as Mozambique and Madagascar, to countries as far afield as Morocco, Nigeria, Burundi, Angola and Zaire.

Over the next three months the organisation plans group visits to Mozambique, Morocco, Egypt, Angola and Madagascar.



# IFC spotlight falls on SA

3/Day 4/3/91

A TWO-MAN International Finance Corporation (IFC) delegation left SA at the weekend after a three-day stay; the first visit to SA by the World Bank affiliate.

The delegation, which was investigating the rôle SA's private sector could play in the development of Madagascar, met representatives of 25 major companies.

The IFC is the World Bank's private sector promotion arm. Typically, it takes 25% of the equity of the companies it promotes, and insists on at least 51% private sector participation. 3/Day 4/3/91

The delegation members, Washington-based Osman Shahenshah and Hugh Stevenson, left on Saturday for a two-week stay in Madagascar. The IFC intends promoting the private sector in Madagascar and sees SA playing a catalytic role in this development.

KEVIN DAVIE

Safto's Paul Runge, who hosted the IFC, said: "The visit was encouraging as the IFC will inject confidence in SA's dealings with Madagascar. (356) (356)"

"It is a significant recognition of the vital role SA can play in developing the region."

Runge said the IFC delegates took the view that as Madagascar had opened up to SA, they should take a first-hand look at relations between the two countries.

The IFC is a member of the World Bank group but operates independently to an extent. Generally it acts only in high-risk environments, charges commercial rather than soft rates, and stays involved with a project for up to 15 years.



# World Bank 'may give SA loan package'

By Michael Chester

The World Bank may be prepared to mount a mammoth loan package to assist SA's reform programmes in a post-apartheid era, but only when it is convinced the Government has mapped out a realistic route towards ultimate aims.

That was the blunt message delivered by the SA Chamber of Commerce (Sacob) in Johannesburg yesterday.

Sacob director-general Raymond Parsons said the first

clues on the realism of Government approaches to solutions of black/white socio-economic inequalities should be revealed by Finance Minister Barend du Plessis in the 1991 Budget on March 20.

Mr Parsons reminded a news conference that Sacob had estimated that it would cost between R60 and R70 billion to bring about black/white equality at one stroke, far beyond South Africa's economic means.

Sacob was pressing the merits of a "social contract" acceptable to all sides and set-

ting out a timetable that could take as long as 10 years to complete if the economy was not to be damaged beyond repair.

"Even if the World Bank agreed to write out a cheque for all R70 billion in loans to South Africa, it would still take several years to complete the whole programme," he said.

"Potential overseas investors such as the World Bank need to be convinced that the Government has found a viable timetable and the right strategies to achieve the goals we all want to see reached."

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Star 8/3/91



THE US has a record of appointing conventional politicians and bankers to head the World Bank, who then fervently champion both the institution and the need to tackle global poverty.

Robert McNamara was transformed 20 years ago into a spokesman for the Third World when he headed the bank, and it has been the same with Barber Conable who will step down later this year after five years as its president.

The big question is how far they are captured not just by the bank's mission but also by its large bureaucracy. It is a question that will be as relevant in relation to Lewis Preston, the leading Wall Street banker President George Bush has selected as the new bank president.

On the surface Conable still appears the glad-handing, upstate New York Republican congressman he was for 20 years. Yet he has become firmly committed to the bank's aims, stressing the need to combat poverty and to pay more attention to the problems of women in the Third World.

Conable has faced two main lines of criticism — that, for all his caring image, he never really got a grip on

# Preston: a man in the World Bank mould

By Peter Riddel  
14/3/91

**PETER RIDDEL  
in London**

the institution, and he pushed it too much in the direction of US interests.

He took over in 1986 when relations between the bank under "Tom" Clausen and the Reagan administration in its most ideological phase had been strained. Conable succeeded in improving relations both with the administration and Capitol Hill. This matters because the US is the bank's largest shareholder, and obtaining congressional approval for World Bank funding is also tricky. Conable managed to win backing for a near doubling of the capital of the bank's main agency.

Moreover, in the mid-1980s there was widespread criticism that the bank had become a vast and unwieldy bureaucracy. Conable launched a controversial reorganisation and more than 500 people, out of over 7 000, were fired. The effect was to lower morale and to increase dissension. There is still no shortage of internal and external critics to argue that the bank lacks direction and, in particular, that there

is no real accountability for decisions.

The bank has also faced strong criticism from environmental groups that some of its traditional development projects are damaging the environment of developing countries. Under Conable it has laid greater stress on, and devoted more resources, to environmental issues.

Conable has been accused of being too close to US policies. Asians and Africans say he has helped steer the bank towards free-market policies and the Third World debt relief strategies pursued by the US. India is not alone in arguing that the large bank commitment to the debt reduction plan of Treasury Secretary Nicholas Brady fulfils the US foreign policy aims of producing a politically and

economically stable Latin America, particularly Mexico.

Under Conable the bank has also been at the forefront in assisting the reconstruction of eastern and central European economies, committing \$9bn over three years, a priority of the Bush administration.

However, Conable has more recently sought to emphasise the bank's independence from the US. Last year, for example, he pushed for a resumption of full lending to China, following the temporary suspension after the Tiananmen Square massacre, well before that was acceptable to Bush or to Congress.

Conable only decided to step down — he was certain of being reappointed — after he was sure that his successor was someone of whom he approved. Traditionally the US nominates the president of the World Bank, just as a European has always been MD of the IMF.

Bush's new appointee is entirely in character. Preston is the former head

of J P Morgan, a bank relatively untainted by the general problems of the banking sector. Not only is he, like Conable, an old friend of Bush, but he also comes from the type of mainstream "old money" background which the president prefers. There is a close parallel with Brady who came from the Wall Street firm of Dillon Read.

An ex-marine, Preston is a registered Republican, an Episcopalian and a director of the Federal Reserve Bank of New York. His sole deviation from the Yale educated group favoured by Bush is that he went to Harvard.

As head of Morgan throughout the 1980s, Preston expanded the bank's range of operations following his earlier period in charge of its international divisions. He has considerable experience of the Middle East, Asia and Latin America, dealing, in particular, with Third World debt issues.

Preston's inheritance will be a financially strong bank which, for all its continuing internal weaknesses, Conable has helped to lead into a wider spread of countries and of lending activities. — Financial Times.

REVIEW



## Pathfinding visit from World Bank

0/5am  
25/3/91 KEVIN DAVIE

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THE first World Bank mission to SA for several decades arrives today, one of three that will visit SA during the next six weeks.

The three teams, totalling about 20 staff members, will investigate the economy, education and urbanisation.

A three-man education mission arrives today, followed by an urbanisation mission of 12 at mid-month and a seven-man economics mission early next month.

SA, a shareholder in the bank and a founder member, has had almost no relationship with the bank since the mid-1960s because of apartheid.

The bank has no data on SA, and it is difficult to find even mention of SA in its literature.

But this non-relationship began changing rapidly towards the end of last year when the bank acknowledged a need to educate itself about SA.

A country study, whereby an economic data base is created, was mentioned as a possibility by sources who liaise with the bank, but it now appears that studies will be more focused.

The bank is also encouraging SA firms to tender for projects worth about R3,5bn which it finances annually in southern



# Developing lands hit by metals decline

8 Jan 28 3 11  
PAUL ASH

THE trend of declining metals and minerals prices does not augur well for developing countries which depend on exports of raw materials for a major part of their foreign exchange reserves.

The latest edition of World Bank News says the trend reflects shifting patterns of world trade and industrial production.

The World Bank has forecast a drop of 9.5% in nominal terms in the price of most metals and minerals, bottoming out in 1994, after which a 14.5% rise in real terms by the year 2000 should be seen.

An anticipated upswing in investment in industrial production will create increased consumption of raw materials, particularly metals and minerals, leading to increased revenues for many developing countries.

Moderate energy prices will also help increase demand for metals by providing better economic conditions for growth and investment. More markets will open as a result of economic integration in Europe and the swing to market-based economies in Eastern Europe and parts of the developing world. (356)

The prospects for developing countries will depend on the reform of their own trade policies and on the reduction of trade barriers in industrial countries.

Many developing countries have not benefited from recent higher prices because of inadequate maintenance of mining and transportation infrastructure, lack of foreign exchange and social and political insta-

bility, the article says. (241)

Only tin has a poor long-term outlook. The increasing use of surface-mounted components in the electronics industry, which previously accounted for one-third of world tin consumption, is eliminating the demand for tin solder and the substitution of aluminium and plastic for tin cans in the packaging industry has further reduced demand, it says.

Copper consumption has also been affected with high electricity prices reducing the demand for copper power cables and building wires. The search for more energy-efficient motor vehicles has caused manufacturers to substitute lighter synthetic materials and aluminium for copper.

Copper prices are, however, expected to rise after 1995.



# World Bank recolonising Africa, say economists

LEADING African economists, including officials of the Economic Commission of Africa (ECA) and the Organisation of African Unity (OAU), have criticised World Bank policies, calling them "recolonialisation of the continent".

They accused the industrialised countries of extending and tightening their control of the world economy in general and the national economies of the developing countries, including the African countries through the World Bank and the IMF, and increasingly through an overpowering new GATT agreement. The unanimously endorsed statement pointed out to the following:

- Although the World Bank agreed that development strategies for Africa should be based on the need for human-centred development and regional cooperation, this was not reflected in the bank's programmes;

- The participants criticised specially the Bank's Long Term Perspective Study (LTPS), whereas Africa's own long term plans were opposed by the World Bank, stating these were less informed and have failed disastrously;

- African governments should reject World Bank policies to secure their independence and sovereignty in choosing their own development path.

Despite a range of debt initiatives over the past few years, the total stock of Africa's debt has continued to rise and annual debt servicing costs have eased only marginally, according to recent World Bank and Economic Commission for Africa (ECA) figures.

The World Bank's "World Debt Tables 1990-91" projected sub-Saharan Africa's debt at R403bn in 1990, an increase of more than nine percent over the R368bn of the previous year.

The ECA estimated that debt for all of Africa had risen to R678bn in 1990, 4.6 percent higher than the year before. —

THIRD WORLD ECONOMICS



**S**A AND the World Bank have not yet jumped into bed together, but have in recent months been eyeing one another with increasing attraction. The *toenadering* can be seen in the visit this month of three separate missions to study the economy, urbanisation and education.

The interest is significant. SA is a paid-up shareholder of the bank and has ritually attended annual meetings, despite the fact that apartheid has limited the relationship to almost nothing. SA is not even on the World Bank's map — the most important economy in Africa is excluded whenever the bank makes mention of sub-Saharan Africa.

But what can SA gain from growing contact? Critics say World Bank programmes, and those of its associate, the IMF, have often been disastrous in Africa. It is important, they say, to be alert to potential pitfalls.

One such critic is Ben Turok of the Institute for African Alternatives (IFAA), a policy body which studies development in Africa. Turok, a socialist and ANC member, last month opened an office for the IFAA in Johannesburg. The IFAA, he says, is non-ideological in its search to solve Africa's deep-rooted development problems.

**A**t the core of the World Bank's unpopularity in Africa are its structural adjustment programmes, in which loans are granted on condition major economic reforms are implemented. Typically, these are short-term loans, of about three years, and require currency devaluations, the abolition of subsidies and price controls, reduction of state bureaucracy, the opening of markets to foreign competition, and attempts to boost agriculture and exports.

Harsh medicine is needed for sick patients, the reasoning goes, but rather than provide the cure, the medicine has often made matters worse. Structural adjustment has been followed by rampant inflation and massive job losses. The sick have become terminal. Examples include Ghana which lost 60 000 jobs and Zambia which had riots after food prices doubled in a week, says Turok.

# World Bank starts to woo the partner it spurned for so long

KEVIN DAVIE

The World Bank and the IMF are crucially important to development in Africa. Both act as agencies for assessing credit risk, and provide the only finance available to beleaguered economies; private banks will not lend to countries known to have difficulties with the bank and the fund.

The problem is that many African countries are now hopelessly in debt. Debt servicing uses up vast amounts of foreign exchange earned from exports. In the worst cases, such as Mozambique, this is 100% of export earnings. Turok says payments by African countries to the bank and the fund last year amounted to a net transfer of \$1.5bn.

"The bankrupt economies of Africa paid more to the bank and fund than they received," he says.

"Countries can't renege as they will lose their creditworthiness. Zambia tried it and found itself blocked from all external funds and so had to do a deal with the fund."

The World Bank has in effect acknowledged the failure of its structural adjustment programmes in Africa in its latest policy document, Sub-Saharan Africa: From Crisis to Sustainable Growth. Its new approach calls for adjustment to be coupled with growth, human-centred development and democratic participation. But this has not been

enough to silence its many critics in Africa.

The IFAA held a workshop attended by leading African politicians and economists in Addis Ababa in January to examine the latest policy. While the workshop welcomed the goals of the policy document, it rejected the methods as untenable. These include that African governments should withdraw into the background, that market forces should set prices, that the informal sector should be relied upon for general development, that social services should be offered on a cost-recovery basis, and that small-scale farming should provide the basis for agricultural reform.

**T**he IFAA's own approach in part supports the need for drastic reform in Africa, but wants change to be phased in over much longer periods to avoid disruption and dislocation. It stresses that most African economies are too fragile to compete in open markets. Policy should therefore be inward rather than outward. Self-reliance rather than dependence on foreign markets is the way forward, this view holds.

Establishment economic thinking in SA is in contrast in that it aims at discarding the self-sufficiency mode

of old. Major moves are afoot to restructure economies to reduce import tariff barriers, to make industry more competitive and export-oriented.

This brings us to SA's interest in the World Bank. Government's economic strategy now closely resembles World Bank/IMF approaches. There are continued attempts to cut the state bureaucracy, small-scale agriculture is a cornerstone of land reform, market solutions are being sought to social problems ranging from housing to education, and policy is being geared so government's main development role switches from financier to facilitator.

Government has already made use of the bank's expertise. It has, for instance, drawn on the World Development Report on Poverty to provide an approach to understanding poverty in SA.

It can be expected that government will readily use the models of bodies such as the World Bank as it sets about reconstructing SA. There are two reasons for this. The first is that for all the criticisms levelled at it, the bank has decades of experience in dealing with development problems at the rockface. The second is that in the debate now shaping SA, government would prefer to show that its own proposed solutions are based on international experience rather than homegrown

policies designed to protect vested interests.

As far as the spectre of structural adjustment is concerned, only a badly mismanaged economy in future years could bring this about. For all its limitations, SA's economy is robust compared to the rest of Africa. SA is underborrowed by international standards, with debt servicing commitments at about 7% of annual export earnings.

Political considerations are likely to prevent SA from making loan applications to the World Bank for the next few years, but even when the climate has improved SA may still need to have its status at the bank need to have its status at the bank downgraded from developed to recipient nation to get loans. This standing is based on a cut-off of GDP per capita of \$2 200. SA in 1989 was just above this at \$2 460.

But if SA could motivate a loan, it is unlikely the loan would have conditions attached. SA last year received a very favourable report from an IMF staff mission in its annual assessment of the economy. While the report made specific criticisms it did not mention the need for substantial economic reform.

Turok's view is that experience of the World Bank and IMF in Africa suggests their policies should be scrutinised, particularly at the macro level. But he agrees the current missions may play a useful role in identifying policies which might alleviate development backlogs caused by apartheid.

**T**urok says the bank has mainly used short-term "ambulance measures" to cure Africa's ills. "We should not get caught in that syndrome. We need to look at development as a long-term problem and insist that the bank's involvement is on that basis."

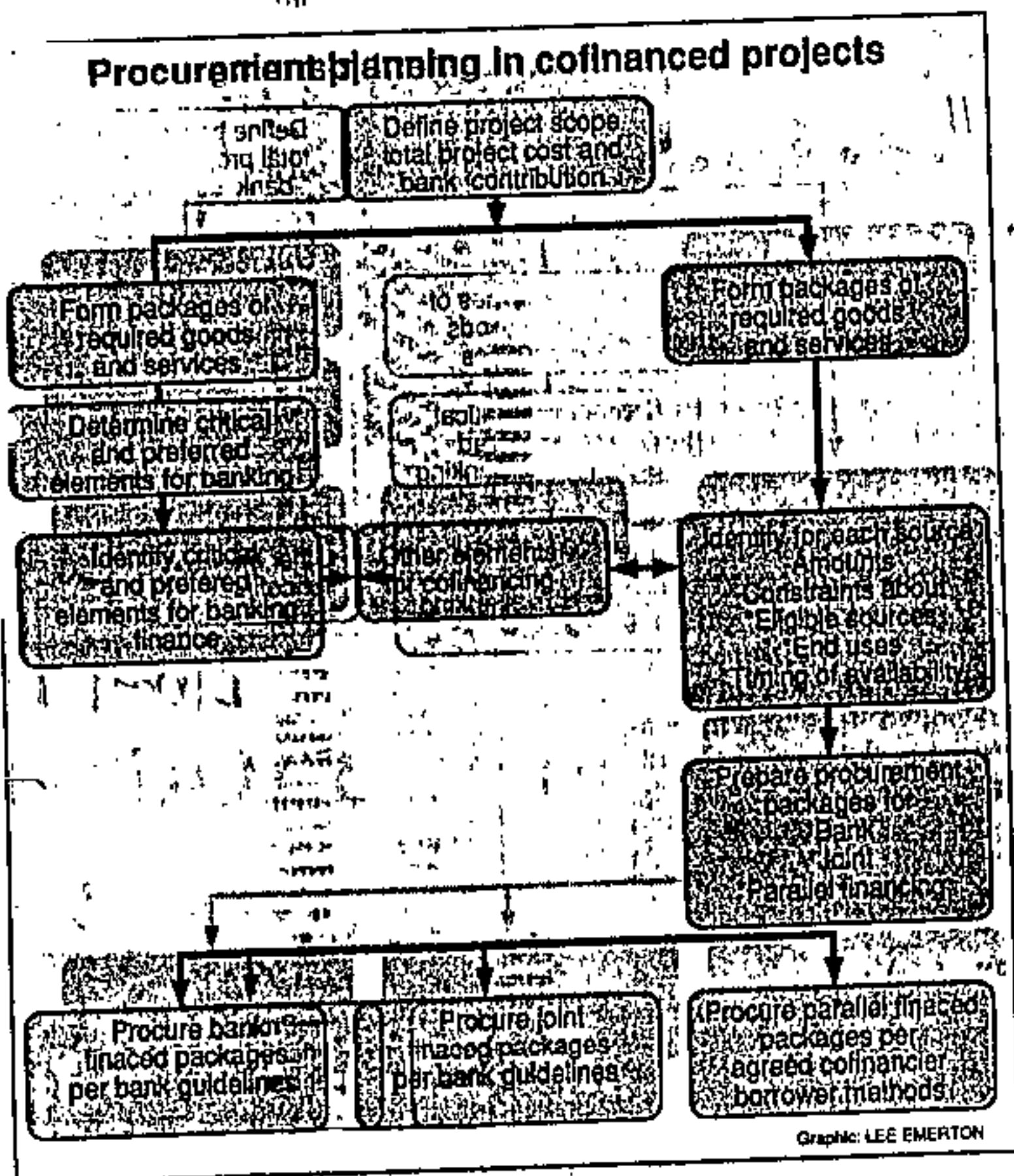
What can the World Bank gain from an improved relationship with SA? Well-placed observers say the bank sees in SA the possible success story which has to date eluded it in Africa. It also sees major prospects for the whole of southern Africa, where it has three new members in Angola, Mozambique and Namibia. The attraction is there, even though the relationship is yet to be consummated.



# Renewed interest in role which SA companies can play

B10 am 17/4/91

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THE poor performance of African economies and mixed fortunes of World Bank development programmes may be the triggers to the bank's renewed interest in the developmental role SA companies can play on the continent.

Government and local companies, from Anglo American and the CSIR to engineering consultants, say the bank is concerned with how SA, with its areas

of expertise tailored to African conditions, can help the rest of the continent where American and European expertise has often failed.

Despite many successful programmes, the record of development agencies in Africa is not good.

The bank said last year that although many countries had benefited from aid, some of the poorest had become trapped in "aid dependency".

They needed aid just to maintain their present poor quality of life, when it was designed to improve their long-term prospects.

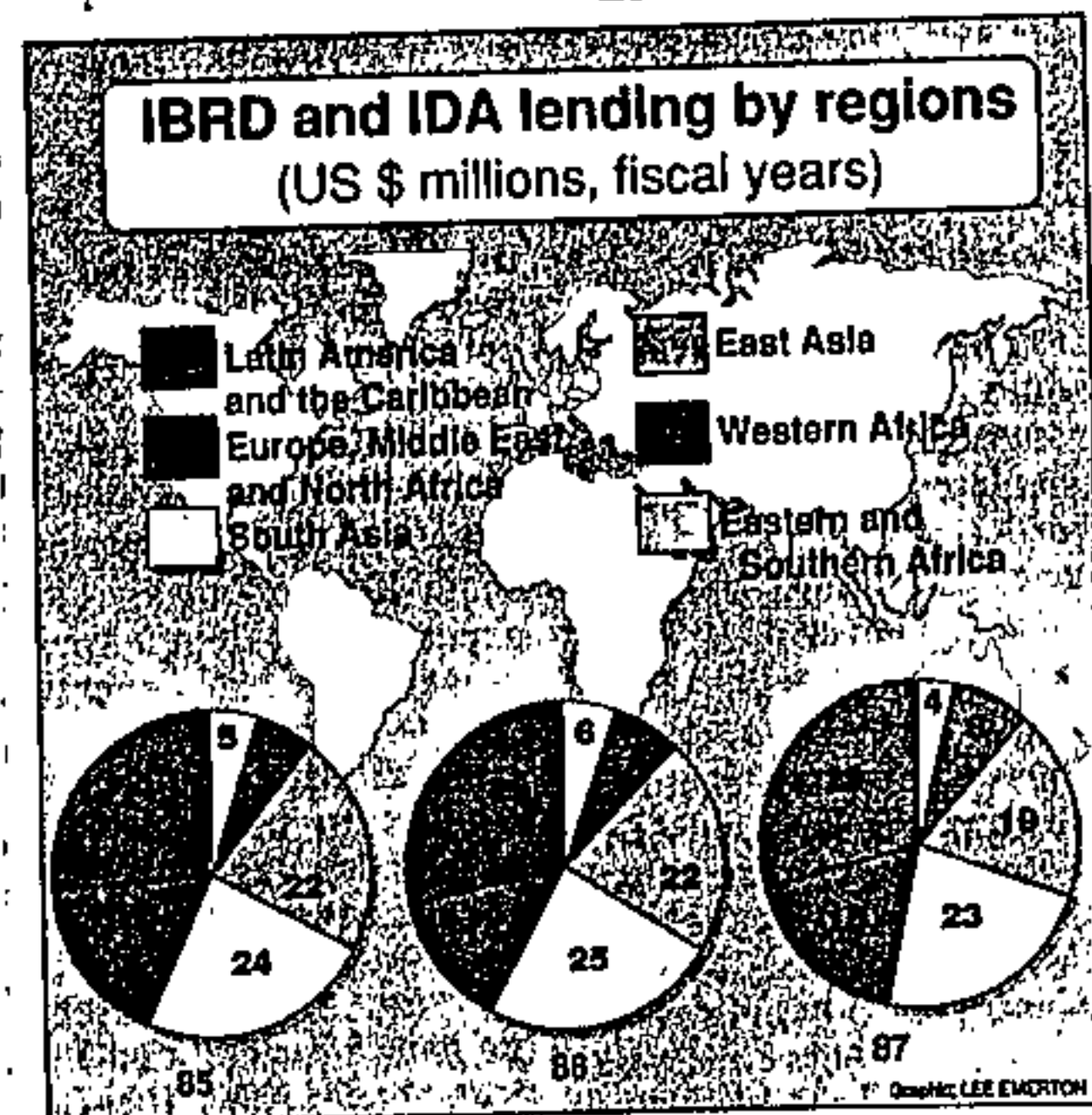
In its review of 25 years of developmental co-operation between 1960 and 1985 OECD's development assistance committee concluded "the most troubling shortcoming of development aid has been its limited measurable contribution to the reduction — as distinguished from relief — of extreme poverty, especially in the rural areas of both middle income and poor countries."

## Objectives

The bank said bilateral aid was guided by objectives, of which the reduction of poverty was not necessarily one.

It made up 64% of developing countries' net aid receipts against 22% from multilateral aid supplied by organisations such as the bank, the International Monetary Fund, the EC and the United Nations Development Programme.

About 41% of bilateral aid went to middle and



## Consultants take the lead

COMPANIES registered as consultants with the World Bank have to take the initiative to find out what opportunities exist for business on bank-financed projects.

Finance department deputy director of economic information Fred Browne says the lack of awareness of the criteria and conditions affecting work as a consultant with the bank is a problem among SA companies.

The bank concentrates on evaluating applications for development projects and has 33 000 consultants worldwide.

The bank's role is only of financier and it has little to do with the appointment of consultants or developers.

Browne uses a fictitious example of a scheme to develop a paper-mill in Mozambique to demonstrate how the process of applying for and obtaining a contract on a bank-financed project works, the project cycle.

A party may approach the Mozambican Government for money to build the mill. The government forwards the proposal to the bank. Browne

stresses the bank only lends money to governments, not to private concerns.

The bank decides to undertake preliminary discussions and studies funding possibilities.

It then asks for a feasibility study, which is the responsibility of the Mozambican Government. The government can apply to the bank for assistance to undertake the study.

The government appoints a consultant to conduct the study and may issue tenders or rely on the bank's services.

Companies can join the bank's registration list, known as the Data on Consulting Firms (Daccon) system. Registering is not essential for obtaining contracts on bank-financed projects but makes the process easier. Any company can subscribe to the bank's International Business Opportunities Service.

It includes the details of all proposed projects and the government institutions involved.

Once a company has registered, it must examine the list

and approach the government institutions dealing with feasibility studies and projects it believes are attractive.

The bank insists the government approaches an implementation agent (or project manager) to appoint the contractor to do any feasibility study.

When the feasibility study on the mill project has been tendered and completed, it is sent to the bank's executive board.

If the board accepts the study, the bank settles the loan requirements and conditions for the mill project with the Mozambican Government.

The implementation agent then issues tenders for the project. Consultants compete again, this time for the project itself. The bank is responsible at the end for accepting the project proposal.

Once the project is finished, the bank requires a final project audit and completion report, the responsibility of the implementation agent or a bank-registered consultant.

high-income countries in 1988, while many "aid" programmes covered an assortment of activities, commercial, political and strategic, which "often have a tenuous connection with development".

Only 8% of US aid in 1988 was development assistance devoted to low-income countries.

In the last two years, as political developments have changed the face of Eastern Europe, the area has presented itself ripe for bilateral investment initiatives.

Not only has Africa had a mixed experience from its bilateral aid programmes, they are at risk of drying up as the developed world looks to Eastern Europe, equipped with important economic infrastructure still largely absent from African countries for a

better return on investments.

In multilateral aid, the bank says its projects have registered many successes, along with those of other donors.

However, "a review of experience ... reveals some aid projects intended to reduce poverty have gone wrong".

The bank says a lack of commitment has been a major problem, with enormous sums spent for purposes that have nothing to do with development, such as military programmes and building "cathedrals in the desert".

Developing countries will have to rely more on domestic resources and foreign trade than external support if their economies are to be turned around and put on the path to prosperity.



# Increased aid opens up the African market

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THE SA Foreign Trade Organisation (Safto), as part of its brief to promote SA exports, has identified the infrastructural development projects of international aid organisations in Africa as a lucrative market for SA companies.

Safto executive Paresh Pandya says aid to Africa from international agencies is going to increase, a view based on feedback from contacts with the World Bank and other international aid organisations.

He says the international agencies have had political reasons for maintaining their presence in Africa.

Analysts give Tanzania as an example. Tanzania received billions of dollars in international funds in the '60s and '70s despite a socialist domestic economic policy.

With the end of the Cold War, pressure "to fly the flag of capitalism" is dwindle-

ing, but still important.

Mounting interest from SA companies in bank projects has been matched by the bank's interest in what SA can offer the rest of the continent in terms of development work.

Pandya says the bank sees SA fitting into medium to long-term development plans.

He says there is no lack of aid money for projects in Africa, but an absence of viable projects.

In 1990, the bank financed 222 projects worldwide, of which 87 were in Africa.

Safto has detected a shift in bank policy in the last three years away from grandiose schemes to lower key, more practical ventures in which environmental concerns are playing an important part.

SA companies are well placed to sell their expertise in environmental engineering and wildlife conservation.

neering and wildlife conservation.

Safto has compiled a series of research reports to guide SA companies to the international aid market.

The reports cover the civil engineering and construction industries which will cover such areas as aerial photography, building contracts, telecommunications and architecture.

Pandya says to win contracts, companies must adhere to bank requirements.

The bank does not discriminate against any country, but funding is organised on a country-to-bank basis.

The bank lends money to governments, not to contractors.

Safto, in preliminary investigations, found a lack of awareness among SA companies of the opportunities available via the bank and other agencies which are covered in the research reports.



## Long-term aim is pan-African private sector development

A WORLD Bank mission currently in SA is studying macro and micro-economic strategies in a post-apartheid SA.

But a spokesman said it would be premature to comment on the bank's future developmental role within SA or the role SA could play in regional development.

However, a cornerstone of its long-term strategy

for Africa is pan-African private sector development and it is keen to exploit whatever "comparative advantages" African countries have to this end.

Its 1989 "strategic agenda" for African governments and the donor community, which analyses 30 years of African economic development and looks 30 years ahead, remains the blueprint for reversing the

economic and social decline of the 1980s.

The bank focused on the need for improved and better-financed programmes for developing human resources.

To achieve these objectives, the bank said sub-Saharan economies had to grow by at least 4% to 5% a year.

Agriculture was identified as the primary source

of future growth, with food production having to expand by 4%, against the current rate of 2%.

The report targeted industrial growth of 5% a year, rising to 7% to 8%, with the establishment of conditions to promote an enabling environment.

The bank appealed for a 4% a year increase in official development assist-

ance during the 1990s and for the establishment of concessional debt-relief mechanisms to limit Africa's debt-service payments to current levels of about \$9bn a year. (356)

If donors met these requirements, they would have to provide more than \$20bn by the year 2000, double the levels of the mid-1980s.



# Helping countries to develop

THE World Bank's mission is to promote economic and social progress in developing countries by helping raise productivity.

The bank consists of the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA).

The International Finance Corporation (IFC) is an affiliate that works with the private sector in developing countries.

The IBRD and IDA help governments undertake policy reforms to establish economic growth and support a wide variety of projects.

These range from the promotion of rural and urban development, road building, industrial modernisation, establishment

of power stations and schools to the construction of water and sewerage facilities.

The IBRD was formed in 1945, conceived at the United Nations Monetary and Financial Conference held in Bretton Woods on the east coast of the US in July 1944.

Representatives from 44 countries decided to set up two complementary financial institutions. The first, the International Monetary Fund (IMF) was to promote international currency stability.

The IBRD, the second organisation, was to help finance reconstruction and development in its member countries.

The IBRD opened in 1946 and called up capital from its member governments,

which amounted to \$10bn.

The organisation is now owned by the governments of more than 150 countries, which have subscribed to its capital.

Only members of the IMF can join the IBRD.

The IDA was set up in 1960 to provide assistance to the poorest developing countries on terms which would bear less heavily on their balance of payments than IBRD loans.

Most IDA assistance goes to countries with per capita incomes of less than \$400 a year.

Of the 34 countries which borrowed from the IDA in the earliest years, at least 24 no longer require IDA funds.

Similarly, 20 former borrowing countries no longer rely on IBRD money.



| Project cycle                |                           |                                                                                  |
|------------------------------|---------------------------|----------------------------------------------------------------------------------|
| Stage                        | Approximate time required | Responsible party                                                                |
| Identification               | 1-2 years                 | Borrower<br>Borrower<br>Bank<br>Borrower &<br>Bank<br>Borrower &<br>Bank<br>Bank |
| Preparation                  | 1-3 years                 |                                                                                  |
| Appraisal                    | 3-6 months                |                                                                                  |
| Negotiation                  | 1-2 months                |                                                                                  |
| Implementation & Supervision | 6+ years                  | Borrower &<br>Bank<br>Borrower &<br>Bank<br>Bank                                 |
| Evaluation                   | 6 months                  |                                                                                  |

Graphic: LEE EMERTON

## A fundamental rethink

WORLD Bank development policy, particularly in Africa, has been misdirected in many ways.

As poorer countries have not responded as expected to the large inflows of foreign capital, so the bank has had to rethink the fundamentals of its strategy.

In the June 1988 quarterly edition of the journal African Affairs, School of Oriental and African Studies (London University) economist Michael Hodd surveys the record of the bank (and the International Monetary Fund).

He says in the years up to 1963, the bank concentrated on lending for infrastructure — transport, electricity and water projects — with some lending to schemes which enabled larger farmers in poor countries to adopt modern methods in fertilisers, pesticides and mechanisation.

Between 1963 and 1968,

the bank extended its activities to education and state-owned industries, while during the '70s, it financed smaller-scale rural development schemes, supported urban housing and services schemes and made loans to finance oil and gas exploration.

In 1979, the bank started a programme of Structural Adjustment Loans (SALs) — longer-term loans than those available through the IMF — designed to tide countries over until economic restructuring strengthened their balance of payments positions.

From 1982, the bank made Sector Adjustment loans to ease structural changes within a particular area of the economy.

From 1985, the bank instituted loans under a Special Facility for Sub-Saharan Africa.

In the '50s and '60s, development economists agreed

market forces were not effective in meeting the development needs of poor countries.

However, the dynamic performances of the newly industrialising countries, South Korea, Taiwan, Singapore and Hong Kong, provoked a fundamental change in thinking.

Economists say there are benefits to be gained by taking advantage of the opportunities offered by world markets.

In the African context, the bank's Accelerated Development in sub-Saharan Africa, published in 1981 and referred to as the Berg report after its principal author, acknowledged that external conditions and the legacies of colonial rule had contributed to poor economic performance.

However, substantial blame was also laid on the adverse affects of government intervention in the economy.



# Niche technology will be lever for economic growth

B1 Day 17/4/91 356

SOUTH Africa's generation of new science and technology in niche areas will be a lever for economic development in southern Africa.

CSIR executive director Brian Clarke says it will be a "force for good" in the region.

The CSIR is one of about 20 companies registered in recent months as consultants with the World Bank which, he says, has a pivotal role to play in regional development.

The CSIR registered in order to gain access to the business opportunities and markets on the continent.

As a financier, the bank and other aid agencies can unfreeze these cash-strapped markets.

The CSIR's move also reflects the change in focus at the organisation in the last four to five years as it moved from being the government's science and technology arm to filling the needs of the market place.

As the largest institute of its kind in Africa, undertaking 15% of all research and



BRIAN CLARKE

development on the continent, the CSIR is set to be an important player.

Clarke says sub-Saharan Africa is where the CSIR's main market place lies, because the region has only the barest science and technology infrastructure.

He says it is possible to

divide countries into four categories by their level of technological development. The first two are those which have no science and technological infrastructure and are unable to analyse what they have to import and those with rudimentary facilities at a university level but unable to generate their technological requirements. This, however, allows them to evaluate their imports.

The third rung on the ladder is filled by countries which are able to pick and choose their technological imports, generate some of their requirements and adapt imports to local conditions.

At the top of the ladder are the First World countries, which Clarke describes as "generators of high risk, high reward cutting-edge technology".

African countries fall into the first category, with only one or two such as Nigeria reaching the second rung.

SA falls into category three.

The CSIR has worked in

African countries for several years, with projects funded by aid agencies. The institute recently completed a project to overhaul Malawi's road network.

Clarke says it is important not to underestimate the political obstacles in the way of expansion through Africa — both the perceptions of change inside SA and the countries' own internal political and economic difficulties.

Another issue is the limits on the amount of work the CSIR can do outside SA given that it has to operate on a business level inside SA and be sensitive to local development needs.

Clarke says a "realistic approach is critical" for the organisation's success and the CSIR must avoid following a "colonial" approach to development in Africa.

However, in conjunction with the bank's huge financial and technical resource base, coloured by SA expertise, he says the CSIR can become the world leader in Africa-specific science and technology.



# Departing Europeans open door for local companies

BP 4/17/91 (180) (356)

SOUTH AFRICAN companies are queueing to register as consultants with the World Bank so they can tender for billions of rands worth of business on bank-financed projects in Southern Africa.

Finance department deputy director of economic information Fred Browne says at least 20 companies

have registered in the last year.

The bank will spend about \$20bn this financial year, 40% of which will end up in Africa. This represents about 40% of project cost as normally its deals include co-financing by commercial banks.

The main attraction for SA companies in working on projects financed by the bank is the guarantee that they will be paid.

Browne says the bank normally finances only that part of project payable in foreign exchange — for example, the importation of heavy equipment — with the rest supplied by grants or co-financing by agencies such as the European Development Fund and the African Development Bank.

Co-operation between local companies and the bank has been "tried and tested" on the R6,5bn Le-

sotho Highlands Development Project.

He says SA has had "normal relations" with the bank since its inception in 1945. Government received 11 loans before 1966, all of which have been repaid.

The bank is not a political institution — countries are not allowed to turn down tenders for political reasons — and Browne says SA companies have not been aware of the opportunities it offers.

## Excluded

However, SA companies have been excluded from projects involving the African Development Bank and were excluded from the bank's special "Africa facility".

He says there are two reasons for greater local involvement with the bank.

First, European companies which have traditionally done the develop-

ment work in Africa are focusing their attention on Eastern Europe.

With the advent of European economic integration in 1992 and the opening of the former Soviet bloc, about 30% of companies have withdrawn from Africa and "resettled" in Europe.

SA has the opportunity to fill the vacuum.

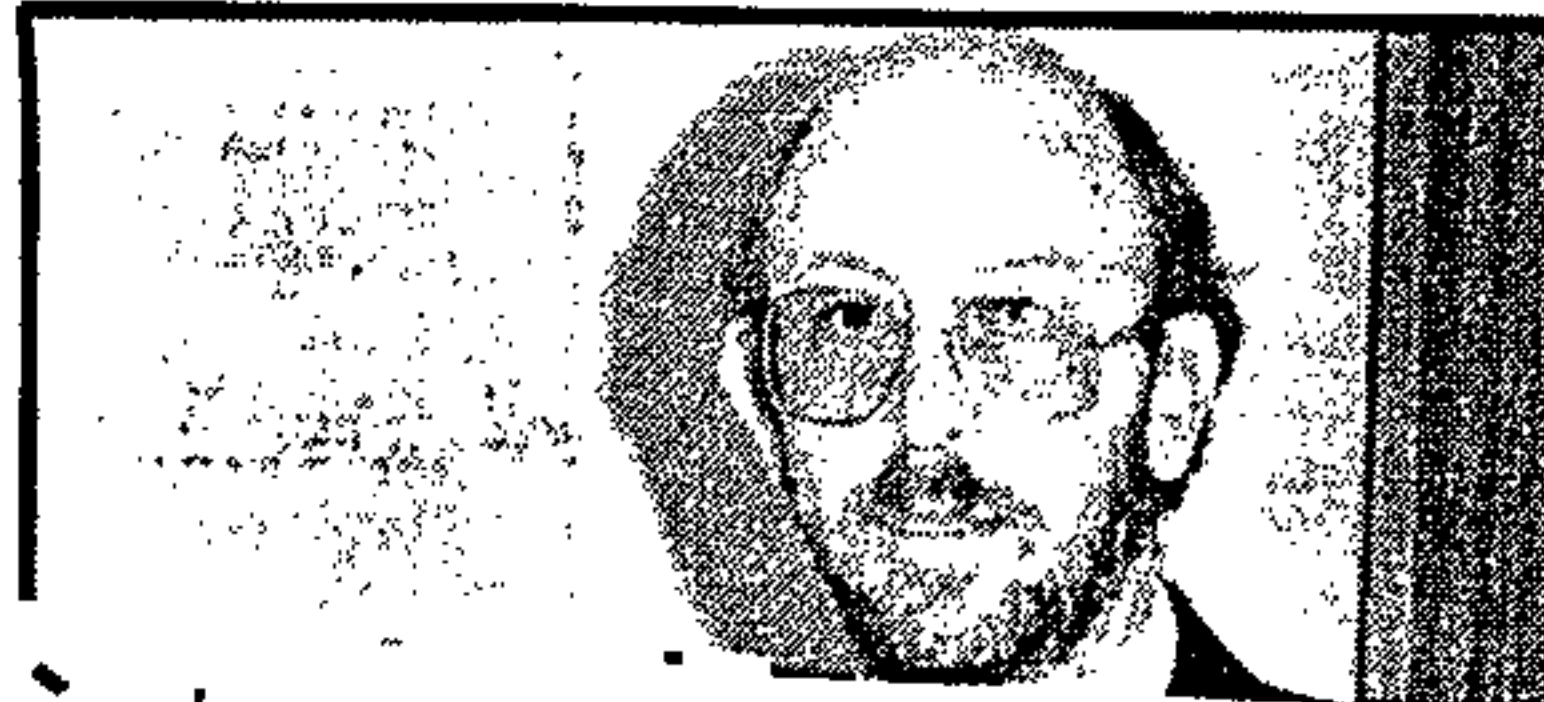
Secondly, the bank has had no dramatic development success story in Africa for a variety of reasons, one of which is the problem of "compatibility" between Western companies and agencies, and African conditions.

Browne says his department has detected bank enthusiasm for SA involvement in schemes on these grounds, prompting the Finance Department, rather than government, to launch its informal initiative to encourage SA involvement with the bank.

## Benefit

He says: "SA stands to benefit from the inflow of foreign exchange.

"Companies will also profit from the snowball effect of working on bank projects, which tend to flow from one another."





ANGLO American registered as a consultant with the World Bank in the middle of last year as interest in the role SA can play in regional economic development has grown.

Senior technical director Jack Holmes says the bank is keen on the involvement of SA expertise in development projects in the rest of Africa.

Holmes says the bank's interest in SA was prob-

## Anglo American signs up as regional interest grows

ably prompted by three developments.

The Lesotho Highlands Water Project brought the bank into direct contact with SA engineering contractors.

SA companies have won a major share of contracts for the R6,5bn project, set to be financed by world aid organisations, including the bank, the European De-

velopment Fund, the European Investment bank, the Overseas Development Association and CIM of Germany.

Among the companies involved are Concor, Group 5, LTA and Grinaker Construction, which have joined a consortium with European companies to build the Katse Dam and associated infrastructure.

6/22/91 13/14/91

The changing political climate in SA is another influence in the bank's decision to take a closer look at what SA can offer the rest of the continent.

The final factor is the realisation of the "considerable" expertise SA companies have accumulated in the planning and execution of projects in many parts of Africa.

Projects such as Moss-gas have demonstrated the extent of SA engineering competence.

Holmes says that Anglo is able to develop business opportunities in countries where it is established, such as Botswana, Zimbabwe and Zambia.

In other countries, the involvement with the bank might assist in the develop-

ment of similar opportunities for Anglo in the medium to longer term.

With its experience of operating in Africa, Anglo is also "a source of intelligence" on the sort of development problems affecting the sub-continent.

Holmes says, subject to commitments to its own businesses and investments, "Anglo has the ca-

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pability to provide technical advice, management of engineering and construction and procurement services and will look at any inquiry on its merits."

He says the corporation has had most contact with the bank's International Finance Corporation (IFC) as co-investor in Latin American projects.

The IFC is "a comforter" for international investors, he says.



# World Bank 'backs regional integration'

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610 am 23/4/91  
HARARE — The World Bank expected to support regional integration projects in southern Africa and looked forward to a democratic SA becoming a borrowing member, World Bank chief economist for Africa Stephen O'Brien said yesterday.

Addressing delegates at the Institute of Directors Conference in Harare, O'Brien said the past record of regional organisations in Africa had been disappointing.

This was because the economic policies adopted by most African countries in the 1960s and 1970s were inimical to regional integration.

## Self-sufficient

Most countries adopted an import substitution approach to industrial development which was a respectable way to start, but the same policies which were designed to protect Africa's infant industries had effectively curbed imports from other African countries as well.

"If infants do not someday grow up to become self-sufficient and their trade barriers allow inefficient monopolies to exist indefinitely... the end result will be industries operating at low levels of capacity."

These industries would be unable to compete in export markets and would require even higher tariff protection, O'Brien said.

"My central message is that great-

er regional co-operation will not take place no matter how many new infrastructural links are developed... unless the economic policies adopted individually and collectively by African countries are conducive to increased regional trade."

But O'Brien added there was growing political support for regional integration and more importantly the adoption of new economic policies which would establish a climate favourable to regional integration.

"We believe the climate is right for a new round of regional integration efforts in Africa."

O'Brien said the World Bank was looking forward to the day when following the establishment of a democratic SA, all countries in the sub-Saharan region would be active borrowing members of the World Bank.

Integrating SA into the region would more than double the market size and expand greatly the scope for economies of scale, specialisation and productivity growth.

"Speaking entirely in economic terms a democratic SA at peace with its neighbours and internally stable and economically dynamic would represent both a tremendous regional asset and also a tremendous challenge to its neighbours."

TIM COHEN



# ESCAPING THE TENDER TRAP

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## AFRICAN ECONOMIC REGENERATION MUST COME FROM WITHIN

The curious thing about Western attitudes towards the poor and starving in the Soviet Union and Africa, despite the similarity of their plight, is that the former are taken very seriously while the Africans have, in their own words, been "marginalised." Both, of course, have been the victims of failed government and varying degrees of totalitarianism. The difference is that the Soviets appear to have realised that their deprivations have been self-inflicted through collectivist planning that rewards the indolent in greater proportion than it does the enterprising. The reaction has been to demand both instant

capitalism and more regional political autonomy.

Africa, for its part, appears to cling stubbornly to the only political economy it knows, based on liberal myth, bureaucratic injunction and naked dictatorship. In short, that amounts to Africa blaming everyone else — but especially the World Bank and IMF — for not providing it with the means of perpetuating its own indigence.

Or certainly one could be forgiven that view after reading the lengthy statement produced after a four-day workshop in January in Addis Ababa. It was aimed at examin-

ing what is euphemistically called Africa's development crisis. More than 40 specialists participated, including those from leading African trade unions, the UN Economic Commission for Africa and the Organisation of African Unity.

The FM is indebted to the Institute of African Alternatives, a London-based study group which now has a Johannesburg office, for a copy of that statement. The institute, which we suspect would itself endorse the statement's sentiments, nevertheless believes that Africa's economic problems are so serious that the broadest possible examination

### LEADING ARTICLES

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and discussion is desirable. And it is difficult to gainsay that proposition.

Simply put, the workshop was critical of the conditions and nature of World Bank and IMF aid to African countries. It sees their emphasis on the allocation of resources through free markets and competitive pricing as attempts to encourage the informal sector and to reduce government's role in these economies. Workshop delegates saw that as an onslaught on their own national sovereignty.

It also condemns the bank's initiatives — or structural adjustment programmes — for not adequately taking into account the need for education, health and other social benefits. It claims the bank has admitted to its own failure in Africa.

It criticises the denial of agricultural support policies in Africa, despite their widespread use in industrialised countries, and what it calls the excessive reliance on peasant production without significant efforts to encourage co-operatives or resolve the conflict of the production of food for local consumption with the need for export crops.

There is both implied and explicit criticism of the investment role of transnational corporations, the global perspective of which is believed to clash with the need for domestic job preservation and the under-utilisation of capacity.

And, of course, there is reflected too the deep resentment at the refusal of the bank or IMF to countenance the overvaluation of domestic currencies, which are patently to the benefit of middle-class bureaucrats and which spawn all manner of controls on trade and exchange which stifle enterprise.

Singled out for particular scorn is the Uruguay Round of the General Agreement on Tariffs & Trade (Gatt) for both "marginalising" Africa and attempting to deny it the trade barriers that the workshop believes necessary to protect industries and earnings. Other accusations include the denial of African countries' right to regulate their own financial services industries.

The workshop takes the popular African view that the bank's conditional assistance and the inequitable Gatt liberalisations amount to a Western conspiracy to impoverish and recolonise Africa.

Finally, the Fraser Report on African Commodity Problems is criticised for suggesting that Africa has been the instrument of its own inability to profit adequately from the production of raw materials, citing the protectionism of the industrialised West and synthetic substitution for its failure. It is too much inclined for the critics in Addis Ababa to hark back to the golden days of the Sixties by corroborating the bank's own analysis of what is wrong with Africa.

There are a few other arguments used by Africa's elite for the predicament in which they now find themselves. These are not

explicitly stated, but they are the hardy annuals of the World Bank and IMF annual meetings. The first is that the former colonial powers, by exploiting Africa's natural resources to their own ends, destroyed the indigenous African economic and social system. The second is that the West conspired after the decolonisation of the Sixties and Seventies to manipulate commodity prices to its advantage and against those of African producer countries.

Why the West should bother to conspire against the countries it is marginalising remains an enigma. Voluntary decolonisation doesn't fit well with such a rich source of raw materials. Certainly no one who has worked in world commodity markets would doubt the difficulties associated with effective manipulation. With the exception of De Beers' marketing of diamonds, no other buffer stock arrangement or strategic management scheme has had enduring success.

It is important to say that the bank and IMF force their policies on nobody. No country in Africa has to use their facilities, but those that do need to fulfil lending conditions. And increasingly the bank is insisting that one of those conditions is a return to

but in the Soviet Union and China — is hardly likely to make sense.

Africa's problems with Gatt are substantial — not so much because it erodes sovereignty but because it is manipulated by European countries to their own (much mistaken) protectionist advantage. The trade barriers that the Europeans enjoy — mostly masked in the rhetoric of free enterprise — in the fields of agriculture and textiles (and the spurious use of anti-dumping regulations) should be used by African countries as a diplomatic lever to increase their own freedoms and not the reverse, which is all too often the case.

Protection stultifies growth by limiting competition. Likewise controls over trade and exchange. They are not a challenge to national sovereignty, simply an attempt to prevent the economic expression of domestic political policies that are likely to scare investors. They seldom work for long.

Perhaps there is more to come. But apart from the references to Africa's own long-term plan, the Addis document amounts to no more than a plea for more Western aid to be used as unproductively as it has been in the past. The document is notable chiefly for the poverty of its economic ideas. It comes dangerously close to being an argument by Africans for their own marginalisation. For it is a litany of complaint rather than a compendium of constructive initiative and a capitulation over free trade to European sleight of hand.

There are sufficient examples in Africa to suggest that where elements of freedom of trade and exchange are allowed, rising prosperity can be sustained. Perhaps the problem is that too many African governments — including the government of SA — have for so long

denied political freedoms that they too easily and wrongly equate economic ones with fears of a loss of their own sovereignty.

This is reflected in the cry for more development banks, which in turn is a thinly veiled attempt to maintain control over and continue misspending development aid. Regional development banks have nowhere proven to be instruments capable of guaranteed prosperity. They are too easily the means of subjecting bank initiatives to the interference of meddling politicians and their servants.

What Africa needs above all else is African resolution and resourcefulness. It must seek its own future from its own substantial intellectual and material resources, rather than allow itself to be enervated by morbid reflections on its past or the duplicity of European politicians. And that, in turn, requires creative and self-confident leadership and the political freedom in which it is able to flourish.

In sharp contrast the Soviet Union has begun to look to the future. Until Africa can bring itself to do the same, it will remain at best on the margin of Western abundance. ■



democratic government and an improvement in the application of human rights. Very few African countries score well on these counts.

Whether bank policies have been a success in Africa is open to argument. Certainly the bank appears to have evidence of substantial and durable progress in other parts of the Third World, in particular South America. It certainly acknowledges that African countries have indulged in such extreme and intransigent economic and social degradation that too many of its small national economies have become basket cases.

The extremity of their deprivation may mean that what the bank prescribes will take longer than expected to bear fruit. Often, too, progress is slow as African rulers have to be cajoled into the application of policies that are not in the interests of the socialist bureaucrats that "liberation" spawned in Africa. But when it comes to the interests of ordinary people — especially farmers — the bank has the most to offer.

But even if the bank's policies have failed to revive some African economies, to switch back to what brought about this awful situation in the first place — not only in Africa



# World Bank puts squeeze on the militarists

8 Times 28/4/91  
Sunday Times Reporter  
Washington

THE World Bank should examine how much a Third World nation spends on arms when considering making a loan to that country, according to the head of the multilateral bank.

"The World Bank has to look at the level of military spending to determine the capacity of a country to deal with development issues in case there is a big diversion of resources into military spending," World Bank president Barber Conable told a news con-

ference on Friday.

The bank is the biggest single source of aid to the Third World, lending more than \$23-billion (£62-billion) a year.

Mr Conable's predecessors have been wary of military issues since the bank is owned by 155 countries and some of them are under military dictatorships.

Mr Conable said the United Nations Development Programme would

issue a report later this year suggesting ways of looking at the problem.

"Military spending is not purely a fiscal issue because there's an emotional surcharge on it," he said. "But it does have fiscal consequences."

He added that each country has to be considered separately but that there were some rules of thumb that could be applied. He did not say what they were.



WASHINGTON. — The World Bank said yesterday it will shift from financing low-cost projects in the developing world's cities in favour of large-scale efforts it hopes will better address urban problems.

The international lending institution's policy will focus on fighting poverty and pollution while increasing the productivity of the 1.3 billion people who live in exploding Third World cities.

For too long, government efforts supported by lenders have addressed urban growth and poverty by backing low-cost shelter, water supply, sanitation and transit projects, said a report by Michael A Cohen, chief of the bank's Urban Development Division.

Such projects "have not had major impact on the policies of national and local governments and the broader issues of managing the urban economy," the report said.

It estimated that one-fourth of the urban population in the developing world lives in absolute poverty and says urban poverty is growing faster than rural poverty in many countries.

Under the new policy, the bank expects to back large-scale projects intended to improve housing, develop land, upgrade slums, build transit systems, create jobs, fight pollution and improve city governments.

The report responds to rapid growth in Third World cities and towns, which are expected to account for two-thirds of the world's population increase by the end of the decade.

# World Bank set to tackle poverty, pollution

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30/4/91

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The policy paper noted that 20 of the world's 25 largest cities will be in the developing world by the year 2000.

It outlined bank strategies for increasing productivity, attacking poverty, addressing environmental problems and increasing research on urban development.

The urban share of developing countries' economies is as high as 80%, it said, and yet some governments continue to avoid steps that would help its city dwellers to become more productive. The report cited excessive regulation of housing construction in Malaysia as an example.

The biggest pollution problem in most cities is unsafe drinking water, the report said. Air pollution and exposure to toxic chemicals also cause widespread health problems and increased mortality rates, it said.

The report estimated that motor vehicle traffic and the emissions it causes will grow 5 to 10% a year in developing countries. — Sapa-AP



## Bank targets Third World cities

WASHINGTON — The World Bank said yesterday it would shift from financing low-cost projects in the developing world's cities in favour of large-scale efforts it hoped would better address urban problems. *Blom 30/4/91*

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# Financial woes imperil newfound democracy

**WINDHOEK** - The wave of democratisation that has swept through Africa in the past two years is imperilled by the worsening economic crisis on the continent.

Mr Salim Lone, the chief of information for the United Nations Africa Recovery Programme, said industrialised nations should take note of changes occurring in Africa and consider providing debt relief and commodity funds to help the continent out of its 12-year economic crisis.

At a Press conference here last week, Lone painted a bleak picture of the prospects for economic recovery, much of it quite beyond Africa's control.

"Africa itself is on the right path," he said. But in the world picture, the continent had been completely marginalised.

The latest figures from the International Monetary Fund, released last week, showed no relief ahead. Instead, the scenario for Africa, with its R700 billion debt, was looking progressively worse.

## Famine

"The world knows about civil wars in Africa and about famine, but little else. As the reality of what Africa itself is doing becomes clearer, Western countries will pay more attention."

This was the only note of hope sounded by Lone. He believed African countries had, on the whole, recognised that they had to put their own houses in order; they wanted to "take charge of their own destinies".

The move towards an African Economic Treaty, high on the agenda of the next meeting of the Organisation of African Unity in Nigeria at the end of the month, was a measure of this, said Lone.



Since January last year, more African countries had introduced multi-party political systems than in the last 25 years.

At the same time, the level of political violence in Africa was unprecedented, much of it attributable to the stringent economic structural adjustment programmes that many countries had instituted at the behest of the IMF and the World Bank.

Lone said that in many ways Namibia's independence could not have come at a worse time economically.

## Strategic

The end of the Cold War meant that aid to strategic surrogates in Africa had dried up.

At the same time the world commodity prices that fell in 1979, have not recovered. Africa borrowed heavily following the rise in the oil price in 1979 when banks were only too pleased to be rid of their petrol-linked dollars.

Africa earned between 88 and 90 percent of its income from the sale of primary commodities.

When those prices did not recover following the borrowing spree, more borrowing followed and the debt spiral deepened.

Last year commodity prices fell a further eight percent, this year another three.

Among the doomsday IMF figures to which Lone referred was that GDP growth in Africa for 1990 would be only two percent and 1,2 in 1991. The population growth was 3,2 percent.

"The per capita income in Africa has fallen every year for the past 12 years and it's going to get worse," said Lone.

## Reform doomed without money

This could not have come at a worse time coupled with the marginalisation Africa had suffered as the world looked to the Middle East and Eastern Europe.

Lone also said that 40 million African children would die of hunger or treatable diseases in the nineties and that the Aids threat to African children was greater than anywhere else.

About 1,5 million women on the continent are HIV positive, compared to 100 000 in the United States.

The figure for absolute poverty is expected to double in the decade to 405 million whereas in other crisis countries like those of South East Asia, poverty was being eradicated.

The food gap in Africa, 15 million tons at present, would be 200 million tons within 30 years or the equivalent of the entire cereal output of the United States.

Another statistic to put the crisis in perspective was that the total output of the 500 million people of the 46 countries of sub-Saharan Africa was less than the total output of metropolitan New York.

## Reforms

Lone said that in the mid-1980s, when African countries agreed to IMF and World Bank recommendations for structural adjustment, the West undertook to provide the assistance necessary to realise those reforms.

Two recent reports to the UN Security Council indicated that while many of these economic

reforms had been initiated, the increased resources from the West had not met anywhere near the required levels.

There had been a two percent annual increase in official development assistance to Africa, while the World Bank recommended a four percent increase if there was to be a one percent increase in economic output.

But aid and assistance was not always appropriate and could not be evaluated in isolation. The net financial transfer, or available resources, had dropped from R39 billion in 1981 to R7,8 billion in 1989.

When Western governments made decisions about where their money was to go, the fact that sub-Saharan Africa accounted for only 1,5 percent of world trade, meant that it was no significant concern.

Lone said that at a meeting of seven industrialised nations in Houston last year, Africa was not even mentioned.

A recent meeting of the Paris Club gave special debt concessions to Egypt and Poland.

"The countries most stricken, are African. But when the crunch comes, the best deals go to Eastern Europe and the Middle East," said Lone.

The only hope was that the West would recognise what Africa itself had achieved by way of reform and come up with debt relief - without which that reform was doomed. - *Africa Correspondent*.

**Sowetan's cartoonist Len Sak is on leave. His work will reappear when he returns.**

Political comment in this issue by Aggrey Klaaste and Deon du Plessis. Newsbills by Sydney Matlhaku. Sub-editing and headlines by Ivan Fynn. All of 61 Commando Road, Industria West, Johannesburg.

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# World Bank holds environmental seminar

**GABORONE.** — The World Bank, under pressure to clean up its environmental act, yesterday opened a seminar to educate borrower countries in Southern Africa about its new environmental requirements for development funds.

"There is great pressure both from outside and from within the bank and we now feel we should never finance anything when we don't know what the environmental impact might be," Mr Robert Goodland, an author and environmental adviser to the bank told a news conference.

"That is why we are trying to help governments to improve their environmental assessment (EA) track records," the author

of the 800-page "Environment Assessment Resource Book" added.

Opening the nine-nation seminar, Mr Christiaan Poortman, the bank's resident representative in Zimbabwe, said African governments needed to go beyond merely consolidating progress made in economic adjustment programmes.

He said governments would have to grapple with three major trends that had deeply affected Africa's past development and that would largely determine its future: Agricultural stagnation, explosive population growth and degradation of its natural resource base.

Mr Poortman said environmental assess-

ment could play an important role in the development of the continent.

The bank's operational directive on environmental assessment formalised the bank's requirements for borrowers to evaluate the environmental impact of proposed projects and develop ways to minimise damage.

"In sub-Saharan Africa the directive raised special problems because, compared to other regions, most African countries have weak or non-existent environmental institutions and they also lack formal environmental assessment requirements," Mr Poortman said. — Sapa-Reuter



# World Bank focus on SA

CT 10/6/91

## First report on the country provides a framework for study

### Own Correspondent

JOHANNESBURG. — The World Bank intends tackling a range of contentious SA issues that have been the subject of debate since the unbanning of the ANC — including economic concentration, "excessive" profits, the size of the Budget deficit, per capita government spending, on the different races, the informal sector and the flow of funds into development projects — according to a secret bank document.

The World Bank discussion paper on SA — its first report on the country — has been circulated among government, ANC, business people and trade unionists, and provides a framework for the Bank's study on SA.

A draft of the study is expected to be

completed in July this year after a recent visit by bank representatives to collect data and hold discussions with wide-ranging interest groups.

A major theme of the document is whether a bias towards capital intensive production might not be a major factor inhibiting employment growth in SA.

The document said a comparison with other countries disclosed that SA "appears to be unusually capital-intensive", and noted that in the late 1980s, SA had a capital stock equivalent to \$30 000 a worker, compared with \$12 000 for Argentina and \$18 000 for Mexico with its highly capital-intensive oil industry.

SA's capital-to-labour ratio had doubled between the first half of the 1980s and the end of the 1980s.

"Has the past pattern of industrial development been excessively capital-intensive as a consequence of policy biases? If so, what are the options for change?"

The Bank would attempt to answer those questions in its study. The clothing and textile industry was mentioned as one which might be too capital intensive as a result of protection.

The bank would undertake case studies of small-scale textile and garment firms to help establish whether small-scale industry had an important role to play in generating employment.

It was important to establish to what extent the capital intensity was "normal" or the result of the economy moving in an "inappropriate" direction.

Two factors were mentioned as possibly contributing to the capital intensity — protection of industries and the concentrated ownership of business.

"High concentration can be inimical to efficient, labour-absorbing growth if it goes hand in hand with protection, monopolistic behaviour and a preference for a capital-intensive approach."

The bank added, however, that the issue of concentration had to be analysed by distinguishing between individual industries and large and diversified conglomerates "for which the implications are less clear."

The section on public finance hints at a much more lenient approach to the size of the Budget deficit than the strict rule — stated in government's long-term economic strategy — that borrowings should equal government's capital investment. The bank emphasises the need for investment in "human capital".

The bank would assess possible sustainable levels of the fiscal deficit and would investigate whether the channelling of savings to finance development was functioning well.

Per capita public spending on the white population was "unusually high" — at a level that was "unaffordable" for a country of SA's income level and had only been made affordable by the neglect of service provision for the black population.

On pushing up wages as a way to reduce income disparities, the bank noted that the effects were often temporary with subsequent erosion by inflation.

But "if profits are excessive, whether through excessive capital intensity or high protection, a shift from profits to wages may be feasible."



# Secret World Bank paper focuses on SA shortcomings

THE World Bank intends tackling a range of contentious SA issues that have been the subject of debate since the unbanning of the ANC — including economic concentration, "excessive" profits, the size of the budget deficit, per capita government spending on the different races, the informal sector and the flow of funds into development projects — according to a secret bank document.

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To Page 2

## World Bank

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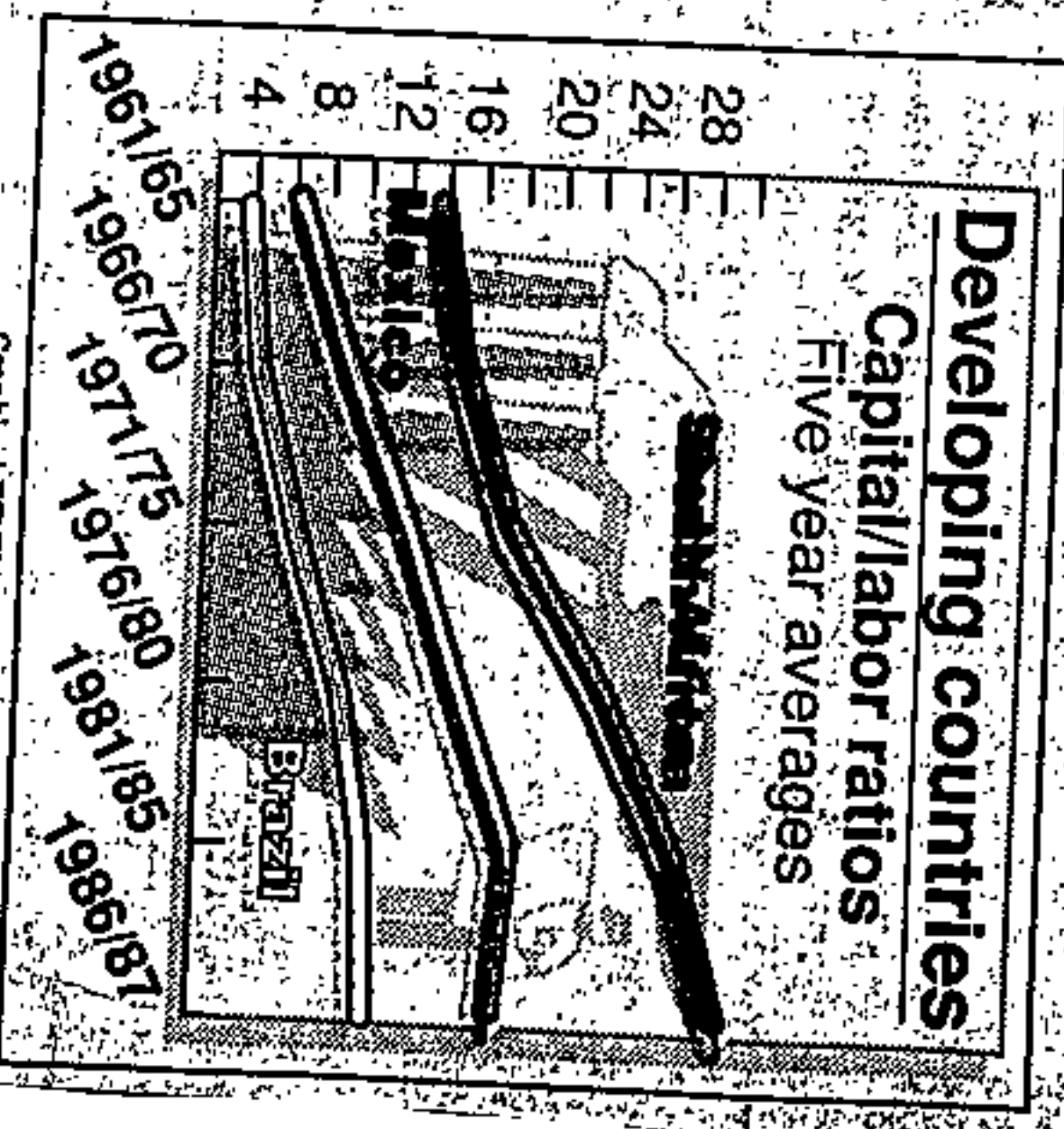
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From Page 1

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## US wants new World Bank focus

WASHINGTON — The US is pushing the World Bank to shift the bulk of its lending to helping private business rather than assisting Third World governments.

The 155-nation bank lends about \$22bn a year, making it the biggest source of international aid.

After a quiet struggle that lasted for months, officials said Charles Dallara, assistant treasury secretary for international affairs, agreed last week to support a \$1bn boost in capital for the International Finance Corp, the small section of the bank that already lends to private companies.

With its current capital of \$1.3bn, the IFC has been lending about \$1.6bn a year.

The US government, the largest stockholder, would have to pay in about \$50m a year for five years as its share of the \$1bn capital increase, bank spokesman Mark Constantine said.

A House foreign affairs subcommittee has voted \$40.3m without a request from President George Bush's administration.

The administration had been holding back in an attempt to get a pledge of more support for the private sector from the sections of the World Bank that do much more lending: the International Bank for Reconstruction and Development and the International Development Association.

Spokesmen for all three said a deal was cut. The bank's board, representing all the member governments, will meet on June 20 to consider the increase.

The bank management has agreed to put more emphasis on loans that help business.

Other influential governments want quick action on helping the IFC but have been sceptical about shifting the emphasis of the bank as a whole. — Sapa-AP.

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# Move to direct World Bank funds to private business

WASHINGTON. — President George Bush's administration wants the World Bank, the biggest source of aid to Third World governments, to shift more of its lending to private business.

ET 17/6/91  
The bank's 22-member board of executive directors, representing the 155-member nations, will consider the US proposal in a meeting next Thursday.

Any decision on changing bank lending policies would require a consensus agreement, and this may be difficult to obtain.

The bank already provides some help to private businesses. It lent the government of Chile money that was used to help people buy apartments from private landlords, instead of fi-

nancing the construction of public housing.

In another case, the bank acted on the complaint of a private banker in Guinea, whose suits to recover funds owed him by 300 customers were rejected by local courts. The bank helped set up a programme to encourage changes in Guinea's business law and thus hold people accountable for debts.

The US Treasury wants the bank do more lending along these lines, in addition to its traditional loans to governments to help finance schools, medical care, roads, farms and harbours. — Sapa-Reuter

The bank approves about \$22bn dollars a year in new loans. — Sapa-AP



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US officials see changes in Eastern Europe as evidence that private enterprise, rather than state-owned business, is the way to bring prosperity to a country.

"We believe that an efficient, internationally competitive private sector, fuelled by private domestic and foreign investment and responding to market signals, will be the primary engine of growth in the 1990s," Patrick Coady, the US representative, told the board at an earlier meeting.

US Treasury Under-secretary David Mulford told a congressional hearing last week that under current rules a government-owned railway could borrow from the World Bank, but not a railway owned by private individuals.

This discouraged privatisation in the Third World and Eastern Europe, he suggested.

"A large state enterprise will not easily give up that important source of capital by privatising and cutting itself off from future World Bank loans," he said.

Still, resistance to a major shift in lending has stiffened both in the US and in other nations.

Congressmen reminded Mr Mulford that the bank's basic purpose for over 45 years had been to reduce poverty in the Third World.

Mr Mulford reported that he had wide support for changes and denied a report that 21 of the 22 directors opposed the Bush administration position.

Mr Mulford said he favoured new rules for the biggest section of the bank to let it lend directly to businesses.

He did not expect an immediate change in policy. — Sapa-AP.



WASHINGTON. — New loans approved by the World Bank, the largest source of aid for the Third World, hit a record \$24.2bn in the past year.

That was up from \$22.7bn the previous year, according to a review published yesterday.

Moeen A Qureshi, a senior vice-president, said that lending to eastern Europe rose from \$500m two years ago to

## World Bank loans hit a record \$24.2bn

nearly \$3bn this past year.

Poland got \$1.4bn for its first time.

Additional lending because of the Gulf War was put at more than \$1.4bn for the 12 months. But reducing poverty

is the bank's main object, said President Barber Conable at a news conference.

The way to do that is to make Third World economies grow, said Conable, adding that the private sector is one of the focuses for stimulating growth.

The United States is the bank's biggest stockholder. The bank's earnings, not yet announced, are expected to be near \$1bn. The International De-

velopment Association which lends to the poorest countries from a donor fund, approved \$6.3bn in new loans — up \$800m.

The International Finance Corporation which lends to private business rather than to governments, approved \$1.5bn. Lending was stagnant because the IFC was

awaiting an increase of its capital.

Qureshi said there were significant increases in lending for human resources such as schools and women's development. Loans amounted to almost \$4bn. — Sapa-AP



## FINANCE

# Loans to Eastern Europe lift World Bank lending

WASHINGTON — New loans approved by the World Bank, the largest source of aid for the Third World, hit a record \$24.2bn in the past year.

That was up from \$22.7bn the previous year, according to a review made public on Sunday.

Moeen Qureshi, a senior vice-president, said lending to Eastern Europe rose from \$500m two years ago to nearly \$3bn this past year.

Poland got \$1.4bn, lending to Romania was resumed and Bulgaria and Czechoslovakia got loans for the first time.

Additional lending because of the Gulf war was put at more than \$1.4bn for the 12 months.

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The way to do that was to make Third World economies grow, said Conable, adding that the private sector was one of the focuses for stimulating growth.

Albania is expected to join the bank and its sister organisation, the International Monetary Fund, later this year. The US has opposed the Soviet Union's membership.

The bank's earnings, not yet announced, are expected to be near \$1bn.

The bulk of the loans came from the bank's International Bank for Reconstruction and Development which approved \$16.4bn worth — up \$1.2bn. The International Development Association, which lends to the poorest countries, approved \$6.3bn in new loans — up \$800m.

The International Finance Corporation, which lends to private busi-

ness rather than to governments, approved \$1.5bn. Official figures were unavailable, but appeared to be about the same as the year before. Lending was stagnant because the IFC was awaiting an increase in capital.

That was approved by representatives of member governments on Friday, so loans are expected to rise about \$150m in the coming year.

India was the biggest total borrower — \$2bn — followed by Mexico, which got \$1.8bn.

Qureshi said there were significant increases in lending for human resources such as schools and women's development. Loans amounted to almost \$4bn.

Emphasis was also put on the environment, with the bank requiring all projects to be checked for their environmental effects. — Sapa-AP.



# World Bank urges rethink on housing

JOHANNESBURG. (356) (423) CT 8/7/91 The World Bank has urged government and the private sector to conduct a major rethink of housing strategies.

Housing sources said the bank had provided them with detailed suggestions in a critical report circulated after the bank's recent visit to SA. Government sources emphasised, however, that the confidential report had "no official status".

The bank strongly urged the Independent Development Trust (IDT) to reconsider its proposed capital subsidy plan. The size of the subsidies and the standards were apparently too high. The bank called for "broader rather than deeper" subsidy schemes aimed at reaching as many people as possible.

It also told SA banks and building societies they were using the political climate as a "convenient excuse" for not taking part in the top end of the black housing market, let alone in the bottom section. The report called on banks and societies to meet civic organisations and other non-parliamentary groups to hammer out ways in which the institutions could become more involved in mass housing.

The bank wanted financial institutions — rather than government — to be the primary providers of housing finance. Leaving it to the public sector carried the threat of pushing the fiscal deficit to dangerously high levels.

The bank felt SA could benefit from studying the Chilean model of large-scale capital subsidies that went directly to the beneficiaries as well as competitive tendering for low-cost housing.



# West African leaders hope for peace

ABUJA (Nigeria) - West African leaders have ended a summit in Nigeria hopeful of achieving regional solutions to strife-torn Liberia, widespread political unrest and slow-paced economic integration.

"A new spirit is

born," said Senegalese President Abdou Diouf, elected new chairman of the 16-nation Economic Community of West African States (ECOWAS). Diouf said West African leaders had realised that domestic stability was needed to integrate

their impoverished economies.

## Account

The leaders were optimistic that a Liberian peace accord, reached in the Ivory Coast last week between Liberia's interim

president Amos Sawyer and rebel leader Charles Taylor, would speedily end the 18-month-old conflict.

ECOWAS was formed in 1978 to remove trade barriers and promote integrated industries. - Sapa-Reuter

## An army(y) and a leg

WASHINGTON 1. The world spends more than R2.8 trillion a year on military troops and hardware, according to a World Bank report released yesterday.

"Governments need to take every possible step to reduce military expenditure," the report says.

In the late 1980s military spending totalled R2.4 billion a year for high-income countries and R476 million for developing nations. 8/7/91

"If military expenditures were reduced, the world would be a better place," the report says.

It cites Costa Rica, which has reduced military spending in favour of more support for health and education. - Sapa-AP

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# Rethink urged on housing strategy

Blom 8/7/91

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Housing sources said the bank had provided them with detailed suggestions in a critical report circulated after the bank's recent visit to SA. Government sources emphasised, however, that the confidential report had "no official status and merely reflects the bank's first impressions".

The bank strongly urged the Independent Development Trust (IDT) to reconsider its proposed capital subsidy plan, saying not enough people would benefit from current proposals. The size of the subsidies and the standards were apparently too high. The bank called for "broader rather than deeper" subsidy schemes aimed at reaching as many people as possible.

It also told SA banks and building societies they were using the political climate as a "convenient excuse" for not taking part in the top end of the black housing market, let alone in the bottom section.

GRETA STEYN

The report called on banks and societies to meet civic organisations and other non-parliamentary groups to hammer out ways in which the institutions could become more involved in mass housing.

The bank wanted financial institutions — rather than government — to be the primary providers of housing finance. Leaving it to the public sector carried the threat of pushing the fiscal deficit to dangerously high levels. Mechanisms had to be found to encourage private financial institutions to move "downmarket".

The bank also urged financial institutions to develop more flexible mortgage lending products, suggesting that mortgage payments be linked to a wage index.

It criticised the lack of competition in the building industry. The market structure of the construction industry, including manufacture of building materials, needed

□ To Page 2

## Housing

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an overhaul. Lack of competition saw prices rather than output increase when demand rose, the bank said.

Of major importance in a housing strategy was the racial and spatial integration of cities — a change that would benefit the economy by improving efficiency.

The World Bank likened SA's housing policy under apartheid to those of the command economies of Eastern Europe. As a result of these policies, the housing sector underperformed. The economy as a whole was affected. Spending on housing in SA was well below that of other comparable countries when expressed as a percentage of GNP.

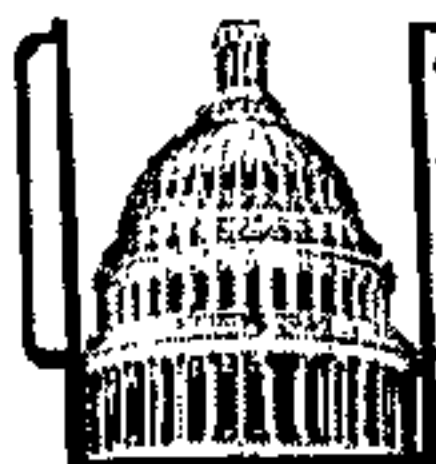
Although residential building had a major effect on the economy, directly and indirectly, the bank cautioned against ex-

pecting too much of housing as a "kick-start" to the economy — the approach propagated by the Old Mutual/Nedcor scenario at present.

The bank suggested that the macro-economic implications of alternative home building programmes be explored in detail, so that the economic risks could be pinned down. These risks included the effects on inflation, the balance of payments and the fiscal deficit.

The bank felt SA could benefit from studying the Chilean experience of housing as fiscal stimulus to the economy. The country introduced large-scale capital subsidies that went directly to the beneficiaries and competitive tendering for low-cost housing.





CT 10/7/91

SHOUTING "Fire!" in a crowded theatre is one of the few forms of expression not protected by the First Amendment to the US constitution — unless, of course, a fire has actually broken out. South African law and custom evidently impose no similar restraint on the discussion of the country's economy. To the contrary, it seems almost *de rigueur* among certain members of the political and rent-seeking classes to describe the current state of play in the most panic-inducing terms.

All right, things are grim. The theatre is structurally unsound, lacks seats for a sizeable proportion of its patrons and has been appallingly managed. But this does not mean that South Africa's economic straits are so dire as to be the functional equivalent of having all the armies of Africa poised on the border.

Such extreme imagery is worse than irresponsible for it suggests a cure even more poisonous than the malady. War implies state intervention on a gigantic scale and the concentration of power into the hands of an all-powerful cabal of decision-makers.

Happily, the World Bank has just produced an antidote in the form of its latest annual development report. After mulling the failures and successes of the past 40 years — though not, alas, South Africa specifically, since it started becoming respectable too late for inclusion — the bank has come to a very refreshing conclusion: markets, not the state, are the key to rapid economic development.

We have at last understood, says the report, that "trade, markets and entrepreneurship are crucial determinants of progress... governments need to serve enterprise, large and small, not supplant it".

They can do this in four principal ways: first and foremost by getting the macro-economics right and not treating them as an embarrassment to be given lip service in the manner of ANC's 1990 working paper on economic policy. Without fiscal and financial responsibility and stable, undistorted prices and exchange rates, everything else breaks down. Too rapid growth in government spending leads to "large deficits, inflation and the crowding out of private investment". Better to streamline and to look carefully at the "division of economic tasks between the government and the private sector" than to print money.

Second, foster a competitive environment at home. No protection or feather-bedding, please. If you must adopt industrial policies favouring one sector over another for strategic reasons, at least let price signals tell you when you've blundered — as, almost certainly, you will. Otherwise, don't do it. But do privatise state-owned industries. Private managers with their shareholders' assets on the line tend to be more efficient and adaptive than bureaucrats betting taxpayers' money.

The world's most successful economies got that way through "the rigours of competition". "Systems of industrial licensing, restrictions on entering and exiting markets, inappropriate codes for bankruptcy and employment, inadequate property rights and price controls" all act as brakes on progress. As do regulatory mechanisms that function at the discretion of corruptible officials rather than on the basis of clear and well-established rules.

#### Go global

State intervention should be limited to making competition more open and efficient. That means developing "public institutions of high quality" rather than as employers of last (or, perhaps in the ANC's as in the NP's case, first) resort, as well as making wise, productivity-oriented investments in infrastructure. It also means ensuring a sound legal system through which property rights are both "clearly defined and

# World Bank report lights SA's path to prosperity

conscientiously protected". Land reform is fine, so long as it is done in such a way as to make the land more productive with rural credit, research and extension provided where possible by the private sector.

Third, join the global economy and abandon import substitution fantasies. Productivity is the name of the game and preferring more expensive domestic inputs to cheaper imported ones is a sure way to lose it. By contrast, "reductions in trade protection often raise the incomes of the poor by supporting labour intensive activities".

Foreign investment, foreign education, technical assistance, the licensing of patented processes and the transmission of knowledge through exposure to foreign markets and imports of capital, equipment and other inputs all serve to make an economy more productive and competitive.

Fourth, the state must "invest in people", especially in terms of education, health care and population control, but also by providing a "safety net" for the truly needy. This is the one area in which the bank feels markets do not operate so well, but which is nonetheless essential to their efficient functioning. Care should be taken that such investments are properly directed and spent. It is no good spending 5% of GDP on education if schools don't teach. Big-bang capital expenditures can go to waste if provision is not made for recurrent costs. Also, heavy subsidies for higher education should be reduced in favour of primary schooling. Similarly, the focus should be on basic health care than on "expensive curative systems".

#### Growth vs. equity

If all of these four sets of commandments are followed, they tend to produce results that are greater than the sum of their parts. One of the report's most fascinating findings is the relationship between education levels and the extent to which a government adopts price-distorting economic policies. In a study of 60 developing countries between 1965 and 1987, the bank found that those with distorting policies and low education levels enjoyed annual GDP growth rates of 3.1%. Those with either higher education levels or fewer distortions grew at 3.8%. However, those that got both right saw their economies expand by 5.5%.

Now the bank's prescriptions may be sneered at by the worshippers of redistribution, a cult which, either sincerely or as a matter of expedience, seems these days to include just about every pundit in South Africa. To them the bank responds: market reform and redistribution go hand in hand. "The trade-off between growth and equity, which helped to entrench anti-growth policies in socialist economies and anti-equity policies in conservative ones, has been discredited by the many economies that consistently out-perform the rest on both counts: Costa Rica, Indonesia, Japan, Korea, Malaysia and the Scandinavian economies."

Greater equity — and greater political tranquility — flow from a more efficient, productive, market-oriented, less distorted economy. On the other hand, efforts to redistribute or satisfy political constituencies, either through income transfers, public employment creation or other such methods tend to have quite the opposite effect.

In short, get the economics and the division of labour between state and market right and the political imperatives will generally be taken care of in the process. Economic success breeds and perpetuates democracy.

Failure does not.



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They can do this in four principle ways, first and foremost by getting the macroeconomics right and not treating them as an embarrassment to be given lip service in the manner of the ANC's 1990 working paper on economic policy. Without fiscal and financial responsibility and stable, undistorted prices and exchange rates, everything else breaks down. Too rapid growth in government spending leads to "large deficits, inflation and the crowding out of pri-

# Look to markets for economic growth, says World Bank

6/10 aug 10/11/91

**SIMON BARBER in Washington**

vate investment". Better to streamline and to look carefully at the "division of economic tasks between the government and the private sector" than to print money.

Second, foster a competitive environment at home. No protection or featherbedding, please. If you must adopt industrial policies favouring one sector over another for strategic reasons, at least let price signals tell you when you have blundered — as, almost certainly, you will. Otherwise, do not do it. But do privatise state-owned industries. Private managers with their shareholders' assets on the line tend to be more efficient and adaptive than bureaucrats betting taxpayers' money.

The world's most successful economies got that way through "the rigours of competition". "Systems of industrial licensing, restrictions on entering and exiting markets, inappropriate codes for bankruptcy and employment, inadequate property rights and price controls" all act as brakes on progress. As do regulatory mechanisms that function at the discretion of corruptible officials rather than on the basis of clear and well-established rules.

State interventions should be limited to making competition more open and efficient. That means de-

veloping "public institutions of high quality" rather than as employers of last (or, perhaps in the ANC's as in the NP's case, first) resort, as well as making wise, productivity-orientated investments in infrastructure. It also means ensuring a sound legal system through which property rights are both "clearly defined and conscientiously protected". Land reform is fine, so long as is done is such a way as to make the land more productive with rural credit, research and extension provided where possible by the private sector.

**T**hird, join the global economy and abandon import substitution fantasies. Productivity is the name of the game, and preferring more expensive domestic inputs to cheaper imported ones is a sure way to lose it. By contrast, "reductions in trade protection often raise the incomes of the poor by supporting labour intensive activities".

Foreign investment, foreign education, technical assistance, the licensing of patented processes and the transmission of knowledge through exposure to foreign goods markets and through imports of cap-

ital, equipment and other inputs all serve to make an economy more productive and competitive. "The effect of import competition on firms in Chile and Turkey — and the effect of greater competition in export markets on firms in Brazil, Japan and the Republic of Korea — confirm the global economy's decisive contribution to efficiency."

Fourth, the state must "invest in people", especially in terms of education, health care and population control, but also by providing a "safety net" for the truly needy. This is the one area in which the bank feels markets do not operate so well, but which is nonetheless essential to their efficient functioning. Care should be taken that such investments are properly targeted and spent. It is no good spending 5% of GDP on education if schools do not teach. Big bang capital expenditure can go to waste if provision is not made for recurrent costs. And heavy subsidies for higher education should be reduced in favour of primary schooling. Similarly, the focus should be on basic health care rather than on "expensive curative systems".

If each of these four sets of commandments are followed, they tend to produce results that are greater

than the sum of their parts. One of the report's most fascinating findings is the relationship between education levels and the extent to which a government adopts price-distorting economic policies. In a study of 60 developing countries between 1965 and 1987, the bank found that those with distorting policies and low education levels enjoyed annual GDP growth rates of 3.1%. Those with either higher education levels or fewer distortions grew at 3.8%. However, those that got both right saw their economies expand by 5.5%.

The bank's prescriptions may be sneered at by the worshippers of redistribution. To them the bank responds: market reform and redistribution go hand in hand. "The trade-off between growth and equity which helped to entrench anti-growth policies in socialist economies and anti-equity policies in conservative ones, has been discredited by the many economies that consistently outperform the rest on both counts: Costa Rica, Indonesia, Japan, Korea, Malaysia, and the Scandinavian economies."

**G**reater equity — and greater political tranquillity — naturally flow from a more efficient, more productive, more market-orientated, less distorted economy. On the other hand, efforts to redistribute or satisfy political constituencies, either through income transfers, public employment creation or other such methods tend to have quite the opposite effect. They often entail highly distortionary policies and "a vicious cycle of harmful interventions" (which) entrenches special interests — as SA well knows. Market reforms, by contrast, "can tilt the distribution of income in favour of the poor" and thus actually "broaden the base of political support for difficult changes".

In short, get the economics and the division of labour between state and marketplace right and the political imperatives will generally be taken care of in the process. Economic success breeds and perpetuates democracy. Failure does not.



# World Bank group to be asked for R500m loan

Funding group may set up city office

## **BLAISE HOPKINSON**

Business Staff

THE Washington-based Africa Project Development Facility (APDF) of the World Bank is to be asked for R500 million in loans by Western Cape businessmen if the funding body sets up shop in Cape Town as planned.

An association of black businessmen will be formed to negotiate with the APDF.

With this week's toppling of sanctions by US President Mr George Bush, the businessmen who met World Bank officials recently in Cape Town are champing at the bit to set up new funding lines.

Philippi-based Mr Des Crowie of Desmond Crowie & Sons Construction, who facilitated contacts with the international authority after meeting US politicians, said he had had more than 100 approaches from black entrepreneurs since news of the possible tie was released.

"I have even been offered money to go to Washington to talk to the World Bank but we will have to wait and see what progress is made as the donor nations must be approached first," he said.

Loans of between R1,2 million and R12 million are to be discussed and Mr Crowie said many high-profile Cape Town companies had stated their needs.

"They have come telling me they desperately need money to further expansion plans and create more job opportunities.

"I anticipate an initial surge of applications for loans worth more than R500 million in total once we get the green light," he explained.

He pointed out the World Bank this year allocated almost R10 billion to Botswana, Zimbabwe and Zambia and he was confident once the political impediments were cleared similar funds could flow South Africa's way.

Mr Crowie added the sought-for loans would be covered by

equity in local enterprises which would be bought back by the enterprises once profits allowed.

The job opportunities which would stem from such investment would be "tremendous", said Mr Crowie.

APDF project manager, Mr Alexander Keyserlingk, who visited South Africa in May, recently told Mr Crowie he was impressed with the potential for black entrepreneurs in a "new South Africa".

"Although APDF cannot yet operate in South Africa, I remain optimistic that sooner rather than later the political situation in South Africa will be resolved, which would allow us to make a proposal to implement a 'Regional Office of APDF in South Africa'," Mr Keyserlingk said.

He has asked Mr Crowie to send him a list of the businessmen who attended the recent meeting.

"I found the meeting with you and your associates very informative," he told Mr Crowie.

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# World Bank urges focus on local govt financing

GRETA STEYN

JOHANNESBURG. — Urgent attention had to be given to the financing options for local governments faced with huge infrastructural backlogs, according to a World Bank study.

This emerged in an aide memoire drawn up after the bank's visit to SA in May this year — the first in a series of proposed visits.

"The purpose of these visits would be to identify issues considered key to

the formulation of urban policy in SA," the aide memoire says.

It has been circulated among government officials, extra-parliamentary groups, community-based organisations, research institutions and business people who provided input into the bank's research.

Local government reform is seen as a major factor in reducing inequalities created by apartheid. Financial viability at local level was essential, the bank believed, with transfers from

central government to be avoided as far as possible.

A major factor in ensuring financial viability of local government was economic pricing of services. Tariffs would have to be reviewed and revised.

An example of inefficient pricing was water, with the price charged in the "dry" PWV area among the lowest in the world — despite the high costs.

The bank said: "The price charged for water is a fraction (and often only a

small fraction) of its economic cost, resulting in significant distortions in the economy."

Options for increasing local revenues included increasing property taxes in high income areas and extending property assessment to low income areas.

The bank sees the standard of services for blacks improving substantially, for whites remaining much as they are while the costs of services will increase for all consumers.



# World Bank reports back

URGENT attention has to be given to the financing options for local governments faced with huge infrastructural backlogs, a World Bank study has found.

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"The purpose of these visits would be to identify issues considered keys to the formulation of urban policy in SA," the aide-mémoire says. It has been circulated among government officials, extra-parliamentary groups, community-based organisations, research institutions and business people who provided input for the bank's research.

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GRETA STEYN

The bank believes financial viability at local level is essential. A major factor in this is economic pricing of services, and tariffs will have to be reviewed and revised.

In the PWV area, for example, the price of water is among the lowest in the world, despite high costs in providing it.

Options for increasing local revenues include increasing property taxes in high-income areas and extending property assessment to low-income areas.

The bank sees the standard of services for blacks improving substantially, and standards for whites remaining much as

□ To Page 2

## World Bank

they are. The costs of services will increase for all consumers.

The bank criticises procedures for the financial and economic appraisal of capital projects, saying they are not sufficiently rigorous. It suggests external monitoring of project efficiency.

It also believes the borrowing capacity of local government is not fully exploited.

Estimates show real increases of 15% to 20% a year in capital spending over the next 10 years are needed to upgrade existing facilities and expand service in the central Witwatersrand region.

Transfers from high-income sections of an urban area to the low-income areas have to take place. Operating revenues will have to increase in real terms.

A special effort should be made to ensure local government is staffed by people

who can manage finances in a cost effective and efficient way.

The relationships between, and responsibilities of, various local bodies should be clarified. The bank suggests a two-tier structure to urban government. The power of the relative structures to act autonomously is a matter for debate.

The bank is working on an overall urban development strategy for SA with the main emphasis on integrating black and white urban economies.

It has also provided suggestions on housing and land policies. Government sources emphasise, however, that these studies have no "official" status.

The bank says the integration of economies will require more than the removal of legislation and regulation. "It will require aggressive strategies."

□ From Page 1



# G7 assistance doesn't quite touch the G-spot

By REG RUMNEY

IT may be good news, but jubilation about the message of support from the Group of Seven (G7) nations for South Africa's economy is a bit premature.

The G7 said South Africa needed economic assistance, including access to foreign funding.

The powers which make up the G7 have in effect given the green light to loans from the International Monetary Fund (IMF) and the World Bank.

True, the announcement has more than symbolic meaning. Other things being equal, it may encourage much-needed new private-sector investment in South Africa.

But the announcement does not mean immediate access to new loans as IMF and World Bank funds are still effectively blocked by the United States.

More important than access to IMF credits for balance of payments (BoP) stabilisation, a recovery of the rather sickly world economy is crucial. Without healthy growth in our trading partners South Africa cannot hope for an upturn, which is now forecast by some for the beginning to the middle of next year.

It is 18 months or so into a boom we may need access to IMF funding to tide us over an expected drop in the surplus of the current account of the BoP as imports outstrip exports, as

South African Chamber of Business chief economist Ben van Rensburg has pointed out.

There should also be caution about taking up foreign loan money anyway.

Arch-critic of the international financial set-up, Institute for African Alternatives director Ben Turok warns that IMF loans are onerous, and do not allow rescheduling.

He reminds that the burden of debt servicing has devastated large parts of the Third World. This is something about which South Africa, as part of Africa, should be aware.

Nedbank's economic unit has warned that World Bank loans, which are longer term than IMF funding and for development, and not related to the BoP, should be directed towards projects offering long-term growth potential, and not be squandered on financing projects of national prestige.

The increased economic assistance proffered by the G7 may be disappointing.

According to a report in *Business Day* the amount now granted to South Africa in aid is R450-million, and this could double in the wake of the G7 announcement. That is small beer in terms of South Africa's economy.

Nedcor chief economist Edward Osborn points out that aid itself has to be handled carefully to avoid the kind of aid dependency that African countries have fallen into.



## World Bank posts 15% income rise

NEW YORK — The World Bank yesterday said it posted a 15% increase in net income for its latest fiscal year despite substantially boosting its provisions for potential losses from loans.

The bank, which specialises in funding projects in developing countries, said it earned \$1.2bn in the year ended June 30, compared with about \$1.05bn in fiscal 1990.

The Washington-based bank said it posted the increase in earnings despite adding \$774m to its provisions for loan losses, bringing the total to about \$2.3bn.

Bank officials said they decided to raise their provisions to about 2.5% of the total \$90.6bn loan portfolio after assessing potential risks in addition to countries that had already fallen behind on payments.

### Default

Ernest Stern, senior vice president for finance, told a news conference that, until now, provisions were only held against countries which were behind in their payments.

Eight countries are already in default: Iraq, Guatemala, Nicaragua, Panama, Peru, Sierra Leone, Syria and Liberia.

The World Bank was set up in 1944 to assist in the reconstruction of Europe. Over the years its mission has broadened and shifted to other, needier, parts of the world such as Latin America and Asia.

But recently the bank has again looked to Europe, where many former East bloc countries need help.

Most recently, world leaders have discussed using bank and IMF resources to rebuild the moribund economy of the Soviet Union.

The World Bank currently has 155 member nations.

— Sapa-Reuter



## Salary hikes of 25% for IMF, World Bank chiefs

WASHINGTON — The IMF and World Bank last week agreed to increase the annual salaries of their top executives by more than 25% to \$285 000, sources at the two organisations said.

The US and Canada objected to the \$60 000 increase as excessive but were overruled by other members of the IMF and World Bank boards in separate votes, they said. Washington and Ottawa argued for a pay increase closer to the 16% rise in the cost of living since the last wage hike three years ago. That would have translated into an annual salary of between \$260 000 and \$270 000. *Day 5/8/91*

Several sources said IMF MD Michel Camdessus was the driving force behind the pay raise. World Bank president Barber Conable steps down at the month-end and will not be affected by the decision.

The sources said Camdessus wanted his pay to match that of Jacques Attali, another Frenchman who heads the European Bank for Reconstruction and Development in London. That bank, set up to aid Eastern Europe, began operations earlier this year.

The pay of IMF and World Bank staff is tax-free for foreigners although US citizens pay tax.

Camdessus was abroad and unavailable for comment. An IMF spokesman declined comment.

□ The IMF last week announced the appointment of Spain's Finance Minister Carlos Solchaga Catalan as IMF interim committee chairman, Sapa-AP reports.

The 22-member committee meets twice a year on fund policy, representing the 155-member governments. The 155 members of the board of governors meet only once a year. Solchaga will succeed Canadian Finance Minister Michael Wilson, who resigned in April. — Sapa-Reuter.



Business Report

# 'Economic boom in southern Africa'

LUSAKA. — The World Bank has held out the prospect of an economic boom in southern Africa with the advent of an apartheid-free South Africa and peace accords with rebels in Angola and Mozambique.

World Bank representative in Zambia John Innes said in Lusaka at the weekend that given South Africa's determination to dismantle apartheid, the southern African countries could soon intensify efforts to integrate their economies.

South Africa, as the region's economic giant, would form the nucleus for economic growth, Innes said at the Zambia Agricultural and Commercial Show Society's annual dinner, which was attended by international exhibitors, including representatives of 30 South African firms.

He advised that governments in southern Africa should continue to improve their infrastructure, as well as research and higher prices for agricultural produce.

"With South Africa entering the arena of free trade with the rest of Africa, the trend will change dramatically which will require efficiency and pragmatism."

Commercial Farmers Bureau chairman Ben Kapita supported Innes saying farmers should be given the chance to market their produce at the right price.

He said South Africans should help develop Zambian agriculture with their expertise in farming. Zambia had very rich soil and great potential.

Zambia presently farmed only six million hectares of its total 42m ha of first-class farmland soil.

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viduals wanting to know



World Bank report takes government to task

# Financing black services a 'hopeless task'

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ARG 17/8/91

**CLAIRE GEBHARDT**

Weekend Argus  
Correspondent

THE government's commitment to the financing of services in the townships is a "hopeless task" which is beginning to affect the economy as a whole and could exacerbate inflationary pressures, says the World Bank.

This week's near collapse of services in Greater Soweto highlighted the fact that a 50percent subsidy from the Transvaal Provincial Administration (TPA) is like putting a finger in a crumbling dyke — it won't work.

Given that residents contribute only 20percent (if everyone pays), this still leaves a 30percent shortfall and government cannot afford to step into the breach.

The World Bank mission, in its first report on the South African economy, noted that Central government is progressively being forced to increase its role as "deficit financier" of black local authorities (BLA), TBVC countries, and self-governing territories (SGT).

And it warns that the linkage of the "bridge-financing" to overdraft facilities of commercial banks, guaranteed by the Central Reserve, has the potential to destabilising the macro-economy and create inflationary pressures through an increase in the monetary base.

"Bridging finance has contributed substantially the deficit of the central government -

18percent in 1989/90 -and in terms of the net savings in the economy represents a large leakage into current consumption."

In 1989/90 black local authorities (BLA) represented 34percent of the total bridging finance and have been growing at an average rate of 20percent per annum since 1986/87, says the World Bank report.

"Black local authorities are not financially viable because, until recently, apartheid laws did not allow development of the small businesses and retail outlets common in white suburban towns."

Inadequate funds for maintenance and population densities well in excess of infrastructure capacity have been compounded by the lack of community support manifested through non-payment of rents and fees and sabotage of facilities.

The World Bank says bridging loans from Central government and RSC's are currently being used to cover operating deficits, reducing funds available for capital investment."

It details that in 1990/91 the central Wits RSC's support to greater Soweto and Alexandra is expected to exceed R150million.

The TPA has budgeted for R428million for bridging finance during 1991.

In its report the World Bank also urged a rethink on the proposed Independent Development Trust (IDT) housing capital subsidy.

It suggests, in the light of international experience, that capital subsidies paid directly

to beneficiaries are more successful than schemes which channel subsidies through developers, as is the case with the IDT.

It also calls for a broader subsidy scheme to be implemented saying standards associated with the IDT plan are too high.

Chile has the best designed scheme with capital subsidies paid directly to beneficiaries combined with competitive government tendering for low-cost housing, it says.

"Recipients were able to exercise great freedom of choice among different products and locations and developers were forced to compete in order to receive the negotiable subsidy certificates issued to beneficiaries.

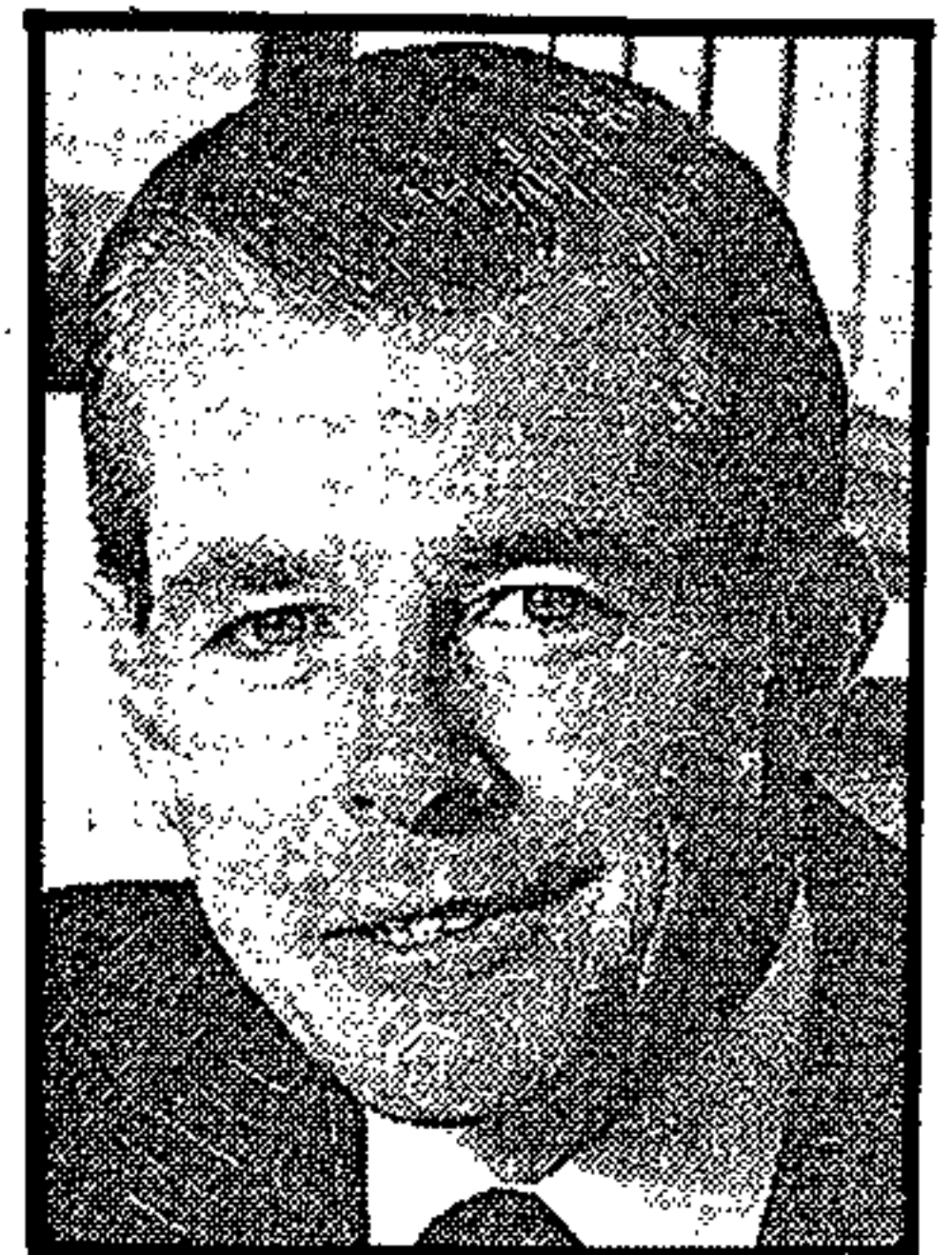
"This resulted in vigorous competition on both the supply and demand sides of the housing market."

IDT spokesman Jolyon Nuttall says they have taken note of the World Bank recommendations but are not re-thinking their capital subsidy programme.

The once-off R750million capital subsidy scheme will soon become a reality for nearly 100 000 of South Africa's poorest families, he says.

Developers service sites with basic sewerage and street lights and would-be-owners then apply to the developer for a stand to which an IDT subsidy of R7500 is attached, says Mr Nuttall.

He confirms that the beneficiary does not get the money directly because the developer



□ IDT's Jolyon Nuttall: Subsidies are not too high

is paid back from the subsidy for the investment made in servicing the site.

"If the developer is successful in containing the cost of a particular project, the money saved does not go back to the owner but is retained by the developer for the further development of the whole project - by agreement with the community."

Commentators believe this forms the basis of the World Bank criticism as it leaves the door open for some of the money to be misallocated instead of being handed to the beneficiary for the further upgrading of his home.

Mr Nuttall says exhaustive research indicates that the size of the subsidy is not too high given the standard of the services specified and the impact of inflation two years down the line.



# A gift horse needing its mouth looked at

Star 24/8/91

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SVEN LUNSCHKE

EARLIER this month US Congressman Stephen Solarz expressed surprise and bewilderment at the failure of the ANC to welcome a multi-billion-dollar aid package for South Africa with open arms.

The ANC responded by saying an aid package of such proportions, offered to a post-apartheid government, needed careful consideration.

While there are lots of questions over the ANC's general economic policy, the organisation is right to study the package in detail.

There seems to be a consensus that the economy will not survive without foreign investments and aid.

But it is vital that the power players in SA consider carefully the conditions attached to such aid.

Development aid to many Third World countries has not succeeded in boosting economic growth.

To the contrary. In a recent article, appropriately entitled "Beware the Siren Call of Foreign Aid", Nedbank chief economist Edward Osborn warns of the dangers inherent in such aid.

"Foreign aid has resulted in a syndrome of aid dependency where the aid intended for economic stability and growth has failed in achieving that, and hence more and more is requested," he writes.

Nowhere is this more evident than in Africa.



The World Bank estimates that Africa's external debt totals \$226 billion this year, more than 50 percent of the continent's gross domestic product. Over 50 percent of foreign exchange earnings go towards servicing interest and capital on foreign loans.

Despite the billions poured into Africa, there has been a serious decline of national income and a spread of poverty and destitution.

The situation is similar for states in Southern Africa. In the circumstances it is not surprising that Mr Osborn says: "Aid is not a precondition for growth or the elimination of poverty."

Indeed there is an appalling record of misuse of aid and much evidence of aid-engendering attitudes and policies that have been harmful to the process of development.

One of the worst aspects of foreign aid is that it has become a form of export promotion for Western countries, who have developed an international aid industry over the past two decades.

"Nearly two-thirds of capital and commodity aid, and even a higher proportion of technical assistance, is tied in the sense that the supply of the goods and services has to come from the donor countries."

"The benefits of the aid programme are tied, to a significant degree, directly to domestic industries, consultants and bankers of the donor country," Mr Osborn says.

He lists other shortcomings of foreign aid:

- Too often aid has gone into projects that are inherently uneconomic prestige projects, usually to underpin the popularity of the ruling party.
- The very availability of aid is itself corrupting in that it leads to the misallocation of resources and neglect of economic appraisal and standards.
- Donor countries often limit their aid to capital projects without due regard to the capacity of the recipient country to maintain the projects.
- Trade patterns become distorted as the freedom of choice of supply of the goods and services required for development is disrupted.



# Africa may be let off financial hook



ARG 6/9/91

**MICHAEL CHESTER**  
The Argus Correspondent

**JOHANNESBURG.** — Proposals that international banks should cancel the multi-billion rand mountain of foreign debts that burden Africa have been backed by the South African Chamber of Business.

The proposals that Africa should be released from official debt obligations — as Poland and Egypt had been — were first put forward by United Nations Secretary-General Javier Perez de Cuellar last week.

Wider support for the proposals was urged in Maputo today by Sacob deputy director-general Mr Ron Haywood when he addressed a conference on closer co-operation among Southern African nations in a post-apartheid era.

Mr Haywood said it was costing Africa up to R66 billion a year just to pay service charges on loans.

The World Bank and the International Monetary Fund were now taking a closer interest in the continent and were enforcing greater financial discipline.

Release from debt burdens would have an immediate positive impact on economic development, he said.

There was enormous potential to increase inter-regional trade and Africa's total exports, which at the moment accounted for only four percent of world trade.

It was critical to reach closer co-operation in the financial sphere and to raise investor confidence with evidence of civil order, overall stability and trustworthy laws.

Mr Haywood welcomed suggestions that some form of Southern African Financial Investment Corporation should be created to channel funds into the cross-border co-ordination of joint ventures.

An important lead had already been taken by the Development Bank of Southern Africa, which so far had committed R5,8 billion to 760 projects — and had another 540 projects totalling R4,2 billion under consideration.

There was also innovative new thinking among commercial and merchant banks as businesses resumed operations internationally and encountered complex financial regulations, disciplines and restraints in neighbouring states.

It was crucial that Southern Africa laid the foundations to inspire banks and businessmen with confidence.



## NEWS

# Sacob backs call to scrap Africa's debts

By Michael Chester

Proposals that international banks should cancel the multibillion-rand mountain of foreign debts that burden black Africa have been backed by the South African Chamber of Business.

The proposals that black Africa should be released from official debt obligations — as Poland and Egypt have been — were first put forward by United Nations Secretary-General Javier Perez de Cuellar.

Support for the proposals was urged in Maputo yesterday by Sacob deputy director-general Ron Haywood when he addressed a conference

discussing closer co-operation among the nations of southern Africa in a post-apartheid era.

Mr Haywood said it was costing black Africa \$23 billion (R66 billion) a year just to pay service charges on loans.

Both the World Bank and the International Monetary Fund were now enforcing greater financial discipline.

Release from debt burdens would have an immediate positive impact on economic development, he said.

There was enormous potential to increase Africa's total exports — which at the moment accounted for only 4 per cent of world trade.

But it was critical to reach closer co-opera-

tion in the financial sphere, and raise investor confidence with evidence of civil order, overall stability and trustworthy laws.

Mr Haywood welcomed suggestions that some form of corporation be created to channel funds into cross-border co-ordination of joint ventures.

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It was crucial that southern Africa laid the foundations to inspire banks and businessmen with maximum confidence, he said.

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# Housing plan gets nod despite censure

Star 9/9/91

By Michael Chester

The Independent Development Trust (IDT) has confirmed that it is pressing ahead with its R750 million subsidy scheme to tackle the massive black housing shortage — despite cautions from the World Bank that the plan should be redesigned.

The IDT said at the weekend that the first allocations from the subsidy package were expected to be approved within the next few days to start the flow of funds to new housing developments across South Africa.

The scheme was going ahead regardless of advice from the World Bank that it should be "re-evaluated".

The advice was in a report that warned South African planners: "The present structure for formulating and implementing housing policy is hopelessly inefficient and contradictory."

IDT chairman Jan Steyn said the trustees were undeterred by World Bank criticisms about the way subsidies would be handed over to housing site developers rather than directly to homeless families.

As originally planned, the R750 million would be shared among developers, who would in turn cut R7 500 from the cost of each serviced site transferred to families qualifying for grants.

It was envisaged that the



Undeterred . . . Jan Steyn.

scheme would ultimately provide 100 000 basic housing sites for the poorest section of blacks.

The World Bank has argued that international experience showed that schemes which handed subsidies directly to homeless families had been far more effective than when grants were made to developers, which, it warned, could raise the risk of graft and bribery.

## Participation

Also, the World Bank has explained that it favoured the alternative of direct payment of subsidies to homeless families because it enabled them to make their own decisions about what sort of shelter they preferred and where they wanted to be located — in turn leading to more competition between builders to win contracts.

Mr Steyn has replied: "Conditions differ from one country to the other, and interventions have to accommodate local sensitivities and needs."

Moreover, the IDT had made it mandatory that its consultants ensured full community participation in negotiations going on at a nationwide network of 108 developments.

Also, less than 10 percent of allocations would go to commercial developers — the rest would be in the hands of community-based initiatives.

Moreover, decisions had to be taken in the absence of a comprehensive national housing policy, which was still being formulated by the De Loor Commission.

"If we had waited for the formal enunciation of such a policy," said Mr Steyn, "it would have meant a delay of years in redressing some of the intolerable conditions under which so many poor South Africans live."

"The capital subsidy scheme alone cannot solve the housing problem in South Africa, but it is a beginning."

"When we obtain the additional funding we anticipate from within and outside the country, we shall take the process further."

The IDT was disappointed that it had not even been consulted by a World Bank team that carried out the special study of South Africa's urban development policies.

● Black housing plans under fire — Page 11



# Black housing plans under fire

Star 9/9/91

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While the number of homeless black families reaches crisis levels, the World Bank has hammered South African housing policy as hopelessly inefficient and full of contradictions and duplications. It has advised the planners to go back to the drawing board in earnest, reports MICHAEL CHESTER.

**S**OUTH Africa's housing policy is in a shambles, according to the World Bank. Planners have been urged to undertake a radical rethink about multimillion-rand proposals on how to tackle the massive black housing shortage.

Current schemes may be on the wrong track, says a confidential report compiled by a team of experts sent on the first of a series of "reconnaissance missions" from the World Bank to study urban development in a post-apartheid society.

The hard-hitting report warns: "The present structure for formulating and implementing housing policy is hopelessly inefficient, contradictory and duplicative."

Concrete proposals for reform should be made as early as possible.

Not even the Independent Development Trust (IDT), launched last year with a R2 billion grant to serve in the vanguard of black socio-economic advancement, has escaped criticism.

"At present," says the World Bank, "the housing sector in South Africa is highly distorted, with major implications for the

performance of the economy, the economic efficiency of the cities, the economic welfare of non-whites and the performance of the housing sector itself."

"The key feature of this distortion is the spatial segregation of different racial groups within cities. The benefits of correcting this problem have implications that far transcend the housing sector."

One of the first priorities, it argues, should be far better land use and closer integration of white and black areas — with vast improvements in the planning of new residential zones interwoven with shopping centres and business operations.

A main objective should be to cut down the high transport costs — as well as the countless hours taken in travel time — that burden black commuters forced to live far away from their jobs by former apartheid laws.

The researchers found instances where the cost of transport in household budgets was even higher than housing and electricity costs combined.

New approaches were needed in town planning to ensure



Housing crisis... In the PWV zone as many as 380 000 families are crowded into backyard shacks in the townships.

more freedom for black families about where they choose to live — with the provision of jobs and community services near at hand.

Freedom to select the location of new homes, as well as freedom to select the type of dwelling each family selected, emerges as one of the issues that has brought the World Bank to loggerheads with the

IDT.

The World Bank suspects that the IDT, too, may be on the wrong track with its R750 million capital subsidy scheme to create at least basic serviced sites for 100 000 homeless black families.

It says the scheme, as designed at the moment, should be re-evaluated.

Instead, it says, funds should

be aimed at casting a far wider net to provide better services — even if subsidies had to be spread in thinner layers to reach a bigger proportion of homeless black families.

"Proposed levels of subsidies implicit in the current IDT plan, and the standards associated with them, appear to be higher than would be desirable if the goal is to reach the broad-

est population of eligible households," says the World Bank report.

Limited public-sector funds would make a far greater overall impact if they aimed at broader rather than deeper schemes of subsidisation.

The IDT scheme, unveiled in March, envisages capital subsidies of R7 500 on the selling price of each serviced site in-

tended for the upgrading of informal settlements earmarked for impoverished black families with incomes below R1 000 a month.

A major point of World Bank criticism is that the IDT intends to pay each R7 500 subsidy to the developer of the particular site — rather than pay subsidies directly to homeless families.

The critics say they base their view on international experience with the effectiveness of subsidy programmes.

For example, experience in Chile showed that when negotiable subsidy certificates were issued directly to beneficiaries, families had greater freedom about selection of location — and what sort of shelter they decided on.

In turn, home builders had to compete to win contracts — and vigorous competition ensured that unit costs had to stay low.

There had been considerably less success in countries which channelled subsidies through developers, which could raise the risk of widespread graft and payment of bribes to developers and officials.

The advice of the World Bank to seek a far broader spread of benefits from housing subsidies — even if it entailed a thinner spread — was clearly influenced by discoveries about the magnitude of the housing problem.

The researchers found that in the PWV zone alone as many as 380 000 black families were crowded into backyard shacks

scattered around small houses in the townships.

Another 250 000 families were packed into garages and out-buildings. Yet another 100 000 families survived in freestanding units in squatter settlements.

The overcrowding suffered by many black families was also underlined when comparisons were made of the average residential living space at the disposal of each person — depending on the racial group.

Each white person enjoyed an individual average living space of 33.2 sq m at home. The number of square metres per person shrank to 18.2 in the Asian community and down to 12 for members of coloured families.

In the black community, the average plummeted to 8.9 in formal housing and all the way down to 4.8 in backyard shacks, and barely 4.2 in squatter settlements.

Massive Government intervention to cure the problem by the provision of completed houses, or at the very least serviced sites, looked likely to cost R6.4 billion a year — over a sustained period.

However, the World Bank adds: "When thinking about housing policy in South Africa during the upcoming transition, it is important to consider more than simply whether or not the country can afford to allocate 5 percent or more of gross national product towards housing."

"The real issue is whether or not the country can afford not to put in place a sustainable system of housing delivery." □



# World Bank slams housing policy

THE World Bank has attacked the South African housing policy as hopelessly inadequate and full of inconsistencies and counterfeits.

According to the bank, planners have been urged to undertake a radical rethink about multimillion-rand proposals on how to tackle the massive black housing shortage.

Present schemes may be on the wrong track, says a confidential report compiled by a team of experts sent on the first of a series of "reconnaissance missions" from the bank to study urban development in a post-apartheid South Africa.

The bank says concrete proposals for reform should be made as early as possible because the

present housing sector is highly distorted.

The vital feature of this distortion is the spatial segregation of different racial groups within the cities.

The benefits of correcting this problem have implications that far transcend the housing sector.

It contends that the priority should be land use and close integration of whites and blacks and vast improvements in the planning of new residential zones interwoven with shopping centres and business operations.

The main objective should be to cut down the high transport costs - as

well as the countless hours taken in travel time - that burdens black commuters who are forced to live far from their jobs by defunct apartheid laws.

However, the Independent Development Trust has confirmed that is going ahead with its R750-million subsidy scheme to tackle the acute shortage of black housing, despite the bank's proposals.

It said that the first allocation from the subsidy package was expected to be approved within the next few days to start the flow of funds to new housing development in the country.

It said that the plan was going ahead regardless of advice from the bank that it should be redesigned.

By JOSHUA RABOROKO

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# Top-level French trade group flies in

CT 20/9/91

Own Correspondent

**JOHANNESBURG.** — The first French trade minister to visit SA in 16 years arrived in Johannesburg yesterday with a top-level trade delegation, including CEs from 25 major French firms.

French Trade and Industry Minister Dominique Strauss-Kahn said yesterday a substantial number of major French companies were interested in investing.

He said economic links between SA were underdeveloped and had the potential to grow rapidly.

The delegation includes CEs and MDs from Banque Nationale de Paris, Banque Paribas, Credit Lyonnais, Renault Vehicle Industries, Aero-spaciale, Total, Indosuez, Rhône Poulenc, Dassault and coal mining company Le Carbon Lorraine.

Also in the party are the presidents of the Paris Chamber of Commerce, the French External Trade Organisation, the Southern Africa committee of the French Confederation of Industry, and national telephone firm France-Télécom.

The minister said all the firms represented were "interested in specific developments" in Southern Africa.

Strauss-Kahn would meet President FW de Klerk, ANC president Nelson Mandela, senior Cabinet Ministers and Gencor chair Derek Keys during the trip.

He would not be meeting Inkatha leader Mangosuthu Buthelezi "because of the crowded schedule", a French embassy spokesman said.

The Bureau de Recherches Géologiques et Minières (BRGM) would also be signing an agreement with Gencor to co-operate in mining gold in Guyana, Strauss-Kahn said.

## Danes on SA recce

**JOHANNESBURG.** — A Danish multiparty delegation is due to arrive in SA today on a visit that could lead to Denmark dropping its veto on the lifting of EC sanctions on trade in iron, steel and Kruger-rands.

CT 20/9/91

The delegation includes Denmark's ruling coalition partners as well as the major opposition parties, Danish embassy chargé d'affaires Erik Boel said.

The visit is a prelude to a meeting in October of the Danish foreign affairs committee.

This committee will — in conjunction with other Scandinavian countries — decide on whether to implement the first phase of a Danish plan to lift sanctions in stages.

## IFC looks at role

356 CT 20/9/91

**HARARE.** — The International Finance Corporation (IFC), the private-sector investment arm of the World Bank, has been evaluating its possible future role in the new SA, a senior IFC official said yesterday.

"But we are some way away yet from making any investments in SA," Tom Milton, the IFC representative for southern Africa, said.

Banking sources said the US, the biggest single shareholder in the World Bank and IFC, had let it be known it did not think the time had yet come for the international financial organisations, including the IMF to begin activities in South Africa.

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# **No alternative to true democracy**

**The suspension** this week of World Bank assistance to Zambia because it failed, in the face of its first multi-party election, to implement economic reforms should be a lesson to those in this country who want to tamper with the market mechanism, however innocent their motives.

Both foreign investors and aid donors are going to look twice at a country where those in influential positions recommend that a tax be placed on electricity to fund a State television service; or that pension funds be precluded from investing in tobacco companies or in those perceived to be trade union unfriendly. Both these views are reported elsewhere in this edition.

And both would be such a flagrant abrogation of free enterprise principles and lead to such a substantial misallocation of scarce resources that investors and donors will most certainly shy away.

The Third World in general, and Africa in particular, has so mismanaged its affairs that conditionality, hated though it may be by the inefficient and corrupt, has become an essential part of all aid flows.

Moreover, economic conditionality is not going to be enough. It was made very clear at the annual meeting of the World Bank in Washington last September that a rising standard of human rights was also required.

And as most African countries south of the Sahara seem to have taken the view that the only thing worse than a World Bank loan is no World Bank loan, they are going to have to toe the line and democratise. Political inconvenience is no longer the defence — if it ever was — which used to be put up in the Seventies and Eighties.

In SA, those who advocate affirmative action and the misallocation of resources for dubious social reasons may have difficulty securing justification for their views in a world where human rights and free enterprise have found new impetus and where the consequences of past mistakes of this kind are all too obvious.

If interventionists like those in the ANC and Viljoen's broadcasting Task Group don't reconsider their policies very carefully, they could become to prosperity what some believe Peter Stuyvesant is to national health. ■



## Southern Africa gets new loans from IFC

HARARE. — The International Finance Corporation (IFC) plans to double its loans to sub-Saharan African countries in 1992 to \$400m, the corporation announced here yesterday.

The IFC, the private sector arm of the World Bank, already increased its loans to sub-Saharan Africa by 18% in 1991, approving loans of nearly \$200m to 17 African countries for 42 development projects, IFC regional representative Tom Mitter announced.

IFC loans to commercial projects in developing countries are widely seen as triggers to convince commercial banks also to extend credit to those projects.

To handle its expanded activities in Africa, the IFC has opened two new regional missions in Cameroon and Zimbabwe, Mitter explained.

In addition to its big loans, IFC also manages the Africa Project Development Facility (APDF) which provides assistance to small-to-medium sized businesses. The APDF now aids 78 projects in 15 countries which have created more than 6 700 new jobs.



# World Bank warns on prospects for investment in Third World

HUGH ROBERTSON  
The Argus Foreign Service

WASHINGTON. — For the rest of the decade the prospects for private investment in developing countries like South Africa will be influenced by the economic recovery of industrialised countries and by a possible worldwide capital shortage, the International Finance Corporation has warned in its annual report.

The IFC, which is the World Bank's main instrument for

channeling loans and investments to the private sector in developing countries, said the danger of a worldwide capital shortage would emerge "as Japan strives to contain its trade surplus and Germany increases imports and channels savings into restructuring eastern Germany".

Because of the large capital needs now emerging in the Middle East and Central and Eastern Europe, real interest rates would probably remain high for the rest of the decade,

the report predicts.

"The implications for private business in developing countries is clear — only investments expected to yield high returns are likely to obtain financing."

With a capital increase of \$1 billion (R2.8 billion) likely to be approved by the IFC board in the next few months, the corporation expected to embark on a new period of growth in its investments in developing countries.

The greatest increase would occur in Central and Eastern Europe. (356) R24 731/11

"In sub-Saharan Africa, the IFC expects annual project approvals of \$400 million, or more than double the volume for 1991, and an increase to \$200 million in the Middle East and North Africa."

The report disclosed that IFC projects in sub-Saharan Africa increased by 18 percent in 1991, and that 42 projects in the region, with a value of

about \$200 million, had been approved during the year. This expanded investment in the sub-Saharan region had required the IFC to open two new regional missions, one in Cameroon and another in Zimbabwe.

IFC assistance to small business in Southern Africa continued to grow during 1991, and the IFC-managed Africa Project Development Facility had provided assistance to 78 projects in 15 countries, which created almost 7,000 new jobs.



ZIMBABWE (352) (356)

## Restructural rethink

FM 21/9/91

Harare is awash with rumours about the likely recommendations of three teams of visiting bankers and economists from the IMF, World Bank and African Development Bank. Not surprisingly, they are reportedly deeply split over how tough they should be in imposing new conditions on President Robert Mugabe's government.

Evidence that all is far from well is widespread. After falling 12% in August, the Zimbabwe dollar slumped 7% in the week to September 20. Tobacco prices have eased and are now averaging a good Z\$4/kg less than at the end of August.

Trade figures, released mid-month, show imports up 60% last year and, while there is some scepticism about the accuracy of the trade statistics, it is quite clear that a serious foreign exchange crisis has arisen. Which is why rumours of tough IMF conditions are

*continue*

## ECONOMY & FINANCE

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sweeping the capital. British Foreign Secretary Douglas Hurd who swung through Harare earlier in the month to urge Mugabe to cool the rhetoric on SA sanctions at next month's Commonwealth Conference, made little secret of how Whitehall sees aid to Zimbabwe. No World Bank agreement, no UK aid, was the Hurd message.

According to the rumour mill, Zimbabwe is negotiating for a US\$400m IMF loan, which will be agreed only if Harare is prepared to cut government spending, reduce the civil service and push up interest rates. The signs are that a reluctant Zimbabwe government will agree to the fund's terms, since there is no viable alternative.

Zimbabwe has borrowed heavily in recent months to finance rapidly rising imports now allowed on open general licence. Exports, other than tobacco, are severely depressed and there is no reason to expect any improvement in the foreign currency situation until the aid promised at the Paris donor meeting in March starts to flow. That — as Hurd warned — will not happen until Zimbabwe signs on the dotted line with the World Bank and possibly also the IMF. It's a bleak situation.

Ministers seem at a loss to know what to do. Early this month interest rates were pushed up by 2.25 percentage points in the case of prime bank loans, but almost all deposit rates remain substantially negative to the tune of 8%-10%.

Some officials complain that Ministers are too preoccupied with the forthcoming Commonwealth summit in Harare to make crucial decisions on the economy. Certainly Mugabe seems fixated with the details of the summit, rather than economic management which, to be fair, has never interested him greatly.

Economists warn that, even if the World Bank and IMF can patch up a deal with government, aid funds will start flowing only next year, implying that foreign exchange will remain short for the next six months and probably a good deal longer. Against this background, it is doubtful whether Harare can meet the structural adjustment programme targets. There is even speculation that the country will have to rethink the entire programme before seeking substantially increased aid from Western donors in Paris early next year.



## World Bank investigates education in SA

By Hugh Robertson  
Star Bureau

(356)

year. A seventh visit is likely next month with further visits possibly taking place in 1992.

A World Bank source yesterday described the visits as low key and unofficial, adding that the primary objective was to "build a database so that if and when the question of loans or assistance arises, the bank will

have some criteria and background information on which to base its decisions".

The sensitivity of the subject and the conflicting views which surround it had persuaded the bank to make no public statement on the visits. Most groups consulted had agreed with this view.

WASHINGTON — A team of World Bank investigators is in South Africa to study the country's education system and the problems likely to arise in bringing about equal education for all.

It is the sixth such visit since October last

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# The 'anti-Christ' returns to end the myths

**W**HEN Dr Emilio Castro, the general secretary of the World Council of Churches, steps on to South Africa this weekend, decades of intense hostility to the world body by the South African authorities will come to an end.

It has been some 27 years since a general secretary of the WCC or any of his officials has been able to enter the country. During its absence, the council has been vilified, blamed for all the ills in the world, labelled as the anti-Christ and a communist revolutionary body — as has any local church or clergy who have had a relationship with the body.

It was probably the WCC's Programme to Combat Racism, begun in the 1970s, which inspired most hatred from the government and its clerical fellow travellers. And this managed to obscure and often obliterate any real knowledge of what the mission and role of the WCC in the rest of the world was.

The problem went back to the Sharpeville shootings in 1960. Soon afterwards the WCC called a consultation at Cottesloe for later that

**This weekend sees the return of World Council of Churches, vilified by South African authorities for decades. PAT SIDLEY reports**

year, to discuss among the member churches of the WCC in South Africa the central political issue of the day: the racial policies entrenched in the then flourishing apartheid policy.

The Cottesloe conference's very mild findings offended the government and the white Dutch Reformed Church, which at that stage belonged to the WCC. In a nutshell, the conference found that all South Africa's people were part of the country and that nobody should be excluded from a church service on grounds of race.

This was too much for the then prime minister, Dr Hendrik Verwoerd, and he accused his church, the Dutch Reformed Church, of forgetting the "higher purpose of apartheid". Soon after this, the Dutch Reformed Church left the WCC.

Earlier this year, the ice was broken when a

DRC delegation was invited to, and attended, the WCC conference in Canberra.

The Cottesloe conference proved to be the breaking point for some Dutch Reformed ministers who could not accept the racist views of the church. The best known among them was Dr Beyers Naude, who was banned and his Christian Institute closed by the authorities in October 1977.

These incidents were among those which contributed to the profound schism between the white Afrikaans churches and those "English" churches which rejected apartheid. This schism was breached in November last year at the Rustenberg National Conference of Churches, when a broad grouping of churches sat down for the first time since Cottesloe.

The WCC had a hand in helping prepare the ground for the Rustenberg conference, by announcing that a delegation headed by Castro would travel to this country.

The delegation, which arrives on Saturday, will meet the African National Congress' Nelson Mandela and President FW de Klerk, and it hopes to meet Mangosuthu Buthelezi of In-

katha.

The delegates will also meet the leadership of their old foe, the Dutch Reformed Church, and will follow up an intense schedule of visits around the country with a consultation in Cape Town on the future role of the churches, being dubbed by some as "Cottesloe II."

Frank Chikane, of the South African Council of Churches, which is hosting the visit, Naude and Professor Johan Heyns, of the Dutch Reformed Church, view the visit as very important. "It is a signal that the churches in South Africa are re-entering the ecumenical fold," said Naude. "It is also a challenge to the white Dutch Reformed Church to re-enter the ecumenical fellowship on the basis of the criteria the WCC has laid down."

Chikane said the significance of the visit lay in ending some of the local myths about the WCC and in promoting ecumenical interaction between churches.

Heyns was slightly more circumspect. He said even though he did not necessarily agree with the entire theology of the WCC, the dialogue would be useful.



# Thailand's govt banishes the poor<sup>356</sup> from view<sup>(18)</sup>

5/Day 11/10/91  
Own Correspondent

BANGKOK — The world's top bankers, arriving in Bangkok this week for the annual World Bank/IMF meeting, are to be offered tours of the city's carefully concealed but prolific slum areas in an attempt by activists to show them the darker side of international development policies.

Thailand's military junta, which took power in February's bloodless coup, is anxious to portray "the land of smiles" as a prospering modern country geared and ready for further foreign investment.

No expense has been too great temporarily to mask a creakingly inadequate infrastructure and a widening income gap, obvious in Bangkok's notorious traffic problem, and in its thousands of rural poor who have flocked in recent years to the city's slums.

After spending about £60m on the lavish new Queen Sirikit Convention Centre, built especially for the conference, the Thai authorities did not want their image tarnished by the shanty towns next door, and ordered the building of 3m-high walls to hide them from view.

The slum dwellers were instructed to spruce up the area with brightly painted murals. In other parts of the city centre, the slums have been physically cleared, and the residents banished to the outskirts of the city where they are struggling to make a living.

But the city's poor are determined to be seen, and if possible heard.

"We are living in another world from those bankers from rich countries. Everyone's talking about the money that the country will get from the World Bank. To tell you the truth, I don't care. The government just wants to build more dams, roads and high-rise buildings, helping the rich people, not the slum dwellers," said slum leader Sunantha Rodprasert. — Daily Telegraph.



# Barend to put SA case in Bangkok

8/Day 11/10/91

A HIGH-powered SA team, led by Finance Minister Barend du Plessis, yesterday headed for the IMF and World Bank annual meeting in Bangkok with the message that SA needed international finance soon to get the economy moving.

But Cosatu general secretary Jay Naidoo immediately warned that without consultation, any attempt to secure loans would incur the wrath of his trade union federation, the ANC and SACP.

Du Plessis is accompanied by Reserve Bank Governor Chris Stals, Finance director-general Gerhard Croeser and deputy director-general Estiaan Calitz.

Du Plessis' main purpose is to address the meeting, but he will also have high-level discussions with officials from both organisations. Also on the itinerary for his two-week trip are meetings with businessmen and representatives of some of the world's largest banks, and an address to an investment conference in Hong Kong.

High on his agenda will be recent ANC and Cosatu statements on nationalisation, hints of reneging on foreign loans and Cosatu's threat that if government does not enter into negotiations on restructuring the economy with it and other major players, they might cripple the economy.

In an interview Du Plessis said international investors should be "fully aware of the importance of predictability with regard to fiscal and monetary affairs, pre-

BILLY PADDOCK

dictability even with regard to company law". They should be reassured that capital would be safe, and that it could make money and be repatriated.

"If we have a substantially higher rate of economic growth, with a pending economic upswing extended over a longer period on account of having access to international finance, not necessarily IMF only, our economic growth will give us more expenditure capability without raising the overall tax burden. Obviously that additional money will go towards urgent social expenditure items," Du Plessis said.

A source said Du Plessis was expected to gear his address to the southern African region. He was expected to tell the IMF and World Bank that good growth in SA would have much wider positive developmental effects in the sub-Saharan region.

Du Plessis was expected to address issues such as nationalisation more circum-spectly and not counter the ANC directly. He would reassure the international financial community that the present government would ensure loans were honoured.

In an interview Naidoo linked Cosatu's increasing militancy and ANC secretary-general Cyril Ramaphosa's statement on re-evaluating foreign loans.

"Government operates purely on the ba-

□ To Page 2

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Barend

sis of technical recommendations from the IMF. We have not been consulted by the IMF, so it seems to us that there has been a deal struck between the IMF and government. We are clearly going to say to the IMF we do not accept deals struck behind the backs of the people. There is a necessary link if those deals relate to economic restructuring, such as VAT, which will

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then entitle government to borrow money overseas," he said.

"So whether it is from private banks, the IMF or the World Bank I would say that in Cosatu there would be a lot of support that we would not honour loans that are made arbitrarily to the SA government."

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□ From Page 1



# Soviet woes high on IMF agenda

BIDAN 14/10/91

BANGKOK — Africa and the economic problems of African countries are unlikely to be high on the agenda of this year's annual meeting of the World Bank and IMF that opens officially today.

Centre stage will be occupied by relations with the Soviet Union, trying for IMF and World Bank membership in the hope of staving off economic collapse.

It is staggering under a foreign debt burden of \$60bn and at the weekend again officially admitted to having gold reserves of only 245 tons worth about \$3bn.

That compares with earlier Western estimates of 1 500 tons. The official figure, though questioned by Western countries, is helping to support gold prices.

As a sideshow there is the rift over a French-sponsored proposal that a \$120m international aid package be made available to Vietnam.

The aid would allow Vietnam to repay overdue IMF loans which, in turn, could open the door to World Bank advances to the impoverished communist country.

Vietnam would appear to be the only major public rift between the US, which enforces a strict trade and financial embargo against its former adversary, and the rest of the developed world.

Other Third World programmes have become of minor significance. The Third

World situation is not helped by the growing irritation expressed by the developed countries' representatives with the reluctance of many developing nations to implement sound economic policies.

Zambia, which has abandoned IMF approved restructuring and economic programmes ahead of its October 31 election, is cited as an example of Third World irresponsibility.

In contrast, Mexico, which was threatening debt default a few years ago, is held up as the shining example of what correct economic policies can lead to.

The developed world's irritation is reciprocated by the developing countries.

Many of them pay scant regard to human rights and are resentful of attempts by the World Bank and IMF to tie assistance to political reform.

Repeated calls by IMF MD Michel Camdessus for cuts in developing countries' military spending were snubbed at the weekend by the Group of 24 (G-24) which fronts for the poorest nations of the developing world in their relations with the IMF and World Bank.

In a joint statement G-24 finance ministers bluntly told the IMF and World Bank not to become involved "in issues beyond their strict economic and financial mandate".

JIM JONES

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# Keep helping, World Bank urges

BANGKOK. — The World Bank has appealed to rich countries to avoid any real cuts in their contributions to its affiliate that aids the poorest nations, delegates to the bank's annual meeting said yesterday.

But many industrial nations told the bank at a meeting over the week-

end that finances were tight and they faced growing demands for their money from Eastern Europe, the Soviet Union and elsewhere.

Some donor nations also questioned whether the affiliate, the International Development Association, should continue to devote as much as half of its money to

Africa at the expense of poor countries elsewhere in the world, especially Asia.

"The needs are growing but a number of big industrialised countries say they are short of cash," said one delegate, who asked not to be identified. "It's going to be tough."

IDA has lined up

\$15.1bn from 34 donor nations to lend to poor countries from 1991-93.

The meeting over the weekend effectively marked the start of negotiations to cover the period after that, when the bank wants IDA to have at least as much money in real terms to hand out as it does now. — Sapa-Reuter.



## Camdessus lashes out at critics from Third World

<sup>6/10/91</sup>  
BANGKOK — The head of the IMF, hitting back at Third World critics, said yesterday the IMF had every right to encourage nations to curtail their arms spending.

Michel Camdessus said countries that spent too much on arms were likely to run into economic problems that were of direct concern to the fund.

"People tell me it's not within the IMF's jurisdiction," he told reporters.

"Tell me of a country spending excessively on the military without increasing public spending and the supply of money and then tell me if the money supply is not within the jurisdiction of the IMF," he said.

It was Camdessus's latest salvo in a campaign to convince countries to reign in arms spending. His efforts have irritated many developing nations.

They believe the IMF has no right to tell them to slash weapons budgets.

The Group of 24 develop-

<sup>15/10/91</sup>  
ing nations said in a statement on Friday the IMF and World Bank should not get involved in issues beyond their strict economic and financial mandate.

G-24 chairman, Colombian Finance Minister Rudolf Hommes, said some countries were worried that the IMF and World Bank might start to insist on cuts in arms spending as a condition for extending loans. (356)

Although he did not mention any countries by name, officials said India and Pakistan were the strongest critics of IMF involvement in the arms spending debate.

Speaking at a news conference yesterday, Camdessus said the issue was "a question of life or death for countries".

Poor nations that spent heavily on weapons were frustrating their chances of vanquishing poverty by diverting badly needed funds from food and literacy programmes, Camdessus said.

— Sapa-Reuter.



# Peril if SA swims against global tide

IMF/World Bank Meeting

BANGKOK, City of Angels, has been freed of its infamous traffic jams for two abnormally peaceful days. Thailand's booming, bustling capital has been host this week to the annual meeting of the World Bank and IMF. And playing host has taken precedence over everything else.

The government has been so determined to make a favourable impression on its country's visitors that it has declared a two-day national holiday to remove commuter traffic from Bangkok's streets. It has also made sure any protest is hidden from the cocooned delegates.

Police and army units are on constant patrol in the streets and hotels, what traffic there is on the abnormally quiet streets is imperiously pushed aside by streams of cars on the police cars leading every car to the newly built Queen Sirikit conference centre and the city's luxury hotels.

Delegates are warned of the risk of AIDS by a Thai finance minister handing out key-rings made from condoms, and prices have rocketed to separate the hordes of IMF visitors from their cash.

To the front of the conference centre the city's skyline is etched with cranes, symbols of the booming economy Thailand's industrialists have created. To the back are the shacks of Bangkok's poor, a stark reminder of how far this Southeast Asian country's economy has travelled. It also shows what is possible in SA given appropriate fiscal, monetary and legal policies and a willingness to spread wealth through individual effort rather than through the machinery of redistribution and expropriation.

As Mr. X, perhaps, ironic that determinedly

Business Day editor JIM JONES reflects from Bangkok on the significance of this year's annual meeting of the IMF and World Bank

free enterprise Thailand should have been the country in which the Soviet Union held out its begging bowl to the IMF and World Bank, and the country in which it finally admitted that seven decades of Soviet central planning had failed. The suppliant Muscovite delegation failed to win any aid guarantees or admission to full membership of the World Bank and IMF. But the Soviet Union's problems have dominated events this week in Bangkok, and addressing them will be a leading preoccupation of the G-7 wealthy nations for several years.

South Africans find it all too easy to slip into a narrow view of events, and fall into the trap of considering that the momentous changes in our own country preoccupy the rest of the world as they preoccupy us. Nothing could be further from the truth. The world, the World Bank, the IMF, the G-7 nations and everyone else do not believe they owe us a living. We have to have our own economic house in order if we are to attract the aid and investment fuel needed to propel us out of our self-inflicted blinkered lethargy.

This might come as a rude shock to politicians advocating redistribution and nationalisation, though whether they will easily accept it is another matter. But in a world characterised by increasing competition for scarce capital, if we do not implement realistic policies we will be excluded from the mainstream.

Privatisation, the IMF technocrats believe and Southeast Asian growth rates prove, is an essential part of the environment of growth. But it is not the sole solution. As the Cold War winds down, attention is focusing on the mismanagement of resources represented by military spending. A 20% cut in military spending worldwide would free \$140bn for productive investment. IMF MD Michel Camdessus estimates that another \$50bn could be set loose if unproductive subsidies were scrapped.

Spending to keep uncompetitive farmers in business or to subsidise domestic food prices is simply unacceptable and unsustainable. That is particularly so, it is clear from the world's economic success stories, if the proceeds of privatisation are filtered away on politically expedient consumption expenditure.

The IMF and World Bank are not deviating from their advocacy of the sound or conservative economic policies that are necessary to ensure non-inflationary growth and currency stability. Nevertheless, their economists make a point which questions SA's present strategies. Long-term savings can only be generated from sustained growth. It is often easily forgotten that Japan only became a net capital exporter in 1980. If policies designed to stimulate savings lead to slow economic growth, we might as well say goodbye to sustainable growth.

Taking this argument a step further, high interest rates and low growth lead to misallocation of savings and investment in non-productive assets. Turn that around, and it could be argued that an appropriate strategy for SA would be an early lowering of interest rates to encourage fixed investment spending.

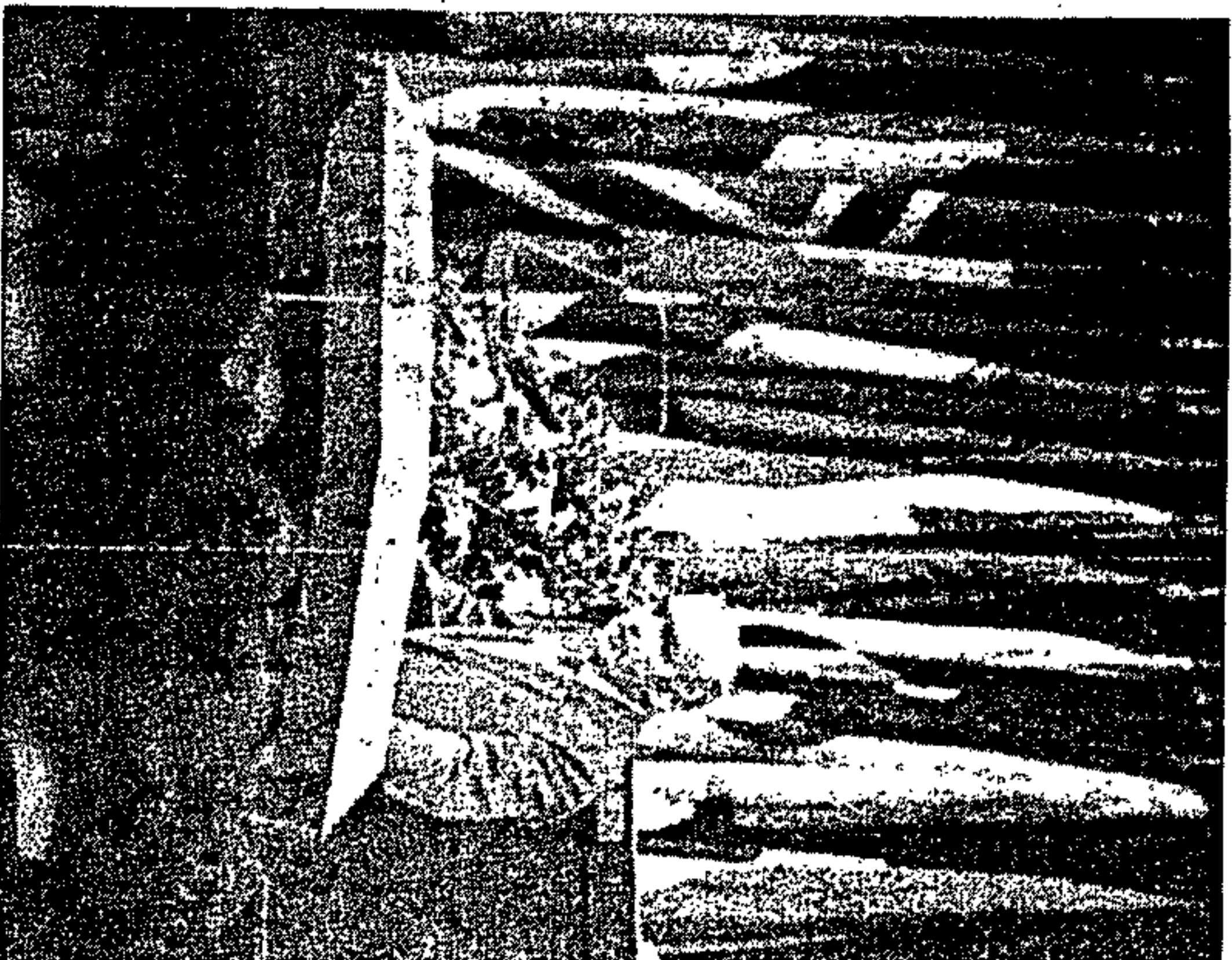
Deregulation and strict limits on government intervention are fundamental to the IMF view of what represents appropriate policies. Camdessus's circumlocution did not deflect from his warning to the delegates in Bangkok that nationalisation or government participation in the production or distribution of goods is unacceptable and fundamentally damaging. If this flies in the face of the populist economic theories propounded by some of our politicians, it is intended to.

But Camdessus had little comfort for industrialists grown fat behind import and tariff barriers. As world growth rates suffer from recession in some leading countries, there is growing pressure from the IMF for agreement on GATT's Uruguay round. Removal of trade barriers is essential to sustained growth, the World Bank believes with justification. But as military competition between the US and the Soviet Union evaporates in the wake of communism's collapse, new economic blocs are emerging.

In Southeast Asia the Asean group of nations is negotiating the removal of trade barriers. Europe is doing the same, and further down the road there is the possibility of an American free trade zone stretching from Canada to Tierra del Fuego. SA will need to negotiate access to these markets, particularly as its own regional hinterland has only 100-million comparative-poor people.

Seen from the global perspective of Bangkok, SA appears to be an economic backwater. If we are to get into the mainstream we cannot afford the dubious luxury of policies which have failed elsewhere.

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World Bank president Lewis Preston presents his annual address yesterday at the World Bank and IMF conference at Bangkok's Queen Sirikit Convention Centre. Picture: 7





World Bank president Lewis Preston presents his annual address yesterday at the World Bank and IMF conference at Bangkok's Queen Sirikit Convention Centre. Picture: AP

## Africa 'needs more aid to fight poverty'

BANGKOK — African nations yesterday painted a grim picture of growing poverty, meagre investments and environmental crisis while asking the international community for large aid input.

But Steven Kibona, who heads Tanzania's delegation to the World Bank's annual conference, stressed African states were implementing economic reforms despite "the difficulties and sacrifices encountered".

"It must be unmistakably clear that African governments are committed to doing what is necessary and feasible to rejuvenate their economies and set the stage for improved standards of living," he said. *B/day*

Kibona, who is Tanzania's finance minister, spoke on behalf of the African members of the World Bank and IMF. *16/10/91*

"The debt overhang is still an albatross around the neck of many African countries," Kibona said.

"There is now a heightened risk that Africa will be left on the periphery of the international economy."

He said it was critical that domestic and foreign investment be increased and that debt relief be offered by foreign monetary institutions.

He said that the ratio of investment to national income had fallen by some 25% since 1980. Warnings about a global capital shortage meant that African countries would have difficulty competing for capital.

"In sum, we are appealing to the donor community to increase its support of our growth-oriented adjustment efforts," he told the 155-member World Bank. — Sapa-AP.

## free trade zones

duce significant steps toward liberalisation, trade zones have become one of the best hopes for reducing impediments to trade.

Summers said the benefits of free trade zones, the spur of competition and the transfer of technology, would extend to all nations, even those not included in a bloc.

But to those that do not see themselves included in any trade group, the blocks

are a threat.

"Trade packs are groupings of nations that one way or another are likely to make preferential arrangements with each other," said Peter McCawley, deputy director general of the Australian International Development Assistance Bureau.

"They are interventionist, protectionist policies."

He and officials from other countries said blocs

present a two-fold problem; blocs could use the threat of lifting trade barriers to muscle advantageous trade agreements from isolated nations; bloc participants might win access to markets at the expense of those on the outside.

In addition to the EC's drive toward a common market in 1992, the US and Canada have already begun negotiating a free trade agreement with Mexico and an Asian trade group has been proposed by Malaysian Prime Minister Mahamad Mahathir. — Sapa-Reuter.



that

Bangkok Convention Centre

B/Dag 16/10/91

# Advice flows freely on capitalism's big day

(356)

BANGKOK — Capitalism's premier annual event opened in Bangkok yesterday with Japan implicitly telling the US how to run its affairs and Washington telling the World Bank and IMF how to run theirs. Bank of Japan governor Yasushi Mieno endorsed the IMF's call for increased savings in the industrialised world to help meet the demands of Middle East reconstruction and the emergence of the Soviet Union and Eastern Europe as market economies.

"First and foremost, we urge that countries with budget deficits, especially some of the major industrial countries, make every effort to cut their deficits, as this is one policy that can be adopted by governments individually," Mieno told the opening-day session of the World Bank-IMF annual meeting.

Canada, Italy and especially the US have been under increasing pressure from rich allies to bring their expenditure more in line with their revenue.

Mieno said the economies of major industrial nations generally were expanding.

To solidify this trend, he said, major nations should adopt fiscal and monetary policies that provided the basis for sustained, non-inflationary economic growth.

US Treasury Secretary Nicholas Brady devoted most of his speech to the problems faced by the Soviet Union, an American preoccupation during days of preliminary meetings in the Thai capital.

Brady told the World Bank and the IMF they would need to develop "new modes of operation" to help the Soviet Union and Eastern Europe make the transition to capitalism.

Brief mission visits to negotiate adjustment programmes with central governments will not be enough.

In the Soviet Union and Eastern Europe, we are confronted with the most radical economic change in the post-war

period," Brady said. "They ... need more fundamental assistance that goes well beyond standard (economic) adjustment programmes."

He ticked off a list of what was required, from changing attitudes towards the creation of wealth to building basic private and government economic institutions, and from basic training on how to run profitable companies to practical advice on tax codes and tax collection systems.

"And last but not least, they need assistance on how to establish a workable legal system for private enterprise," he said.

To respond to those needs, the IMF and World Bank must develop a partnership with the private sector to elicit its expertise in helping countries build the foundations of market economies, Brady said.

IMF MD Michel Camdessus advised those of the world's industrialised nations with inflation running at an "excessive rate" to pursue cautious monetary policies.

"These countries should take steps to ensure that the (economic) expansionary phase that is beginning is a sustained one that is not marred by high inflation or other symptoms of macro-economic imbalance," he said.

Camdessus said the IMF expected industrial nations to experience a moderate economic recovery next year, with growth of just below 3%.

He gave warning of a further rise in real interest rates worldwide that would crimp growth unless concerted and decisive action was taken to boost global savings.

In that regard, he urged major nations to reduce budget deficits.

"In the US, it is essential that the (recent) budget agreement be fully implemented and complemented by additional measures if these are necessary to achieve the medium-term fiscal goal," Camdessus said. — Sapa-Reuter.



BANGKOK — Support for creating regional trade zones is mounting among officials at the World Bank and IMF annual meeting, but nations that see themselves cut out of future trade deals remain highly critical.

# Support grows for free trade zones

secretary for international affairs.

But to those nations that see themselves left alone in a sea of trade giants, blocs are just another word for protectionism, threatening to destroy markets.

While trade blocs have been advocated by those hoping to form them, the zones won support here from more neutral parties.

Arthur Dunkel, director general of GATT, said he saw no single case in which

proposed regional trade agreements would not complement other efforts to liberalise trade.

The World Bank's chief economist, Lawrence Summers, also strongly supported their creation.

"The priority right now needs to be reducing trade barriers in any way possible," he said.

Financial leaders said that with the Uruguay Round of talks going on under GATT unlikely to pro-

duce significant steps toward liberalisation, trade zones have become one of the best hopes for reducing impediments to trade.

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In addition to the EC's drive toward a common market in 1992, the US and Canada have already begun negotiating a free trade agreement with Mexico and an Asian trade group has been proposed by Malaysian Prime Minister Mahatir. — Sapa-Reuters.

# Andlovod Group

All companies mentioned are incorporated in the Republic of South Africa. All financial figures for the quarter and progressive figures for the current year to date, including those of Loraine Gold Mines, Limited, are unaudited. Development results given are the actual sampling results. No allowances have been made for adjustments necessary in the valuation of the corresponding ore reserves.



**T**HE group of young Vietnamese women sorting coal at the Ha Lam colliery had one question: "Is there a cure for the disease we all have?"

No need to ask which disease. Twin black rings marked the nostrils of the women under the white cloths wrapped around their faces for protection from dust. Even though they were working in the open air, sorting and cleaning coal by hand, black lung disease or miners' phthisis would continue to afflict them unless the colliery found the money for modern equipment.

The state of this small colliery — employing 2,400 men and women to produce a miserable 300,000 tons a year — was the Vietnamese economy in microcosm. Largely cut off from the developed world for decades by war and a US trade and financial embargo, the communist state has few capital assets, little modern infrastructure and none of the financial or legal institutions central to a modern economy.

Labour-intensive farming goes on in much the same way as it has for centuries. Hanoi has few facilities — domestic water is drawn from kerbside wells lining the old city's streets. The phone and postal systems are archaic, slow and poor beyond belief. Ha Lam's coal is hauled and sorted by hand, railed 10km to Ha Long harbour and then carried by lighters to ships moored kilometres out to sea. The car trip from Hanoi to the resort town of Ha Long takes a bone-jarring five hours.

**T**his is no country for the package holidaymaker or the businessman unprepared for inconvenience, red tape and a lack of basic facilities. Vietnam's main viable assets are its 77-million people, giving it Southeast Asia's second largest population compared with Indonesia's 175-million and booming Thailand's 56-million. That makes Vietnam one of the world's most important markets — potentially. Today's reality is that the country is dirt poor — its GNP per head is among the world's lowest half dozen or so.

Four years ago Hanoi's ruling gerontocracy decided on a leap into the dark. Rationing and food subsidies were scrapped, the state stopped providing low-cost housing and free utilities, and agriculture and distribution were freed from state owner-

# Vietnam buries the past in search for economic miracle

8/04/91 16/10/91

Business Day editor JIM JONES last week visited Hanoi. The Vietnamese economy is today under the spotlight at the IMF and World Bank meeting in Bangkok

ship and allowed to operate on market lines.

The effect on Vietnam has been startling. Malnutrition which resulted from the former state-ownership of farms and fixed prices has largely vanished. The trade-off has been tripling inflation, leaving formal sector wages lagging way behind price rises. The women at Ha Lam colliery earn the equivalent of a couple of US dollars a month, senior government officials can count on a monthly salary of \$5 to \$10. Wages are insufficient to keep a breadwinner in food, let alone a family.

The upshot has been a tremendous release of energy. People moonlight and run their own businesses simply to keep body and soul together. In this workers' paradise there is no social security, no guarantees of jobs and wages and no subsidies on transport, food or accommodation.

But Hanoi has been transformed. Thread your way through the trading stalls on the pavements of the old city and see the ground floor of practically every house turned into a store, workshop, bar or eatery. There are no old cars in the streets. There were no private cars three years ago, so the jalopies that clog the streets of most Third World cities do not exist here. Change is also apparent from the traffic chaos — for a people used to walking or cycling, the motorbike is fast becoming a traffic nightmare.

Unexpectedly, there are few soldiers in evidence on Hanoi's streets or in the country. The biggest sign of officialdom is the army of traffic policemen trying to control the city's traffic anarchy. Here there are no rules of the road — regulations have not kept pace with the explosion in bicycle and motorbike numbers.

Hanoi and the countryside are vast house-building sites. Private owners are putting up homes on stands provided by the state and served by private developers.

**T**urnout best describes the situation. Energies have been released by government's decision to free the economy. But the change is not being planned or directed. Vietnam has none of the financial managers and technicians needed to manage a modern economic state and the impression is of a chaotic melting pot.

Of course, the conservative official blames backwardness on the war. Vietnam has been more often at war than at peace in the past 4,000 years. The past 40 years of war against the French colonial power, the US and the succession of US-backed Saigon regimes, the invasion by China and the intervention to save Cambodia from the genocidal craze of Pol Pot's Khmer Rouge

partners on a hotel development in Hanoi, but is in no right to make a choice. Threading the necessary permits through the bureaucracy is expected to take upwards of two years.

There is also the question of the country's ability to absorb massive doses of foreign investment without serious distortions.

This is the legacy of war — the bureaucracy is designed along military lines and no one seriously questions its directives. But there are growing complaints from impatient younger officials.

A dozen oil companies are already drilling offshore; an Australian mining company is exploring for gold in the south; manufacturers from Japan, Taiwan and Hong Kong are setting up assembly plants to take advantage of Vietnam's low wages and adept workforce. European hotel groups are working with local partners on hotel and resort projects, and Far Eastern food and agriculture companies are starting to develop plantations, fisheries and forestry projects.

The list of prospective or nascent ventures is long. That of completed ventures is shorter — bureaucracy and the sheer difficulty of doing business in a seriously underdeveloped region account for that.

**T**he country's ability to tap funds from international agencies remains, perhaps, the crucial issue. The US continues to block access to IMF or World Bank funding, but on technicalities. If a French-sponsored plan to raise \$120m from a group of donor countries succeeds, Vietnam could settle its IMF loan arrears and qualify for World Bank funding.

The Vietnamese have put the war with the US behind them and seem genuinely bewildered as to why Washington cannot do the same. Hanoi has complied with all the US's conditions for lifting the embargo.

For an SA visitor, one of the most striking aspects is the way in which the baggage of history has been ditched and the way in which almost everyone seems to be focused on building an economy that can deliver the goods. There is no moaning about restitution, redistribution or reparations — that is viewed as a futile preoccupation by a country hurrying to catch up with the developed world.



# 'Apartheid dismantling,' historic opportunity

MAGNUS HEYSTER  
Special Correspondent

BANGKOK. — The dismantling of apartheid and the lifting of sanctions has been labelled an "historic opportunity" by Mr Michel Camdessus, managing director of the International Monetary Fund.

With other developments around the world, including the transition to a free market economy in Eastern Europe and the Soviet Union, it had created an unprecedented chance to improve the lives of millions of people, he said in his opening speech at the World Bank/IMF meeting yesterday.

However, he warned that the period of transition would be difficult.

Devoting a large part of his speech to Africa and what he called the continent's "unique" problems, Mr Camdessus said the overall situation was now more promising.

"There is a striking contrast between their (African countries) harsh plight at present and their encouraging prospects if they apply sound policies to generate adequate and

sustainable growth.

"It bears noting that the picture in Africa is varied. Some countries have been set back as a result of civil wars, ethnic conflicts, large-scale migration of refugees, famine and natural disasters.

"They face severe handicaps in their efforts to create acceptable living standards.

"At present, 25 African countries are implementing economic adjustment programmes supported by IMF arrangements to the tune of \$7.8 billion.

"Moreover, negotiations for similar programmes have recently been concluded by three more countries.

"Prospects are good that soon more than 30 African countries will be implementing growth-oriented strategies supported by the IMF.

"Where programmes have been implemented vigorously, they are producing impressive results.

"In particular, the countries that have seriously pursued reform programmes supported by the IMF have achieved annual growth of more than 4 percent over the past three to four years."

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Move to include labour

# Social accord will help SA, says Barend

B / pay 17/10/91

JIM JONES

BANGKOK — Finance Minister Barend du Plessis yesterday suggested that a form of social accord between government, business and labour would facilitate SA's move towards economic and political democracy.

Addressing delegates to the World Bank and IMF annual meeting, Du Plessis said a type of social accord had been invaluable in many developing countries.

Du Plessis did not elaborate, but his statement appeared to represent a shift in his views on organised labour. He recently stated that any shared economic decision-making should occur through a forum established by an all-party conference — a party political forum.

And last week his special adviser, Japie Jacobs, told a conference that unions had overplayed their hand by demanding a say in economic policy-making — it happened nowhere else in the world.

Commenting in Johannesburg on Du Plessis' reference to a social accord, a senior unionist said Cosatu was open to the idea.

Du Plessis said economic restructuring often produced more immediate pain than gain, and as a result the objectives of reform were often difficult to achieve.

Du Plessis did not refer directly to SA, but said that unless timeous external support brought the early achievement of at least some of the goals of restructuring, the whole process might be thwarted or even aborted. "Both economic and political democratisation could therefore be seriously jeopardised if premature disillusion with the results of the adjustment process is experienced and translated into

political rejection."

Taking into account the complexity of economic restructuring programmes, developing countries needed the wide-ranging support of the international community, and in particular of institutions like the IMF and World Bank, in the design and implementation of such programmes.

The tone of Du Plessis' speech was in line with the general tenor of the meeting. However, he made the point that there were no hard and fast rules for successful restructuring.

Indirectly referring to SA's experience, Du Plessis said the solution did not lie in mere emulation of successful strategies in other countries. Nor did success necessarily lie in association with one or other regional grouping.

"On the contrary," he said, "the road to success is normally individually styled, requiring hard work and dedication and touching the very fabric of the society involved. Indeed it is consistently found that 'prosperity begins at home', and more often than not, strong leadership is needed to cope with the drastic and unpopular choices that need to be made."

Du Plessis' prescriptions for economic success carried no surprises. He addressed the conservative issue of fiscal and monetary rectitude, the promotion of an environment which encouraged savings and investment and his view that sustainable growth was possible only in conditions of macroeconomic financial stability.

● Comment: Page 8

● See Page 9



# The big chill

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FM  
18/10/91

Opportunity, not redistribution, is the watchword of the market economies

By Jim Jones, writing from Bangkok.

It would be hard to imagine two more contrasting cities than a bustling, booming, energetic Bangkok and a crumbling, apathetic Moscow. Yet recent events in these two capitals encapsulate the principal tasks faced by the IMF and World Bank.

Bangkok, now hosting the annual meetings of the IMF and World Bank, has also been host to an impromptu meeting of the People's Forum. Its members are drawn from developing countries and had met in Thailand's capital to protest against economic policies they claim pay scant attention to environmental or human rights needs. Thai members of the Forum are particularly angry over a World Bank-financed dam project which, they believe, will inflict serious economic damage on their country.

The USSR, or what remains of it, has never considered environmental issues to be of any great importance. Apart from destroying the legitimate economic aspirations of several generations across the Soviets' sprawling empire, Kremlin apparatchiks also waged total war on their territory's environ-

ment with no help from international agencies.

With the collapse of Soviet communism, the USSR's begging bowl has been presented to the G-7 nations, the IMF and World Bank. Moscow has applied for membership of both international financial organisations, tacitly accepting that it has to put in place the policies of economic rectitude and open-

ness that form part of the terms of World Bank loan finance.

In contrast, criticisms of IMF policies by the People's Forum were amplified in the corridors of the IMF meeting by the G-24, the Group of 24 developing countries at the bottom of the world's economic heap.

They are particularly miffed by IMF suggestions that, in a world of comparatively low savings, financing economic development could usefully come from cuts in military spending. They are also critical of what they say is the IMF's incorrect interference in national politics going way beyond the organisation's strictly economic and financial mandate. By their complaint, the G-24 representatives signified their lack of understanding that democracy and respect for human rights are concomitants of sustained economic advance.

The Soviet problem — the USSR owes well over US\$60bn to foreign lenders, has almost no foreign currency reserves, can count on gold reserves worth at most only 10% of its foreign debt and expects an economic decline of 10% this year and 20% next year — has dominated this year's meetings of the



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IMF and World Bank. A leading fear, particularly among African representatives, is that the sheer amount needed to salvage the Soviet economy will divert funds from other needy countries. The cynical or pragmatic question that arises is: which African countries have succeeded in putting World Bank loans to any lasting good use?

Delegates in Bangkok are wringing their hands over Zambia where an expedient President Kenneth Kaunda has decided to bolster his end-October electoral hopes by scrapping painful economic restructuring programmes insisted upon by the international organisations as part of the terms of lifeboat loans. Funding to Zambia has been halted and Kaunda's commitment to real economic reform been brought into question. Kaunda and African representatives in Bangkok are aggrieved, questioning official assurances that the Soviet Union's needs will not lead to restricted lending to the world's most impoverished continent.

African countries which feel free to ignore IMF economic suggestions have much to fear. Apart from having to fund the Soviet Union's restructuring, the World Bank and G-7 donors will also be considering calls for development funds in south-east Asia. The main thing people in that part of the world demand is opportunity — not redistribution, rights, reparations nor any of the other de-

mands which form part of the lexicon of change in our country.

SA visitors are shaken by the sheer hard work which will give the south-east Asia region an overall growth rate of 5.3% this year. There are also other countries, such as impoverished Vietnam, climbing on to the market-driven economic bus.

For all the criticism levelled by politicians at the IMF and World Bank, the two organisations remain committed to what they believe are sound economic policies needed to underpin long-term growth. SA, frequently the centre of political attention at international forums, is out of the limelight. In any case, we remain excluded from IMF and World Bank lending by the Gramm Amendment which compels US representatives to block any loans to SA.

Gramm seems unlikely to be lifted until the ANC gives its approval. That could remain a sticking point, some delegates in Bangkok believe.

J P Morgan, the New York banking company, went ahead with a syndicated loan for the Independent Development Trust only after the ANC had given its approval. Who can blame lenders for their caution when ANC secretary-general Cyril Ramaphosa articulates his version of ANC policy by saying an ANC government would be likely to renegotiate international loans made to

SA's present government?

The ANC has had representatives in Bangkok to try to dissuade the two international agencies and other bankers from extending further loans to Pretoria. Their representations have not been well received by financial technocrats who are well aware that the redistribution and nationalisation policies being spouted by the ANC could quickly ruin the economy.

Not that the IMF is altogether happy with our present economic management. A recent IMF delegation to SA reported on its happiness with the Reserve Bank's continuing monetary policies but expressed concern at the way in which fiscal conservatism appears to have been ditched by government deficits caused by expedient spending on affirmative action or readjustment programmes.

The new economic angels are south-east Asian and Latin American countries which have quietly embraced market mechanisms and been able to repay emergency and other loans which bailed them out of the consequences of putting politics before prudent economic management. Citing them as examples may grate on SA ears but they appear to be the wave of the future.

If SA's politicians ignore that wave, and our policies prevent us from riding it, we will be left behind and can kiss rising living standards goodbye.



## Hong Kong tipped for '97

8/10/91 18/16/91  
BANGKOK — The World Bank-IMF circus left town yesterday, but already officials were working on where to raise the big top as far ahead as 1997.

Hong Kong is being actively discussed as host in a year when the British colony reverts to Chinese rule.

British Chancellor of the Exchequer Norman Lamont was said by a senior UK Treasury source to be very enthusiastic about the idea. (356)

For the next two years, the meeting will be in Washington, and in Madrid in 1994.

The last meeting in Europe was in 1988 in Berlin.

The joint meeting was held in Nairobi in 1973 but few other African venues are seen as practical alternatives.

"When African countries host the OAU meeting, they build huge conference centres and airports," said one senior monetary official.

"And then a couple of years later they come and reschedule (their debt) at the Paris Club.

"That's why we don't think it would be a very good idea to hold the annual meetings in Africa."

Possibilities do exist in Latin America, where the IMF/World Bank met in Rio de Janeiro in 1967, and and Buenos Aires are mentioned as two with adequate facilities.

But no other city would seem to have the context of Hong Kong in 1997 or the facilities, including so many central luxury hotels, delegates said. — Sapa-Reuter.

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## WORLD BANK/IMF MEETING

# Financiers less optimistic

BANGKOK — Optimism that an early world recovery and swift removal of the Soviet military threat would bring prosperity quickly soured at the annual meeting of the IMF and the World Bank.

Delegates were cautious about a sharp upturn and leading Western nations made it clear they had no immediate plans of resolving the Soviet Union's financial plight.

The meeting also failed to provide breakthroughs for Third World debtor countries. British and French proposals for reducing the official debt of poorer nations was stalled by US opposition.

Leading finance ministers and IMF and World Bank officials provided reassurance that world resources won't be diverted to the Soviet Union and eastern Europe at the expense of the developing world. But World Bank president Lewis Preston and other delegates suggested that Third World countries could do more to help themselves by cutting military and other unproductive spending.

As expected, the Soviet Union dominated the meeting. It attended the meeting for the first time as a special associate member in what Western ministers de-

scribed as a "historic occasion".

Finance ministers and central bank governors from the Group of Seven (G-7) countries held lengthy discussions with leading Soviet delegate Grigory Yavlinsky, the architect of the country's economic reform program.

The discussions, which lasted an unprecedented three days and prevented some G-7 ministers from attending the start of the IMF's interim committee meeting, proved inconclusive.

Yavlinsky outlined to the ministers plans for a union treaty that might prevent the country's 15 republics from splitting apart. He also reaffirmed that the Soviet Union would continue to honor its debts, but he failed to provide the full update on Soviet economic data many had expected. The G-7 ministers decided to send their deputies to Moscow later this month to hold further investigative talks.

During the meetings, Yavlinsky repeated that the country's available gold reserves amounted to only 240 tons and warned that the country could face chaos next spring. A confidential report to the G-7 showed the Soviets were seeking as much as \$20bn for a rouble convertibility fund.

Soviet State Bank chairman Viktor Gerashchenko added to concern about the country's payments problems by claiming its currency reserves were "close to zero".

The G-7 ministers said although they hoped to prevent the Soviet Union from defaulting on its foreign debt, they were not prepared to provide any concrete financial aid until the country had settled its union treaty one way or another.

The ministers were keen to point out that in the long run, at least, bringing the Soviet Union into the world

economy could only be positive.

The discussions took place against a background of optimistic forecasts from the IMF, predicting that the world economy will recover from a subdued growth rate of 0.9% this year to nearly 3% next year.

However, some felt the IMF was painting a more positive picture than circumstances suggest. US Treasury Secretary Nicholas Brady said: "We must remain alert to signs of greater-than-expected weakness in the recovery."

— AP-DJ.

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ACCOMMODATION



# Support still exists for poorer nations

BANGKOK — The World Bank-IMF annual meeting ended yesterday with leaders trying to reassure poor nations that they would not be forgotten in the rush to help the Soviet Union and its former communist allies.

World Bank president Lewis Preston said: "I was slightly surprised by the depth of the feeling expressed by representatives of both Africa and Latin America that this (aiding the Soviet Union) would divert the attention of the bank from their own problems."

"I have tried at every opportunity to assuage those concerns," he told a news conference.

IMF MD Michel Camdessus told the closing session that the fund's efforts to help reform in the Soviet Union and Eastern Europe and to aid reconstruction in the Middle East had won broad support.

"But these additional responsibilities must not in any way limit the fund's technical and financial assistance to other members," he said.

Preston said the World Bank had adequate resources to continue to provide help to the developing world.

Both Preston and Camdessus, just re-elected to a second five-year term, called for cuts in arms spending, a theme at this year's meeting that has angered many developing countries.

"There is a growing recognition of the need to shift budget priorities away from unproductive outlays, such as excessive military spending," Preston said.

The IMF will not make reductions in excessive military spending a condition of receiving loans, a fear of Third World countries, but it is determined to press governments to cut arms spending, Camdessus said.

He said arms cut proposals would encounter opposition from some quarters, but that the end of the Cold War meant a chance to start a race to disarm.

On a firmer note however, African nations could expect a sharp reduction in financial assistance from the World Bank unless they kept up efforts to put their economies in order, World Bank officials said.

One senior Bank official said: "Africans have to be impressed that they have a lot to lose if they allow financial discipline to disappear."

The World Bank has been lending an average of more than \$3bn a year to countries in sub-saharan Africa over the past five years.

"If countries do not stay on the reform path we are not going to give them much money. The bank won't give much to countries that are not doing all they can," the official said. — Sapa-Reuter.

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# Croeser hints at new foray into world capital markets

BANGKOK — SA, which has just returned to the international capital markets after a six-year absence, expects to get better terms on its next issue.

Finance Department director-general Gerhard Croeser said he had expected to pay more than the 10.5% coupon on a DM400m bond launched last month. But strong demand for that issue had encouraged him. "Obviously the success of this one has meant we will be able to bring down the rates on the next issue."

He said he would not have been surprised to have had to pay 0.75 or 0.5 of a point more on the bond, which was raised by DM100m on the day of issue.

He left the timing of any new deal open and could not give any predictions about a possible coupon on a new bond.

He said SA would be "very circumspect" about coming to the market. Government did not want to give the impression of overextending itself.

"There must be a scarcity value. That is one of the better ways of getting your rate structure down," he said. SA could consider a new bond once the scheduled issue from the Independent Development Trust had been placed.

Croeser said about two-thirds of SA's debt was in Deutschmarks and that it had very little exposure in other currencies. "This is not very sound," he said. SA's debt structure needed more balance.

A new issue in European currency units (ecus) was possible, but sterling and the Swiss franc would also be considered.

Croeser was in Bangkok to attend the World Bank and IMF annual meeting.

The US's Gramm Amendment effectively bars SA's access to IMF funds. Also, SA's current account surplus makes it ineligible for IMF loans.

"At the moment we have been able to avoid asking ... we have applied the brakes to make sure we have a current account sur-

plus," Croeser said.

He said an expected upswing in the economy in 1992 would boost imports and push the current account towards a deficit. GDP, which is likely to be flat this year, is expected to rise by 2% in 1992.

But SA's new-found access to commercial bank funds would ease its balance of payments situation, Croeser said.

World Bank president Lewis Preston said it was too early to tell whether the bank would consider lending to SA, but that a team of experts had been to SA to study the economic situation.

SA is a full member of the World Bank but does not take an active role in its business.

The country's high per capita GNP makes it a less obvious choice for development loans than impoverished sub-Saharan nations, but Preston said "human resources" lending would be one area to look at. — Reuter.

● See Page 7



## Bank to help Soviets

*Soviet* 18/10/91 (356)  
BANGKOK - The World Bank pledged yesterday to help the Soviet Union overcome its massive problems, despite concerns such aid would divert resources from struggling Third World nations.

World Bank president Lewis T Preston said aid to Moscow would not place "undue strain" on the bank, which annually approves \$16 billion in loans.

Helping the Soviet Union switch to a market economy and meet payments on a \$65 billion debt dominated the conference of the World Bank and International Monetary Fund. - *Sapa-AP*





# Africa in danger of being forgotten

*Star 19/10/91*  
BANGKOK — Africa is running the danger of becoming the "forgotten continent" in the wake of the enormous sums of money needed to rebuild the economies of Eastern Europe.

Several speakers from African countries at this week's meeting of the World Bank/IMF have expressed fears that the Soviet problem in particular could cause the international financial community to ignore the world's poorest continent.

But Lewis Preston, president of the World Bank, played down these fears at a press conference, saying that the financial requirements needed by the collapsing Soviet economy would not impact on the World Bank's existing funding.

Despite the reassurances by Mr Preston and Michel Camdessus, the managing director of the IMF, African delegates have left this year's venue rather disconsolate and depressed.

Africa and its enormous problems were hardly ever men-

**At the  
IMF**

**MAGNUS  
HEYSTEK**



tioned by key delegates at the meeting.

"It's a familiar situation," said M Maneca, the Finance Minister of Cape Verde. "Africa is no longer a continent that really counts in the global economy," he said during his address.

This is despite the fact that the African continent is currently facing some of its most intense financial and political problems since the end of the colonial area.

The economic picture was summed up by Edward Jaycox, World Bank vice-president for Africa: "Most of the countries of sub-Saharan Africa have been in an economic free-fall over the last decade.

"No goods on the shelves, no spare parts, no chalk in the

class-rooms while foreign debt is piling up (currently at \$27 billion)." **356**

The situation has not changed over the past five years. Africa remains a continent in crisis. What has changed, however, is that Africa is of little concern to the international community, which is turning its focus to the rapidly developing economies of Asia and the newly democratic East European countries.

"Nobody has an answer to the African crisis," Mr Jaycox said. "Africa has chosen consumption over production and has cut its ties with the world economy."

For South Africa the economic upliftment of the sub-Saharan region is of crucial importance. More than a quarter of South Africa's foreign trade today is with African countries and any increase in this trade is largely dependant on the availability of foreign trade credits.

While the South African delegation here has had "extensive meetings" with delegates of

neighbouring countries in Southern Africa, it is known that trade prospects are badly hampered by the lack of foreign exchange.

In comments to the SA press, Barend du Plessis, Minister of Finance, expressed some concern about the three major developing free trade areas, the European Community, North America and the newly-announced Asean trade-bloc.

"This effectively leaves South Africa, and the rest of Africa out in the cold and will force African countries to take a hard look at establishing its own free-trade areas to compete on global markets.

"These developments could even hasten the plans to develop a Southern African constellation of states in the near future," he said.

● Magnus Heystek will resume his popular Money Matters column and answer Readers Queries on his return from the IMF meeting next week.



# Save the Soviets — by hiking the gold price

LONG on goodwill but short on solutions, the 14 414 delegates have headed home from Bangkok. Time was when no meeting of the IMF and World Bank was complete without a plan. I now propose mine.

It answers the two questions that hung over the meetings, unresolved. What can be done for the Soviet Union? And what can stop one country's needs from scooping the pool?

My plan is twofold. The world's central bankers and finance ministers should agree to force up the price of gold and to move the World Bank to Bangkok.

Gold is the Soviet Union's best bet — its most saleable export and its only bankable asset.

Soviet gold production is second only to SA's. Grigory Yavlinsky admitted to the IMF that the Union had been selling its reserves to pay its bills, but it still claims to hold 240 tons, and surely has more under the bed. The KGB is thought to have a reserve of its own.

For a dozen years the Soviet Union has watched the price of gold fall by almost two-thirds. At first the IMF and its member countries, prompted by the US, conspired to drive the price down, dumping gold on the market in a series

of auctions. Then the gold mining companies learned to sell their production forward as security for loans. Then came the forced Soviet sales.

The world's biggest holders of gold, the central banks, have let it happen. For years now they have sold little gold and bought less or none. They just sit on their reserves like self-satisfied hens sitting on addled eggs.

The IMF's figures show that since 1987 the industrial countries' gold reserves have fallen by just over 1%. Their value, however, has fallen by a quarter. On the IMF's calculations, these countries' loss on their holdings of gold is more than \$40bn.

You might have thought that the central banks, holding investments on this scale, would have condescended to manage them to protect their value. You would misunderstand their attitude to gold. They resent it, as a competitor to their own branded products. How agreeable for a central bank to have a monopoly over the supply of money.

How agreeable, too, for the IMF to issue its own reserve currency — the special drawing right — designed and described as "paper gold." How inconsiderate of providence to have stopped the earth with the genuine article, and

Award-winning British financial commentator **CHRISTOPHER FILDES** reports from Bangkok and offers a golden solution to the world's money crunch.

what a shame that, for most of history, most people have learned to prefer it. Providence though, may have known best.

A higher price for gold would be the quickest way, and now almost the only way, to help the Soviet Union. It would, of course, help SA too — and, on the cusp of change, how perfectly timed that would be. Many other deserving causes stand to gain, including sub-Saharan Africa.

Ghana, Sierra Leone, Mali, Zaïre and Zimbabwe all mine gold. Sierra Leone might even be able to pay off its debt to the IMF and borrow some more.

The biggest gainers would be the central banks themselves — and they, too, could use the money. They stand behind banking systems which show ominous signs of strain.

While the bankers were talking in Bangkok, Norway's second bank was

declaring insolvency and the US's biggest bank, having lost a billion dollars, was passing its dividends. A world with a shortage of credit must want to see its lenders build up their reserves. Western central bankers used to operate a cartel to hold the gold price down — until, 25 years ago, they were driven off, defeated. Now they should come back together and buy.

That, though, will not placate the developing countries without gold in their vaults or the ground. In Bangkok, they grumble: why could the Soviet Union, which has not even joined, be allowed to take over the meeting of the IMF and World Bank? It may suit the superpowers, but what is in it for the members?

The World Bank's formal title is the International Bank for Reconstruction and Development. It is, though, based about as far as possible from a developing country — in Washington. The US is its biggest shareholder, with a blocking vote, its chairman is by tradition an American.

Time after time the US installs a new chairman with a brief to sort out the World Bank. Every chairman then falls out with the government, and vice versa. Lewis Preston, the newly-installed chairman from Morgan, has al-

ready slapped down the US Treasury: "You don't run this bank. I run this bank." His office and the Treasury are four blocks apart. It is as if the World Bank had opted to live next to its mother-in-law.

The arrangement suits neither side, and it leaves the World Bank looking like a company with an old-fashioned grand head office.

It is large, it is compendious, it has a department and a policy for everything, it generates a vast amount of paper and spends a fortune on air-tickets. A group within the bank has been trying to move it to Bonn.

The World Bank should go all the way — to Bangkok. The shake-up would bring the bank to its markets and its membership.

The members would learn in Bangkok something they will never learn in Washington — what a developing country can do for itself. The Thais have sustained a growth rate of between 6% and 10%, and over time have kept their inflation below that of the US. It can be done without gold.

For myself, I should need to make periodic visits of inspection, to call on Preston and see how my plan is getting on. No doubt the World Bank could run to an air ticket. — Daily Telegraph.



# WB team returns for 'black business' talks

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ET 31/10/91

Deputy Business Editor

TWO World Bank officials arrive in Cape Town early next month to hold further discussions with black businessmen.

Des Crowie, of the Des Crowie & Sons Construction said two officials from the World Bank's private sector arm, the International Finance Corporation would arrive in Cape Town on November 9.

Crowie said he would be getting together 20 or 30 "very top" black business people to meet the representatives, Karl Voltaire, divisional manager of the Africa Department and his senior investment officer, Mark Keatley.

"This is a sequel to an earlier meeting we organised where 50 local businessmen met World Bank officials and we will continue our drive for off-shore funding for black business to help level the playing field in a new South Africa," he said.

The Cape Town meeting, he said, was a forerunner to the establishment next month of a Pretoria office, financed by the US Agency for International Development, to promote black-private sector development.

The Pretoria office, to be known as the South Africa Black Integrated Commercial Support Network (BISCN) is to set up a \$3,42m technical assistance fund through which emerging black SA businesses can draw on predominantly white counterpart firms for expert advice.

Those interested in participating should send all their particulars to Crowie at fax number (021) 31-1830.



By Sven Linsch

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## World Bank may back SA electricity plan

YAOUNDE (Cameroon) — The World Bank is set to emerge as one of the financial backers of Eskom's plan for a southern African power grid, it has been disclosed in Yaounde.

Eskom's chief executive, Dr Ian McRae, said here yesterday that the World Bank viewed South African involvement in sub-Saharan African projects as positive "because we can provide the ex-

pertise to make the projects viable.

"This would have been inconceivable two years ago when the World Bank refused to allow South African companies to tender for its projects," Dr McRae told delegates gathered in Cameroon for the first All-African Business Conference, Sidco '91.

The World Bank was al-

ready involved to the tune of R32 million in the construction of the Cahora Bassa Dam, he said.

Cahora Bassa should begin providing electricity for Mozambique, Zimbabwe and South Africa in two to three years time.

He said that in contrast to commercial backers of projects, the World Bank set strict conditions for its aid.

These included:

- That there must be a reasonable rate of return.
- That projects must be of mutual benefit to all countries.
- That a market for the product must exist.

Dr McRae said political considerations were not a major obstacle. However, the collapse of normal political rule in

Zaire would slow down some of the work involved in the viability study of the southern African grid.

He said electrification was essential to lift the region from its present depressed economic state.

than three percent in Malawi.

"If we can get this level up to 50 percent in 10 to 15 years time, electrification could emerge as a major source of economic development."

He cited the case of Taiwan whose rapid growth over the past two decades had been preceded by extensive electrification.

A delegation of 150 South African businessmen is attending Sidco '91.



# World Bank gives \$30m assistance to the Kremlin

MOSCOW — The World Bank yesterday agreed to give the Soviet Union \$30m worth of expertise to reform food, banking, business and social security systems. President Mikhail Gorbachev and World Bank officials signed the agreement in a ceremony at the Kremlin.

"Responsibility for most economic policy decisions rests with the individual republics. Most of our assistance is going to be extended to individual republics," said World Bank's Soviet department director Russ Cheetam.

Cheetam said World Bank president Lewis Preston, who signed the agreement, would talk with republican leaders before leaving tomorrow.

"We are not in a situation where we are contemplating lending any money to the Soviet Union," Cheetam said "If and when they become a member (of the World Bank), and only then, will we consider lending any money to the Soviet Union."

The Soviet Union does not meet World Bank requirements for investment and development aid, and Cheetam had no estimate of when it might be able to join.

The \$30m could last roughly two years, he said, depending on the number of experts, how many experts come, how long they stay, and what matching funds are available from other international donors.

Negotiations with the European Community would begin soon on co-ordinating use of a \$500m fund set aside for technical and development assistance to the Soviet Union.

Experts will help in fields of local interest such as energy in Kazakhstan and transportation in Moldavia.

But much of the work involves reforming systems that cross republican boundaries, such as privatisation of state-owned property and changing laws that regulate business and foreign investment.

The first team of experts arrives within 10 days, and will work on the "improvement of the social safety net . . . to make sure schoolchildren and the elderly continue to get access to food when you liberalise prices".

The second team, which arrives in November, will focus on how to allocate housing. — Sapa-AP.



## **NEWS IN BRIEF**

### **SA's aid offer accepted**

THE International Trade Council (ITC), a joint UN and GATT organisation which promotes trade in developing countries, had accepted SA's offer of assistance in Africa, Safto CE Wim Holtes said yesterday. *B/Daw 8/11/91*

The ITC assists developing nations to establish export capabilities by providing training programmes and market research. The ITC is backed up by funding from the World Bank and other international development agencies. *(356) (12)*

Holtes said Safto's first objective in offering its assistance was to help African countries to increase their exports and strengthen their economies.



# World Bank tackles Kenya on economics, corruption

WASHINGTON — The World Bank says its board has approved two loans for Kenya totalling \$86m, but board sources warn that the country's welcome at the bank's lending window is wearing thin.

They say the bank may cut off all but the most basic of project loans to Kenya if the country fails to put its economy in shape and cut down on government corruption.

"We have heard a lot of promises, but not much in the way of performance," said one board source, who declined to be identified.

Germany on Monday recalled its ambassador from Nairobi to protest against harsh treatment of government critics by Kenyan President Daniel arap Moi.

The US has also sharply criticised Moi for his crackdown on dissidents.

Moi's government, which has ruled out multiparty politics, banned a pro-democracy rally on Saturday, arresting a dozen government critics before the proposed meeting.

The World Bank says it will lend Kenya \$55m to help the country improve its university system and another \$31m for health care.

Both loans will be for 40 years and carry no interest charge.

The sources said executive directors from most of the major industrial countries were highly critical of Kenya's economic performance and its alleged government corruption when the bank's board met to discuss the loans last week.

In an unusual move, a summary of the board's discussions will be presented to the Kenyan government next week when aid donors to the country meet in Paris under the chairmanship of the World Bank.

The former British colony receives about \$1bn a year from Western donors in aid and loans but is currently under close scrutiny for human rights abuses, a crackdown on dissent and high-level corruption. — Reuter.



# Women farmers make their mark

WOMEN are the main producers of agricultural goods in many developing countries, according to a report in *Finance and Development*, published jointly by the World Bank and the International Monetary Fund.

The report's author, Ms Katrine Saito, says women are responsible for about three-fourths of food production in some parts of the developing world, but agricultural services are usually geared towards men.

Because women play such an important role in agriculture, food processing and crop marketing governments need to be sure they benefit fully from agricultural support services, says Saito, a senior economist in the World Bank's Women in Development Division.

"The evidence clearly shows that despite a growing awareness of the need to reach women farmers, these services - considered to be prerequisite for widespread and sustained agricultural development - are generally geared towards male farmers," Saito says.

"Bias is evident in the delivery of extension, which is generally provided by male agents to male farmers on the falacious assumption that the message will trickle across to women," she adds.

## Technology

"Bias is also evident in the message itself, which tends to ignore the unique workload, responsibilities and constraints facing women farmers."

Saito explains that women often lack access to information, technology and credit that would enable them to step up production. In most of the developing world, for example, women are by-passed by formal credit systems because they lack collateral - usually land title - have

*Some can 28/11/91 356*  
**But men perceive them only as housewives**

lower levels of literacy and face cultural attitudes that discourage lending to women.

The first step in finding a solution to these problems is to learn more about women farmers in developing countries.

Agricultural development experts need to understand the range of activities pursued by women farmers - both agricultural production and processing - and the particular constraints they face as women.

All this information must be fed into research networks that can develop techniques for assisting women in increasing production and earning higher incomes.

Once these techniques are developed, Saito says, the challenge lies in ensuring that assistance reaches women farmers.

The goal is to find a method "suitable for the local traditional culture, financial and human resources and institutional arrangements," she adds.

## Attitudes

Studies have shown that communication with women farmers is improved when female agricultural-extension agents carry the message. One of several ways to increase the number of women extension agents in developing countries is to create incentives for women to attend agricultural schools.

But Saito warns that male extension agents will remain the norm for many years, so efforts must be made to help men over-

come attitudes that can undermine programs for women.

A recent study of five countries found that most male agents perceived women as wives of farmers, rather than farmers in their own right, she points out.

Using farmers' groups, rather than individuals, as the recipients of extension services is a cost-effective way of reaching farmers,

especially women.

"In many developing countries, there is a long tradition of women forming groups to exchange labour, mobilise savings and credit, provide self-help and carry out social and ceremonial functions," says Saito.

These groups can serve as a channel through which resources and information from government agricultural agencies can flow.

The groups can also serve as a means for sharing expensive equipment and distributing inputs, such as fertilisers and other goods used in the production of crops and other agricultural goods.

## Illiterate

Lack of education poses a serious obstacle to providing services to women farmers, Saito explains.

"Throughout the developing world, women tend to be less educated than men, severely compromising access to agricultural extension and the ability to comprehend and use technical information."

She points out that in Africa the adult male literacy rate is almost twice that of women and in Bangladesh and India, more than 80 percent of rural women are illiterate, compared to 60 percent of rural men.

Because of the high rate of illiteracy, women in these areas are less able to benefit from written agricultural extension services.

Making sure that women farmers are able to benefit from extension services is crucial. But women, faced with the dual responsibilities of home and work on the farm, cannot attend courses at training centres, even if transport is provided.

Training should therefore be brought to women where they work and live, Saito says.

Mobile training units can accomplish this, but the mass media hold the greatest potential for reaching women.

"Radio has a long history as a communication tool, particularly in agriculture. Its low cost and wide reach make it a relatively simple, effective technology, especially among illiterate farmers and those living in cultures where separation of the sexes is important."

## Guidance

Television and video tapes may also be used in some areas.

Finding ways to make sure agricultural extension services reach women is a relatively new field and much remains to be learned, Saito says.

Pilot programmes underway in a number of countries are providing guidance on the best ways to integrate women into the agricultural extension system and the most likely problems to emerge in different social and economic environments.



# Girls can help beat poverty

28/11/91  
Sowetan

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*'Even though society gains when women are educated, for many parents, the returns on a daughter's education are uncertain and remote'*

**MAKING** sure that girls and boys have equal access to education is not just a matter of social justice.

It's also a matter of economics, says Ms Barbara Herz, chief of the World Bank's Women in Development Division.

Research has shown that educating girls can help developing countries tackle poverty, population growth and poor health conditions.

Education creates opportunities for girls to enter the labour force and be more productive when they become adults, Herz explains.

## Children

When women have jobs, they have higher incomes, they often choose to have smaller families, and they can afford to make sure their children are well fed and have access to health care and schooling.

"The economic and social returns on investment in education for girls are substantial and

The World Bank, which is grappling with increasing poverty in the Third World, has suggested that educating girls plays a major role in reducing poverty. This article is reproduced from World Bank News.

on the whole probably greater than those for boys," says Herz.

But despite these findings girls in many developing countries have less access to education than boys. One reason for this "female education paradox," Herz says, is that parents with limited incomes find that there are too many costs - and too few benefits from their perspective - associated with sending their daughters to school.

Even when the government provides free schooling, education can be expensive. Parents often have to pay for textbooks, transport and proper clothing, Herz says.

For cultural reasons, many poor families faced with these costs are more likely to send only their boys to school.

And in some cultures, parents depend on their daughters for most of the household chores, such as fetching wood and water and preparing food.

Sending daughters to school would mean forfeiting a significant amount of household labour.

"Even though society gains when women are educated, for many parents, the returns on a daughter's education are uncertain and remote," the World Bank official says.

## Customs

"Parents may be sceptical of their daughters' ability to get good jobs or income.

"Or they may feel weaker ties with their daughters if they marry out of their natal families or if customs discourage

parents from accepting assistance from their daughters when they become wage-earning adults.

Herz says a vicious circle has emerged in many countries. "Girls are kept home to help the family subsist day to day. Uneducated, they cannot compete with boys for wages when they grow up.

"Women earn less, so education is provided mainly to boys. And so girls are kept home." Culture may reflect and reinforce economic realities, she adds.

If governments are interested in combating poverty, improving the wellbeing of families, and slowing population growth, they need to make it easier for parents to send their daughters to school, Herz says.

Governments can start by reducing some costs.

"Some of the measures governments can take involve special subsidies for girls' education," Herz says.



# Battle against communism has been won

# Third World knocks

# on capitalist doors

WASHINGTON - The United States and its rich allies have won the battle against communism.

But now they must show the developing world that capitalism can deliver the goods.

Poor countries are turning their backs on communism and embracing capitalism as they seek to end years of economic stagnation and bring some measure of prosperity to their beleaguered people.

Kemper Financial Services chief economist Mr David Hale says: "We have the potential over the next 10 to 20 years to have a truly global-market economy."

"The big challenge is going to be bringing the Third World into this arena."

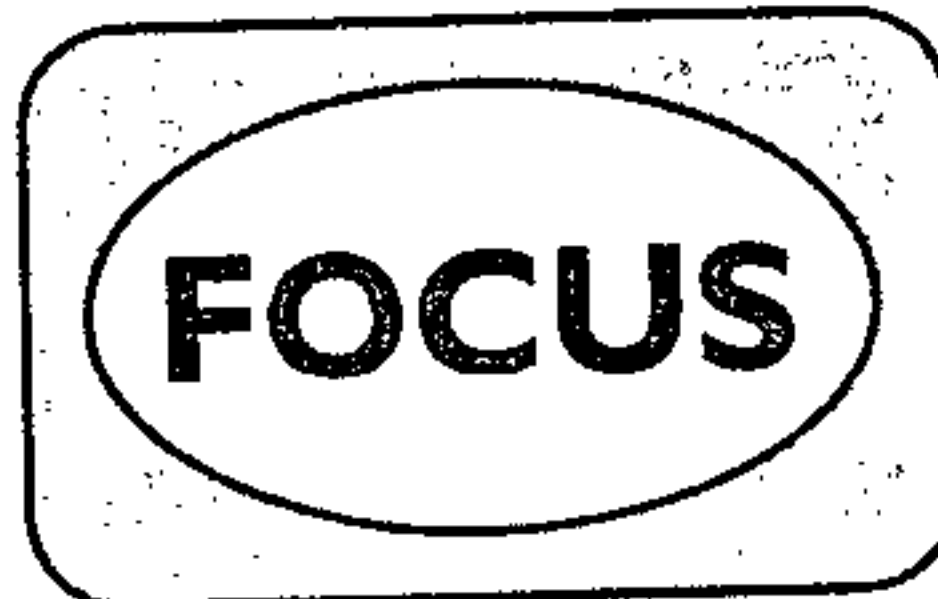
This will require sacrifices by recession-hit rich nations, which must buy more from poor countries and slash their own spending in order to give to developing nations.

They must also forgive more of the R3,6-trillion Third World debt.

As countries from Romania to Nicaragua adopt capitalism, about four billion people will enter the global marketplace and compete for goods and capital.

That could lead to a new age of prosperity - or trade wars as nations jealously guard their turf.

European Bank for Reconstruction and Development president Mr Jacques Attali says:



"Violent rivalry for territories and resources may well be the paradoxical result (of) . . . the disappearance of competing ideologies and the generalisation of the market economy."

African Development Bank president Mr Babacar N'Diaye says many Africans are already worried that their region will be pushed to one side as rich nations focus their attention, and their money, on helping eastern Europe and the Soviet Union.

He believes the answer is for Africa not to view Eastern Europe as a competitor for the West's scarce resources, but as a potential market for African goods.

Harvard University's Professor Robert Lawrence says: "This revolution is real and their (poorer nations') commitment is great. The issue is to make this change permanent."

The first challenge will be to bring a current round of international trade talks to a successful conclusion.

The talks - the so-called Uruguay Round - have dragged on for five years as the US and the European Community fight bitter battles over agricultural trade.

Many developing countries,

seeking to revitalise their moribund economies, have already begun to open up their once tightly closed markets to more imports.

But economists say rich nations will have to respond in kind and knock down trade barriers against Third World goods, including farm products and textiles.

Both the US and the EC have recently signalled they believe an international trade pact could be hammered out before the end of the year.

Some economists, including Kemper's Hale, think it should not end there. Hale sees the need for another round of gruelling trade talks in a year or two.

The second challenge for the United States and its allies will be to try to ensure that demands for cash from fledgling capitalist countries do not trigger a surge in world interest rates, which would stunt global growth.

The International Monetary Fund has estimated that an extra \$100 billion a year may be needed to fund economic reforms in eastern Europe and Latin America, plus the rebuilding of the Middle East after the Gulf War.

But that money won't be available unless rich nations like the United States and Italy cut back their big budget deficits and free resources for the developing world.

Washington's poor record for

dealing with its burgeoning deficit, despite the exhortations of its allies and the IMF, does not engender much optimism.

Even cash-rich countries such as Japan, which has played a major role in funding Third-World development in conjunction with the World Bank, are starting to emphasise that their resources are not unlimited.

But the developing world is not powerless, economists say.

The West's awareness of environmental dangers posed by industrialisation of the Third World gives developing countries leverage in prying concessions from richer nations.

Concern about a possible flood of economic immigrants is another form of leverage. It is part of the reason why the EC is talking of granting trade concessions to eastern Europe - and the United States is discussing a free-trade zone with Mexico.

In May, rich nations set up a Global Environment Facility with the World Bank to provide money to poorer countries to limit ecological damage due to economic development.

"The next millennium will be terrible or magnificent, depending on our ability to limit our dreams," EBRD's Attali says.

"Not everything is possible, nor should be. We must have the wisdom to curtail our dreams." - South African Press Association-Reuter.

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5/12/91

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## Bank calls for easing of Third World debt

(356)  
WASHINGTON — The World Bank says the \$1.3-trillion Third World debt problem is far from over and urged rich nations to move quickly to forgive more developing-country debt. *Bay 14/12/91*

"The debt burdens of a large number of the poorer countries remain unsustainably high," the bank said in its annual review of developing-nation debt.

While the level of Third World debt has held roughly unchanged over the last year, that figure masks a steep rise in the obligations of the world's poorest countries, it said.

Some middle-income debtor nations, particularly those in Latin America, have been able to take advantage of the so-called Brady initiative to reduce their foreign debt.

"Those that have come to the party have had a very good time," the bank's chief economist Lawrence Summers said at the weekend.

Britain is pushing ahead with a plan — the Trinidad terms — that would effectively allow poor nations to reduce their official debt to foreign governments by about two-thirds.

The bank said that plan would offer many poorer countries a realistic chance of being able to service their remaining debts. But a few nations, including Mozambique, would require even more relief, it said.

The bank urged that other such countries with official debts, including Morocco and the Philippines, be given a chance to obtain comparable relief. — Sapa-Reuter.



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(356)

# Mozambique will receive foreign aid

Star Africa Service

MAPUTO — Western donor nations and organisations pledged \$1 125 million (about R3,1 billion) for Mozambique at a three-day meeting of the World Bank's consultative group on Mozambique in Paris last week.

The World Bank said the amount met the full external financing requirements for 1992 for Mozambique's World Bank and IMF supported structural adjustment programme.

But the World Bank added that "participants had indicated that there had been serious deficiencies in the handling of emergency food aid in the past, and expressed concern that it was not reaching the intended beneficiaries".

Participants also indicated that "improved accounting for use of foreign assistance would enable donors to provide funds in a more flexible manner".

The meeting also emphasised that it was imperative that a peace agreement between the Frelimo government and Renamo was reached as soon as possible.



# Quicker relief urged for Third-World debt

STAR 14/12/91

(356)

WASHINGTON — The World Bank has warned that the \$1.3 trillion Third World debt problem is far from over and urges rich nations to move quickly to forgive more developing-country debt.

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Some middle-income debtor nations, particularly those in Latin America, have been able to take advantage of the so-called Brady initiative to reduce their foreign debt.

"Those that have come to the party have had a very good time," World Bank chief economist Lawrence Summers told a news conference on Sunday.

"The problem is that so far it hasn't been a

very large party."

The initiative, unveiled some three years ago by US Treasury Secretary Nicholas Brady, only applies to debt owed to international creditor banks, not to rich nation governments.

Poorer countries, particularly those in Africa, owe most of their money to governments, not to banks.

Britain is pushing ahead with a plan — the Trinidad terms — that would effectively allow poor nations to reduce their official debt to foreign governments by about two-thirds.

The World Bank says that plan will offer many poorer countries a realistic chance of being able to service their remaining debts and enjoy better economic times.

But a few nations, including Mozambique, Somalia and Sudan, require even more relief, it says.

Although the US backs the plan in principle, it has been hamstrung from joining in by legislative guidelines set down to contain its burgeoning budget deficit.

Washington, though,

was able to lead the drive this year to halve the official debt of two lower middle-income countries, Egypt and Poland, rewarding one for its co-operation in the Gulf War and the other for its embrace of democracy.

The World Bank urges that other such countries with big official debts, including Morocco, Nicaragua and the Philippines, be given a chance to obtain comparable relief.

It says that the near-term outlook for developing countries hinges largely on the economic performance of the industrial world next year.

"The consensus view is that major economies will show a weak recovery in output in 1992," the Bank says.

"But the preponderance of the risk now appears to be on the downside."

It says that all indebted developing countries will probably have to live with high real interest rates in the coming decade because of competing demands for funds from the Gulf, the Soviet

Union and Eastern Europe, including the former East Germany.

It estimates that the extra demand from those areas will amount to about \$100 billion per year.

All other things being equal, that means real international interest rates, after taking account of inflation, will need to be about one percentage point higher than otherwise.

But the World Bank does not expect those extra demands to crowd out developing countries and prevent them from raising funds, unless they are barely creditworthy.

Mr Summers said the problem was not so much the overall quantity of money available for investment in the 1990s, but its allocation.

Too much money during the 1980s was used to build office buildings in the world's richest nations, and not enough went to the construction of factories in developing countries where the population was growing the fastest, he said. — Sapa-Reuter.



# 'Reduce burden of debt'

By Hugh Robertson  
Washington Bureau

The World Bank has appealed to wealthier countries to reduce the crushing debts of sub-Saharan Africa, pointing out that the interest alone on these debts now amounts to \$10 billion (about R27 billion) a year.

Total debts in the region now amount to about \$176 billion (R473,2 billion), the bank estimates.

## Reduced

In the past four years donor countries have written off a further \$7 billion (R18,9 billion) and have reduced interest payments by about \$900 million (R2,36 billion) a year.

But the burden remains enormous, the bank says.

Its chief economist for Africa, Ishrat Hussain, has pointed out that the region has received none of the special treatment accorded to countries like Egypt, Poland and the Soviet Union.

Egyptian debts were written off as a reward for Egypt's support for the West in the Gulf War and its helpful role in facilitating peace in the Middle East, and Poland's debts were substantially diminished as a means of helping the country move away from Marxism.

## Commended

Mr Hussain commended a proposal by British Prime Minister John Major which would write off about \$46 billion (R124,2 billion) in African debts to wealthier countries and would reduce interest payments by about \$2,3 billion (R6,2 billion) a year.

But he pointed out that the proposal had been made a year ago and that there had been no indication of a decision by the donor countries since then.



# Moneylenders now own the temple

W/Mail  
19/12/91 - 2/1/92



**A**N AIR of unreality pervades economic debate in South Africa. All over Africa and Latin America governments have sold, or are selling off, state enterprises. In South Africa the department charged with privatisation sits on its hands, paralysed by politics.

Even Sweden, long the model for those looking for a third way between communism and capitalism, and never a great nationaliser anyway, has started to sell off stake in private companies.

Last month, the new non-socialist government, moving to deregulate Sweden's economy, proposed to sell state holdings in 35 companies.

All over the world governments have embraced, in some cases zealously, deregulation and liberalisation of markets. In South Africa, a lot of laws have gone but the government would be advised to move cautiously for fear of sparking a firestorm of public opposition.

Zimbabwe Industry and Commerce Minister Kumbirai Kangai announced recently the government was gradually removing subsidies on some basic consumer products, as well decontrolling prices of most basic consumer goods.

Argentina has gone the whole hog, deregulating everything it possibly could.

Now South Africans watch in almost disbelief as their country joins the world again.

As we do, we will find that economic choices are as limited as political policies proved to be.

What is the lesson of the success of the Comprehensive Anti-Apartheid Act and boycotts and sanctions measures, especially the perhaps mis-named "financial sanctions"? Surely that no nation can for any length of time flout the wishes of the world community.

As it is in politics, it is even more so in the world of money.

Never since the Reformation have a set of ideas been so dominant in the world. It may be stretching a metaphor, but the World Bank-International Monetary Fund is the new Catholic Church, and the US president the new Pope.

For some on the Left, the IMF and World Bank are modern twin demons of capitalism.

Conservative economists generally think the more IMF involvement the merrier.

It's not that simple, of course. Access to IMF credit represents a stamp of approval which makes it possible for South Africa to borrow abroad. The IMF and World Bank are full of clever people with what seems like good advice.

But should one avail oneself of IMF and World Bank loans?

If you really have to. IMF loans are short-term and for countries having balance of payments problems. World Bank loans are aimed at development, but its poor track record in Africa and the danger that the money may be squandered on prestige projects means we may not want to avail

*Whatever happened to the Great*

*Economic Debate?*

**REG RUMNEY**

*argues the results have*

*already been decided by what is*

*happening elsewhere*

*in the world*

ourselves of them, and if we do we should direct the loans to specific areas with care.

There is some feeling that IMF assistance might be inevitable — if and when South Africa has another boom. A booming economy would mean capital equipment would flow into the country to manufacture goods to supply a new and vigorous demand. Money would flow out to pay for that, and this would eat into the balance of payments.

But forget, for the moment, about the IMF and the World Bank.

Wealthy nations don't need the crutch of bridging finance or long-term aid. And, the common wisdom goes, to create wealth South Africa needs private capital investment and to be able to export.

To export South Africa will have to continue — possibly at better odds — to be a part of the General Agreement on Trade & Tariffs (GATT). Here again we had better take note of the trend in other countries of cutting protective tariffs, the taxes governments impose to keep imports out and help local industries manufacture replacements.

On foreign investment, South Africa should heed the lesson of two recent big disinvestments. Pilkington of the UK is about to sell its 48.4 percent interest in Glass SA for R525-million to Plate Glass and Shatterprufe Industries. Swiss-based Nueva Holding has announced it will sell its 51.6 percent interest, valued around R52-million, in the Everite Group's holding company, Everite Holdings. This, when disinvestment pressures have dissipated.

Overseas firms are not exactly falling over themselves to put their money into Africa. They will have to be enticed here.

If it doesn't want to put off entirely any potential investors, any new government will have to consider sweeping economic change with care. Nationalisation programmes may have seemed sensible at other times. In South Africa now it will be seen as a mark of the macro-economic populism that wrought disaster in South America and Africa.

This is not to say economic choices are completely absent. Economic direction still has to be moulded by any government, and democratic governments are answerable to their voters. Redistribution is still a burning item.

So there's an outside chance populist pressures may lead to large-scale nationalisation. The pressure will be on for more social spending to redress historical imbalances. Protectionism may sneak in, cloaked as patriotism.

But these would be political decisions with economic consequences, not choices made with the best economic outcome in mind.

In the end economic debate is more likely to be about competition policy than nationalisation; the Budget deficit before borrowing rather than free housing for all; the level of taxes rather than the direction of the five-year-plan.

In other words, the minds of economic planners will be exercised with highly technical decisions. No one is going to get away with uprooting the entire economic system — unless the world order undergoes another massive upheaval, and capitalism collapses this time round.

For now a modern Messiah is going to find it difficult to drive the moneylenders out of the temple: they own it.



# SA's on the way back to IMF

STimes (8455) 22/12/91

By IAN SMITH

(356)

**AMERICAN** action to lift the Gramm Amendment which has blocked South African access to the International Monetary Fund and effectively the World Bank since 1983 is expected in the new year.

Repeal of the legislation would have dramatic implications for the economy and could lead to a solution of one of SA's biggest problems — Government spending.

It would also have a major psychological impact on foreign banks in their dealings with SA. An economist says: "Access to the IMF would be seen as a green light by most international bankers."

SA officials are reluctant to talk about strategy to lobby for the repeal of the amendment.

But they are "cautiously optimistic" that the first steps to repeal the legislation will be taken soon.

Sympathy for SA's case is increasing in the US. It has been helped by the "fair, objective and sympathetic" reports from three World Bank missions to SA in the past year.

SA has remained in good standing with both the IMF and the World Bank in spite of the "arm's length" dealings in recent years.

The Gramm Amendment requires US representatives, who dominate the IMF votes, to seek Congress's approval before allowing additional loans to "any country engaging in apartheid".

Although the amendment does not apply directly to the World Bank, SA strategy over the years has been to avoid any application which would bring its policies into open debate.

SA would probably not qualify for assistance from the IMF, which tends to concentrate on short-term loans to countries with balance of payments problems, because it has maintained a strong surplus.

## Barred

It is likely to continue in surplus until a new growth cycle increases demand for imports.

The last time SA had recourse to IMF facilities was in 1982.

SA was also barred from World Bank funds because its per capita income was too high.

But all that has changed. The bank is reassessing the classification in view of the erosion of earnings levels throughout the 1980s.

The new SA, with its huge developmental needs, will stand a much better chance of soft loans from the World Bank.

The main impediments to tight control of Government expenditure include high expectations in social development like housing and education.

The three World Bank missions looked specifically at macro-economics, housing and education.

Econometrix director Azar Jammine says: "Access to the World Bank would be tremendous. One of the greatest advantages is the fact that the World Bank would impose strict conditions, which would include assurances that Government

spending would not exceed certain limits."

He also believes that the IMF could be persuaded to relax its restriction on loans to countries with a balance of payments problem because of SA's influential position in sub-Saharan Africa and its special problems.

## Road

Reserve Bank Governor Chris Stals does not believe SA will run into balance of payments difficulties until the gross domestic product growth rate approaches 4% to 5% a year.

That could be a long way down the road.

US Assistant Secretary of State for Africa Herman Cohen said in an interview with Leadership magazine this month that the US would remove its objections to an IMF facility as soon as SA faced a balance of payments deficit.

Dr Jammine says the increase in Government spending is the cause of the economy's decline in the past 20 years.



WORLD BANK — 1992



## Chamber to discuss bank

By Day 7/1/92  
THEO RAWANA

A WORLD Bank team held talks with a Central Witwatersrand Metropolitan Chamber delegation last month, chamber CE Vic Milne said yesterday.

The chamber team had made "recommendations" to the bank mission visiting SA. A report on the talks would be made at the chamber's monthly meeting tomorrow. (356)

He said the bank had expected government to approach it for aid, and had wanted to assess the situation in SA. ~~(356)~~

The chamber meeting is also expected to focus on Greater Soweto Principal Parties' report on introduction of new service tariffs for greater Soweto.

The implementation of the Alexandra Accord, which provides for the establishment of a northern joint negotiating forum, will also be discussed.



# Zimbabwean prices rocket as government retools economy

THE new year has hit Zimbabweans hard as they face drastically higher prices and static wages because of the government's economic restructuring programme.

Soft drink prices and hospital fees went up this week, adding to the list of increased costs such as school fees, exam fees, electricity, sugar, canned goods, meat and clothing.

"This is going to be a tough year," said housewife Dorothy Mushumba. "It costs more to eat, to go to school and to go to the hospital. I don't know how we're going to get by."

The World Bank designed Zimbabwe's economic structural adjustment programme so that the government must spend less on social services and channel those funds into productive investment.

That means Robert Mugabe's government must restrict one of its most popular achievements since independence, extending health services to all.

As a result, fees at Parirenyatwa Hospital, Harare's main government hospital, went up by an average of 200 percent this week.

*World Bank-designed economic medicine is proving a bitter pill for Zimbabwean city dwellers to swallow,*  
**reports ANDREW MELDRUM**

The economic restructuring has also whittled away the extension of education to the majority, another of the Mugabe government's popular achievements.

As of January 1 the government began charging fees for the previously free primary education and has substantially increased fees for secondary schools. The government is encouraging people to stay in the rural areas by keeping rural primary schools free of charge and holding rural secondary school fees to one-half the cost of urban schools.

City dwellers are also bearing the brunt of increased food prices as the government removes subsidies which kept food prices down.

"Let the people in town pay for what they consume," said Minister of State for Finance Tichaendepe Masaya at a

recent seminar.

While the average Zimbabwean consumer is already feeling the pinch from the economic restructuring, the government has yet to take its own bitter medicine. The government is under growing pressure to cut its operating costs by reducing the size of the cabinet and the civil service.

Both the World Bank and the International Monetary Fund (IMF) have pledged big loans to support Zimbabwe's restructuring effort, but both are holding back actual payment until the government agrees to significantly cut back the size of its payroll.

As a result of recent negotiations at World Bank and IMF headquarters in Washington, Zimbabwe will have to cut an estimated 7 000 jobs from the civil service of 89 000, according to economic experts. It will be politically difficult for Mugabe to make those cuts, as the civil service has largely operated as a way to reward political supporters. But diplomats and economists agree that such cuts are absolutely necessary to keep Zimbabwe's economic recovery on track.



# Steyn due to meet World Bank chief

CAPE TOWN — Independent Development Trust (IDT) chairman Jan Steyn will meet World Bank president Lew Preston and the bank's southern African officials next week during a three-day visit to Washington.

Steyn said yesterday he would discuss SA's development needs and priorities with the bank's officials and stressed that his meetings were not a fund-raising exercise for the IDT.

"The visit is exploratory in nature. By an exchange of ideas one could perhaps contribute to the enrichment of the bank's capacity to make informed decisions about SA," Steyn said.

"It is merely an opportunity to talk through the challenges facing development agencies in SA and the possible role the World Bank can play in the country."

The World Bank appears to have modified its criticism of the IDT's R750m capital subsidy scheme to provide serviced sites for about 100 000 people.

In a confidential report issued last month the bank said: "Within the SA context, thinking about subsidies is already quite sophisticated. Programmes such as the IDT's capital subsidy represent in principle a far more appropriate approach to housing subsidy than what is found in most developing countries."

Steyn said in the coming year the IDT would attempt to direct the international investment community's attention towards SA's development

LINDA ENSOR

needs and try to get development onto the investment agenda.

The IDT would also attempt to act as a facilitator to draw foreign development funding to SA, not necessarily into the IDT itself, but into good projects and would seek overseas support for a number of its own projects.

Steyn hoped that foreign funds would flow in to boost the R25m the IDT had allocated for its education bank. He said at least R100m would be needed for the project to reach a significant number of disadvantaged students.

The bank would assist university and technikon students to pay for their education, and R100m could assist about 24 000 students.

Enabling legislation for the formation of the bank would hopefully be passed during the coming parliamentary session.

Steyn said a legal infrastructure would be necessary to enforce obligations. Loan repayments would be deducted from the salaries of the loan recipients when they had finished their studies and found employment.

Steyn dismissed the idea that the fund would take the place of bursaries, saying it was a supplementary mechanism with a revolving component which would assist a larger number of people.

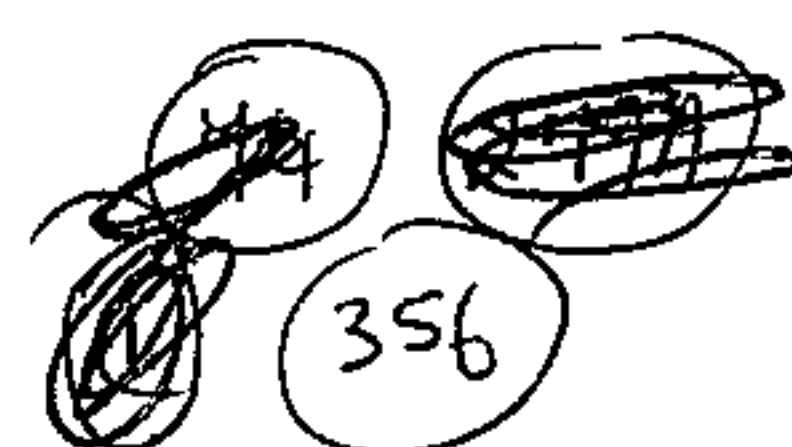
"Bursaries on their own cannot meet the need," Steyn said.



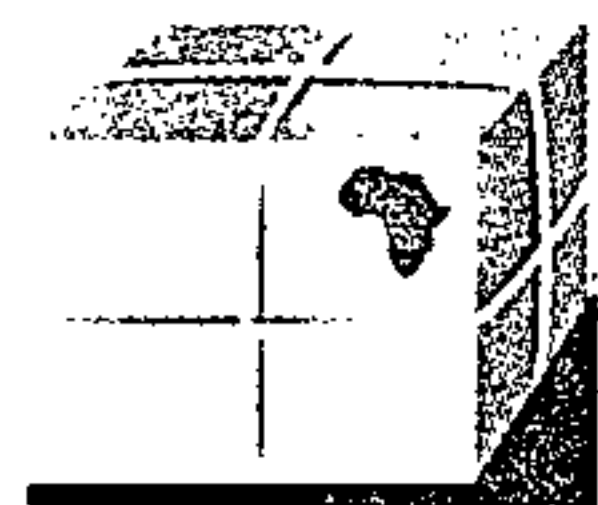
TRADE WITH AFRICA

FM 31/1/92

# Don't presume too much!



African trade doors are opening wider but the big uncertainty is payment



**Heart of darkness** or pot of gold? Contemplating modern Africa — with poverty and debt spread pretty evenly across most of the territory, and an infamous reputation for corruption on top of that — businessmen and investors tend quietly to choose the first description and look elsewhere with their merchandise. But for SA, there is a fresh understanding of the opportunities and complexities of the continent of which we are a part.

Capitalising on this requires the fortitude of a latter-day Livingstone.

The facts speak for themselves. Of the 45 countries in sub-Saharan Africa, 32 fall into the category of low-income nations which, according to World Bank ratings, means a per capita income of fewer than US\$500 a year. In 1990 the continent owed \$234bn in long-term external debt — 98% of its GDP.

For all that, in its 1991 *World Economic Outlook*, the bank predicts a modest improvement in economic growth for Africa as a whole during 1992 — despite rising inflation and a decline in GDP growth in sub-Saharan countries. The current account deficit for the continent will narrow by \$1.5bn.

At trade level, that provides a gap. After all, since President FW de Klerk rejoined the world in February 1990, African countries have been opening their arms to South Africans both as tourists and businessmen. Of the major markets all except Nigeria, Libya and Tanzania trade in some way or other with SA and direct air links between Kenya and SA are already in place. Others are in the pipeline.

The process began before De Klerk. Sanc-

tions closed important world doors to our manufacturers but a to-and-fro of trade links with Africa actually expanded during this grim period. For understandable reasons, Customs & Excise does not yet release trade figures between individual countries; however, it says exports from SA to the whole of

Africa have risen from R3,4bn in 1989 to R4bn in 1990 and to R5,1bn, according to preliminary figures, for 1991. This trend is expected to increase significantly this year.

Scepticism remains over the depth of the African potential. The central problem is of course: how do they pay? Most often, the answer is not reliably — not without a helping hand. So a confirmed letter of credit is essential.

Obviously, countries where others will finance imports and trade generally are those with the greatest potential for SA businessmen. At the same time, such dependence indicates too often a record of default and political instability. With whom do you do business if an elite is displaced? This applies not only to countries which have to endure coups.

Spreading democracy, as in Zambia, is displacing long-time rulers whose followers, over the years, became firmly entrenched in powerful bureaucratic positions.

Nonetheless, in 50% of Africa's countries, development assistance makes up more than 15% of their GDP. For some, it's much more. Investments and imports of low-income countries are financed 100% and 75% respectively by aid. Can this possibly undeserved good fortune last?

The World Bank, for one, is becoming more selective about which countries it chooses for aid. The quantum of aid to Africa has fallen in the wake of revelations of squandering and spending with minimal controls. Strings are now attached to assistance — recipients have to be moving towards democracy, more human rights and environmental protection.

With renewed world legitimacy, we are in a position to help spend what aid flows remain — productively. Safto manager Andrew Maggs comments: "South Africans are well poised to win World Bank tenders for projects north of our borders. They can offer shorter lead times than Europeans and the Japanese; cheaper prices because of the

weak rand, close proximity to the countries and technology consistent with the requirements of Africa."

But that means familiarity with the operations of the World Bank — how it is organised, in what lending activities it is involved and how it develops projects.



Kampala, Uganda ... cultural divisions bridged

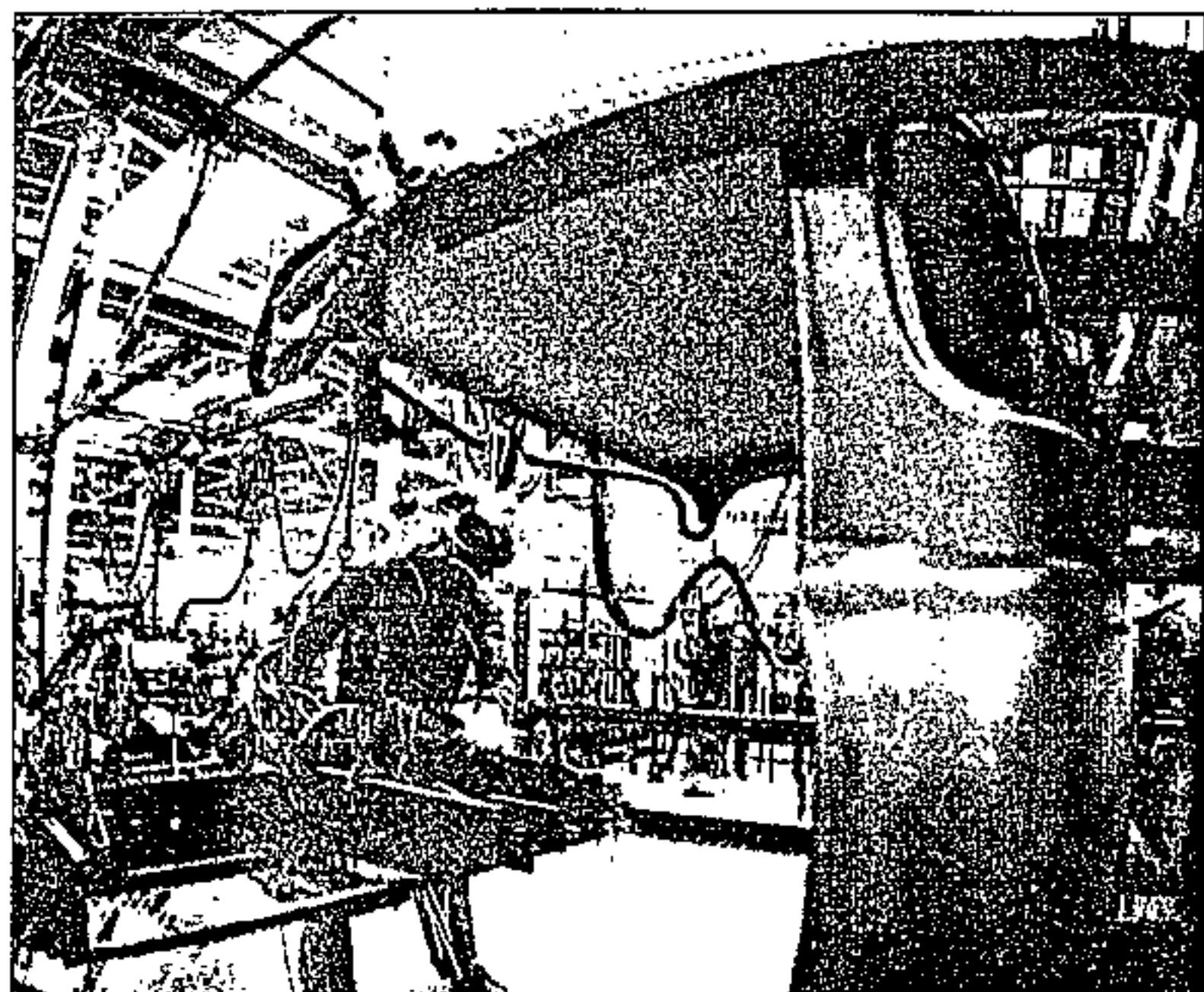
"There is a set format for bidding for World Bank projects," Maggs says. "People have to identify projects which could use their products or services and learn the tendering techniques."

He reckons there are enormous opportunities for South Africans in the preparation phase of projects. For a start, consulting engineers can design projects which could benefit SA suppliers. The World Bank project cycle moves from identification through preparation and appraisal to negotiations and board presentation, implementation, supervision and evaluation. Maggs reckons South Africans have a place in all stages.

But the emphasis of the World Bank has shifted from basic infrastructure and industry to more comprehensive programmes aimed at growth, provision of basic services and improvement of income distribution. According to a World Bank document, *The Project Cycle*, "lending for agriculture and rural development, oil and gas, urban sites and services, water supply and sanitation, small-scale enterprises, education, health and nutrition has been introduced or greatly expanded." The bank produces a monthly summary of its projects.

Would-be exporters of products and services to Africa also need to know what type of lending the World Bank does. Within the bank four institutions all provide multilateral lending with different objectives:

- The International Bank for Reconstruction and Development lends funds to creditworthy developing countries, with relatively high per capita income, at variable interest rates;
- The International Development Associ-



Kenyan cars ... new demand for components



FM 31/1/92

ation is the soft-loan wing of the World Bank — providing interest-free assistance on concessional terms to the poorest developing countries not sufficiently creditworthy for World Bank funding;

□ The International Finance Corporation promotes growth in developing countries through support of the private sector; and  
 □ The Multilateral Investment Guarantee Agency encourages foreign investment in developing countries by providing guarantees to foreign investors against loss caused by noncommercial risks.

Edesa — a development bank started by Anton ("If they don't eat, we don't sleep") Rupert in 1973 — has recently opened offices in SA. Its aim is "to foster economic development in Africa by providing finance and know-how to private enterprise in Africa on a commercial basis, and assisting governments and parastatals," says SA project manager Victor Viseu. Many of its projects are run on a debt:equity basis. Edesa is trying to get South Africans to offer expertise and technology. "We try to get the partnerships together," Viseu says.

Outside World Bank parameters, other opportunities for trade arise with private businessmen. SA's finished products are acceptable in Africa whereas they might even now not be as well received in more industrialised countries. According to Safto, 25% of all SA finished products are exported to African markets, for which they might have been tailor-made. Maggs is, however, swift to deflate any euphoria over African trade.

For a start, South Africans must break into markets which have been exploited by others for many years. Angola buys from Portugal — and the Portuguese have a language advantage. South Africans sometimes also have to familiarise themselves with African cultures, for all the myth of being part of Africa.

Contact Kenya MD David Altman says



**Oil in Kenya ... complex trade patterns and partners**

space at the June exhibition for SA businessmen in Nairobi has been 70% sold. BMW, Midas and companies within the Tiger, Barlows and SA Breweries groups have already taken space as well as other food companies and automotive parts suppliers. Altman says more than 250 import permits have been granted recently to Kenyans for trading with South Africans. "The Kenyans have realised they can save more than 25% on products imported from SA." He adds they can get an import permit only if they have the foreign exchange to pay for purchases.

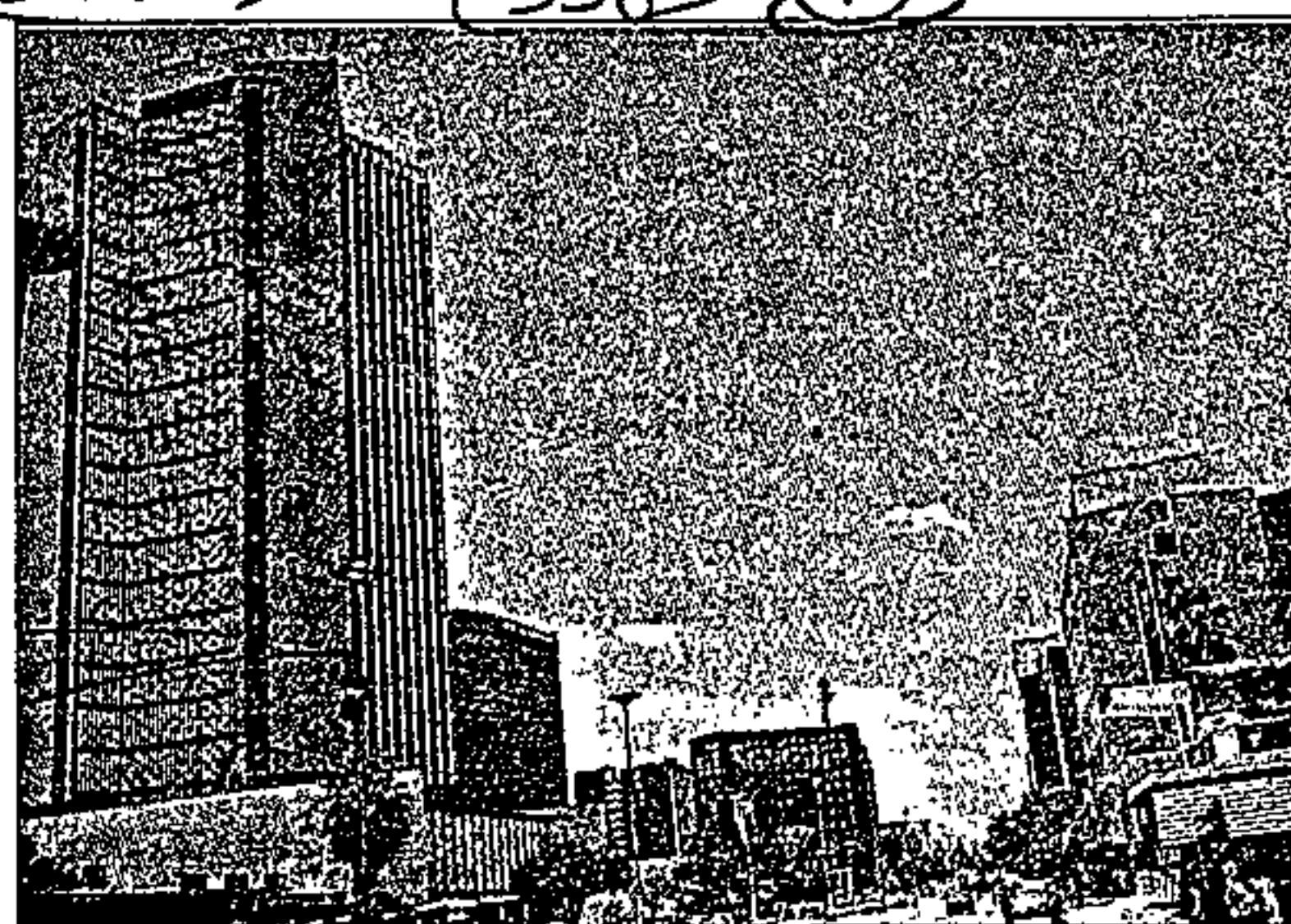
If Kenya can save 25%, countries closer to SA like Angola and Mozambique can save more. Viseu comments: "Angola and Mozambique have had development aid curtailed because of their political ideologies and ongoing wars. But peace accords and changes in political and economic policies could soon change this, making these two countries the lands of great opportunities for South Africans." He reckons Angola will be SA's number one African trading partner and "if Maputo runs properly, it could handle the majority of the Transvaal's exports."

SA's trade and diplomatic ties with both Angola and Mozambique have been strengthened — most remarkably in the case of Angola, where a state of war a few years ago has been replaced by formal cordiality. Both countries offer a potentially rich diversity of primary exports — from oil to prawns — as well as huge markets for manufactured goods and investment in the creation or reconstruction of infrastructure. But both have yet to emerge from gruelling civil wars; and in the case of Mozambique peace is proving elusive while the central government actually has little control outside the cities.

As well as direct export, South Africans have the option of entering into joint ventures or individual direct investment. These moves should be considered only on the basis of benefits such as lower tariffs received by members of the Preferential Trade Area as well as the preferential rates of the Lomé Convention. SA is not a member of either of these but, for example, Kenya is promoting its Export Processing Zone by emphasising its membership of Lomé, duty- and quota-free entry into the EC and the preferential treatment some of its manufactured products are entitled to in the US, Japan and Canada.

Kenya also offers firms operating in the Export Processing Zone numerous incentives. They include exemption from income tax for the first 10 years; exemption from import duties on machinery, raw materials and intermediate outputs; and unrestricted sale or purchase of goods to and from the domestic market.

Maggs suggests that anyone thinking of a joint venture or solo investment should first



**Harare beckons ... making aid flows productive**

study the country's investment code. Kenya, Togo, Madagascar and Mauritius are good bets. Angola provides generous mining concessions. The drawback of direct investment in Africa is economic and political instability. In the political flare-up in Zaire late last year, companies such as Metro Cash & Carry lost when its store was looted burnt down.

There are also opportunities for trilateral trade — as with the Lesotho Highlands Water Project. In Francophone countries, South Africans could go into partnership with French companies which provide both cultural contacts and finance. SA then provides the proximity and opportunity for fast delivery times.

Because of inappropriate financial policies, barter is also popular in Africa. African countries mostly provide raw materials and agricultural products; and Kenyan green beans (for example) have hit the vegetable shelves of Woolworths.

But trade with Africa is still relatively small compared to trade with SA's traditional trading partners. Customs & Excise preliminary figures show exports for the 1991 year total R66,2bn while exports to Africa come to R5,1bn — 7,6% of the total. Imports for the year amount to R48,3bn compared to imports from Africa of R865,2m — a mere 1,8%.

The opportunities are there: SA is being looked at by the rest of Africa as the continent's technological powerhouse. But Africa in its latest phase has discarded many of the conventional trading rules, which sometimes undermined the integrity of the normal payment system. South Africans must approach the new markets with caution and in depth. Even so, the possibilities are exciting in a way they have never been before. ■

## SABVEST'S PLACE

In our leading article on the Annual Accounts Award (FM January 24) the "Top Twenty" table listed "Salvest" in ninth position. This should have been Sabvest, the holding company of the SA Bias Group. We regret the error.



# Top World Bank official to visit SA

JONATHAN REES

PRETORIA — World Bank vice-president for Africa, Edward Jaycox, arrives in SA at the weekend for a four-day visit to pave the way for a visit next month by president Lewis Preston. 6/29/92

Preston is scheduled to make a one-day visit on February 14 at the end of an African tour. This followed invitations from President F W de Klerk and ANC president Nelson Mandela, World Bank sources said.

Jaycox would meet a broad range of SA leaders and organisations in Johannesburg and Cape Town to familiarise himself with the socio-economic issues and confer with the main players in SA's transition, the

sources said.

The World Bank had been sending missions to SA for two years to assess what contribution it might make to the transition process.

Sources said it admitted to having little substantive experience of SA issues. Preston is understood to be planning a lengthier visit to SA later this year.

Jaycox is due to arrive in SA on Friday night after attending a meeting of the Southern African Development Co-ordinating Conference in Zimbabwe.



## Top brains gather for economic conference

Monday 29/1/92 356

ZURICH — Leading businessmen and politicians from around the world will gather in Switzerland this week for a conference which is expected to be dominated by the global economy and developments in the former communist countries.

The 22nd annual meeting of the World Economic Forum in the Swiss ski resort of Davos will run from tomorrow to February 6.

Organisers expect a record 2 000 participants, including 250 political figures. Security will be tighter than usual.

Opening five days after the New York meeting of the Group of Seven rich industrial nations to promote economic growth, the forum will provide a useful arena for international policymakers to discuss how much real substance the G-7's pledges contained.

Among those present will be US Federal Reserve Governor Wayne Angell and German Bundesbank Deputy-Governor Hans Tietmeyer, as well as government ministers from those and other G-7 nations.

Angell will join German Economics Minister Juergen Moellmann, US Treasury Under-Secretary David Mulford and other policymakers in a public debate about the "Economic outlook and policy perspectives".

But the political and economic upheavals of Eastern Europe and the former Soviet republics will catch much of the limelight, with strong delegations expected from all the countries involved.

"The urgent need for Western aid to East Europe and the Commonwealth of Independent States will be high on the agenda, as will Asia's role in the new world order," said forum spokesman Barbara Erskine.

The presidents of Bulgaria, Czechoslovakia, Romania and several former Soviet republics, including Ukraine, Belarus, Latvia and Lithuania, have said they will come.

But Russian President Boris Yeltsin has dashed hopes that he will attend. He is off to the US for a Security Council summit and talks with President George Bush. — Reuter.



# Safto helps firms to win aid work

SITimes 2/2/92 SITimes (BUSS) 2/2/92 (356)

THE South African Foreign Trade Organisation (Safto), with the support of the Department of Finance, is launching initiatives to help SA companies crack the lucrative world development aid market.

One initiative could result in the formation of a trust account at the World Bank.

## Foot

It could be used by the bank to pay SA companies to carry out consulting work on its behalf.

The department is encouraging firms to register as consultants with the World Bank in Washington.

Various forms of financial assistance for companies involved in feasibility and pre-feasibility studies are also contemplated.

Several European countries provide financial assistance to companies tendering for aid work on the premise

## BY CIARAN RYAN

that a successful tender has a marked benefit for their economies.

SA companies are forced to foot the cost of tendering, submitting as many as 20 tenders before a contract is awarded.

Safto says it is launching a training and consulting unit to introduce SA companies to multi-lateral agencies, such as the World Bank and its private-sector arm, the International Finance Corporation (IFC), United Nations Development Project (UNDP), African Development Bank and the various EEC institutions.

SA companies may tender only for World Bank and IFC projects.

Paul Runge of Safto's Africa desk says: "Many SA companies appear ignorant of the fact that they are entitled to tender for World Bank and IFC work. Other African countries believe SA is banned and therefore excluded from these agencies."

Last year the World Bank pumped \$4-billion into

Africa. Total aid to Africa is said to have exceeded \$15-billion.

A mere handful of World Bank-funded projects have benefited SA companies, notably Eskom's technical assistance contract to rehabilitate the Maputo power station, the Botswana soda-ash project and the Lesotho Highlands water project.

## Climate

Mr Runge says Safto will provide consulting work for companies and help to identify projects for which a company is qualified to tender. It will keep a database on the economic sectors of each country so that firms can initiate and motivate aid projects to the multilateral agencies.

Safto will help companies to register with aid agencies, train them in the procedures of filling out tender documents and provide information about multilateral agencies.

"The World Bank is trying to promote private-sector growth and acknowledges that many of its development

projects could have been more successful.

"It prefers to appoint consultants in the area in which it works. That is positive for SA, which has a generally high standard of goods and services, adapted to African conditions."

The Economic Development Institute of the World Bank recently visited SA to investigate the financing of training schemes.

Jeremy Shearer, deputy director general for multilateral relationships at the Department of Foreign Affairs, says financial help is likely to materialise only when SA has a new constitution or satisfies some other political conditions.

Mr Shearer says: "This is not to say that we have not made some useful headway internationally. My department aims to create a climate in which the investment and development communities can come together."

"We can help to establish contacts and lay the groundwork for SA's re-entry as a player in these multilateral agencies."



2 Cape Times, Tues

## World Bank CT 4/2/92 boss visits SA

**JOHANNESBURG. —** World Bank president Mr Lewis Preston will officially visit South Africa in the middle of February as part of a four-country African tour.

Mr Preston will visit Tanzania, Zambia and Zimbabwe before arriving in South Africa, where he is due to meet various interest groups.

ANC spokeswoman Ms Gill Marcus has said that top ANC officials Mr Thabo Mbeki and Mr Max Sisulu would be meeting the World Bank officials.

— Sapa

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# Economically on course, Zambia gets \$71m loan

*81 Day 5/2/92*  
LUSAKA — Zambia, one of the world's most indebted nations, had paid more than \$50m of arrears to the World Bank, allowing it to draw fresh funds from the bank, Finance Minister Emmanuel Kasonde said yesterday.

It was able to draw \$71m from an \$80m tranche of a World Bank loan suspended when the government defaulted on arrears payments last September, Kasonde said in an interview.

The IMF and donor nations also suspended assistance because of the default and the failure of the government of former president Kenneth Kaunda to implement economic reforms agreed with the IMF.

"We paid what amounted to about \$51m for 1991 ... in arrears with the World Bank. We are on-track and the other donors are coming up with their share of the 1991 obligations. We

shall be discussing the 1992 share in coming meetings in Paris in March," Kasonde said.

The minister said a bridging loan used to pay the arrears was put together by Citibank of the US with the help of Canada and some Nordic countries. This would be repaid as soon as Zambia had received the funds from the World Bank.

A system worked out to help Zambia settle more than \$1bn in arrears with the IMF was also on course.

"We are back on track. The IMF has issued a letter of no objection to the World Bank and we have started to accumulate our credits, and depending on whether we keep our benchmarks in the next three years, we can get our credit back," he said.

Last Friday, in his first budget since the Movement for Multi-Party Democracy defeated Kaunda's Unip in October, Kasonde devalued the

kwacha by almost 25%.

He presented a budget of 90-billion kwacha (\$720m) with a deficit of 10-billion kwacha (\$80m) which he said would be funded through donor support.

Kasonde said Zambia had already put together an economic framework for 1992 on which the World Bank was expected to pass judgment soon.

"The question is to what extent we shall be successful in rescheduling the debts and persuading donors to write off certain debt to Zambia at the Paris Club meetings (of government creditors)," he said.

Zambia would need an estimated \$700m to \$800m in balance of payments and import support for 1992, Kasonde said.

New World Bank president Lewis Preston is expected to arrive next Sunday on a two-day visit to Zambia. — Sapa-Reuter.



## World Bank funding not expected yet

CAPE TOWN — The Independent Development Trust did not expect immediate funding from the World Bank, but saw its activities as preparing for involvement once the constitutional process made satisfactory progress, IDT chairman Jan Steyn said in Cape Town yesterday.

A World Bank team led by its Africa region vice-president Edward Jaycox held discussions with the IDT on Monday.

Steyn said the IDT was one of a range of development agencies with

which the World Bank was interacting. "We are greatly encouraged by the high level of interest they are showing in SA."

"It is clear that SA can benefit from their international experience in developing countries whilst they, in turn, appreciate the need to be well informed on the needs and priorities in SA."

The World Bank officials met an ANC economic planning department delegation led by Trevor Manuel yesterday. — Sapa.

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# IDT 'encouraged' by World Bank's top-level interest

TOM HOOD, Business Editor

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A WORLD Bank team has left Cape Town after discussions with the International Development Trust.

ARG 5/2/92

The team was led by Mr Edward Jaycox, vice president of the bank's Africa region and paved the way for a visit next week by World Bank president Mr Lewis Preston.

Mr Jan Steyn, chairman of the IDT, told The Argus the trust was one of a range of development agencies with which the World Bank was interacting.

"We are greatly encouraged by the high level of interest they are showing in South Africa and the wide-ranging investigations they are undertaking."

It was clear that South Africa could benefit from their international experience in developing countries while they in turn appreciated the need to be well informed on the needs and priorities in South Africa.

"We certainly look forward to ongoing interaction with the World Bank in all areas in which we are involved, such as education, health, housing and job creation," he added.

"We do not anticipate, however, any immediate funding from the World Bank."



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DAR ES SALAAM — World Bank president Lewis Preston has arrived in Tanzania's main city of Dar es Salaam at the start of a 10-day tour of African countries. *3/2 day 7/2/92*

Preston was due to discuss World Bank projects in the east African state with President Ali Hassan

## World Bank chief in Africa

Mwinyi and Salmin Amour, president of the semi-autonomous Indian Ocean island of Zanzibar, officials said. *(356)*

Foreign aid to Tanzania, which has pushed through significant economic re-

forms since 1986, is set to total \$980m in 1991-92.

Preston will also visit Zambia, Zimbabwe and SA.

Meanwhile, the bank's representative in Kinshasa said on Wednesday \$30m had been released to sup-

port social services in the economically crippled Zaire, where the economy is in tatters with mass poverty, a plummeting currency and inflation running at more than 1000%. Banks took advantage of a general strike call this week to shut because they had no cash.  
— Sapa-Reuter.



## Economist has the 'dirt' on World Bank

(356)

#RG 8/2/92

LONDON. — Britain's Economist magazine says it has a confidential World Bank memo suggesting the lending agency should actually encourage exporting "dirty" industries to the Third World.

The magazine said it would print the memo by World Bank chief economist Lawrence Summers in a report saying that parts of it "caused a fuss within the bank".

According to the Economist, Summers says: "Just between you and me, shouldn't the World Bank be encouraging more migration of the dirty industries to the LDCs (Less Developed Countries)?"

He is said to have written that much of Africa, for instance, was "vastly under-polluted — their air quality is probably vastly inefficiently low compared to Los Angeles or Mexico City".

Summers is also quoted as saying: "The concern over an agent that causes a one-in-a-million change in the odds of prostate cancer is obviously going to be much higher in a country where people survive to get prostate cancer than in a country where under-five mortality is 200 per thousand."

The Economist said Summers was asking questions the World Bank "would rather ignore — and on the economics, his points are hard to answer".

— Sapa-Reuter



# Huge aid funds lined up for SA

(356) CT 12/2/92

JOHANNESBURG. — South Africa may receive more aid from the World Bank within four years than any country in Africa.

The formation of an interim government in South Africa would signal the start of the aid programme, the SA Foundation said in a statement from London.

It was expected that within four years its annual disbursements would exceed \$1 billion (about R2,8bn).

The statement was quoting lawyer Mr John Chettle, who in an address yesterday to a forum of the SA Foundation at the Royal Overseas League in Lon-

don, said the World Bank had a staff of 80 professionals engaged in economic and sectorial analyses of the South African economy for the past two years.

The foundation said the visit of the president of the World Bank, Mr Lewis Preston, to South Africa at the end of this week was seen as a signal of the importance attached by the bank to South Africa.

Mr Chettle said South Africa was considered the dynamo for the Southern African region, and even for much of Africa, bringing hope for a renewal of economic progress in a deeply disappointing area.

The sums involved are poten-

tially huge, and the opportunities for South African companies are unprecedented.

The statement points out that the bank mobilises \$55bn to \$65bn (about R154bn to R182bn) a year, of which 15 to 20% is allocated to Africa.

The largest aid recipient in Africa at present is Nigeria, with a total of \$6,1bn (about R17bn) in aid.

Although the bank was cautious about aggravating inflation in South Africa, Mr Chettle saw the need to 'kickstart' the economy and to reduce the high unemployment to induce the bank to intervene massively, the statement said. — Sapa



# Huge aid package for SA planned

Political Staff

South Africa may, as soon as an interim government is elected, become the largest recipient of World Bank funds in Africa.

Over the past two years, the World Bank has been working on an intensive aid package for South Africa that would exceed the R17 billion presently allocated to Nigeria.

The World Bank was waiting to see an interim government elected before it disbursed the funds, a top Washington lawyer, John Chettle, told a South Africa Foundation Forum in London on Tuesday.

He said the World Bank had had 80 staff professionals engaged in "economic and sectorial analyses" of the South African economy over the past two years.

"South Africa is seen as the dynamo for the South African region, and even for much of Africa, bringing hope for a renewal of economic progress in a deeply disappointing area."

He cited the visit to South Africa of the president of the World Bank, Lewis Preston, as an example of the importance attached to this country.

The sums mooted for South Africa were huge, and the opportunities for local companies unprecedented, Mr Chettle said.



## Kaunda broke but won't beg, 'even if I'm robbed'

STAR 8/21/92

LUSAKA — Former Zambian president Kenneth Kaunda says he's broke.

Dr Kaunda (67), who was defeated at the polls in October after 27 years in power, is living in a rented home paid for by his adult sons, the government-owned Zambia Daily Mail reported.

The paper quoted him as saying the new government headed by Frederick Chiluba still had not paid him any retirement benefits.

Dr Kaunda described himself as "financially very unstable" but said he would not go on his knees to claim his dues from the State. "I will not sink to being a beggar, even when I am robbed."

He has denied allegations that he channelled millions of dollars into a private bank account while president.

He told the Daily Mail he was unable to comment on recent media reports that he ran up a massive personal overdraft at the Central Bank during his years in office. He said he never handled money personally and had left payment formalities to his accountants.

He told the paper that if he was overdrawn he would ask his family to help clear the debt. Two of his five sons are successful businessmen.

The government has said it will pay Dr Kaunda all his retirement benefits when he formally quits politics, which he is expected to do in May.

Last month Dr Kaunda said he had received several invitations to take up lucrative tours in the United States and Canada. — Sapa-AP.

## 'Pollute the poor' row at World Bank

STAR 8/21/92

LONDON — The chief economist of the World Bank advocates exporting "dirty industries" and toxic waste to poor countries, where pollution complaints are less likely, reports The Economist.

"I've always thought under-populated countries in Africa are vastly under-polluted," Lawrence Summers wrote in an internal memo dated December 12.

"Shouldn't the World Bank encourage more migration of the dirty industries to less developed countries?"

The World Bank said the view did not represent its own position, which was to encourage economic and social development.

Summers had intended his memo to provoke debate and sharpen the analysis in a forthcoming World Bank report on the global economy, the bank said.

"Mr Summers deeply regrets and apologises for the obvious misunderstanding."

The Economist quoted the Summers memo: "The economic logic of dumping a load of toxic waste in the lowest-wage country is impeccable and we should face up to that."

The Economist concluded: "The language is crass, even for an internal memo. But Mr Summers is asking questions the World Bank would rather ignore. The bank should make this debate public." — Sapa-AP.

## ets boost from Japan

Detroit, Michigan, plays in the cello section of the amateur orchestra in Hamamatsu in central Japan.

She has worked as a translator since arriving in Japan in 1984.

She said she and other orchestra members resolved to help their South African soulmates after reading a story on the Sowetan musicians in the Japan Times.

"I always wanted to play music so badly, and ran up against lots of obstacles, but nothing like these people have to struggle with," she said.

The Hamamatsu ensemble

has a large stockpile of sheet music, while the Sowetans use dog-eared and torn photocopies. The Japanese have new strings for their instruments, while the South Africans scrounge old ones from white musicians.

The Japanese offered to become a "sister orchestra" and to exchange tapes. But the South Africans had no tape recorder.

So a cassette recorder went into the aid package.

"We're still playing in the toilet," said Mr Mantu.

"But, who knows, maybe that will change one day too." — Sapa-Reuter.



## Chikane warns against IMF

356 ADRIAN HADLAND

SA should not subject itself uncritically to IMF and World Bank policies, SA Council of Churches general secretary Frank Chikane this week told a conference on investment in SA.

In the past these policies had been followed by "universal outcry and misery in those Third World countries where they had been applied", he said.

"We cannot believe that the salvation of our country lies in an uncritical and undemocratic subjection of our country to IMF and World Bank policies."

Chikane was speaking at the opening of the Toward a Code of Investment conference in Broederstroom. *Monday 12/2/92*

The conference aims to pool ideas on an ethically sound investment practice for foreign and local investors.

Chikane said he believed "unbridled capitalistic investment practice" could not be proposed as a solution to SA's economic crisis.

The present tendency of local business to invest in capital intensive, instead of labour intensive, ventures meant business had to share the blame for the current crisis, he said.



# Bank to discuss nationalisation

Bl Day 12/2/92

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**HARARE** — World Bank president Lewis Preston, who arrived in Zimbabwe yesterday, said he would discuss Zimbabwe's plan to pass legislation facilitating land nationalisation when parliament resumed later this month.

International aid donors have agreed that "the principles involved were the question of fairness and equity, and that whatever was done the government should be very sensitive" so as not to discourage new investment, Preston said.

President Robert Mugabe wants to take more than 5-million hectares belonging to 4 500 white commercial farmers for peasant resettlement, but has removed their right of appeal to the courts on compensation for expropriation. A proposed land acquisition bill would make compensation payable, if the state wished, in long-term securities which could be rendered worthless by Zimbabwe's 30% annual inflation rate.

Preston noted the World Bank had lent \$175m to support Mugabe's five-year structural adjustment and economic liberalisation programme.

The programme is under fire in

**MICHAEL HARTNACK**

Zimbabwe for removal of price controls and for threatening rationalisation of 25% of the country's 190 000 civil service posts.

Sapa-AFP reports that Preston said he was impressed by Zimbabwe's economic reform programme, but feared it could be hit hard by the current drought.

Preston, who flew across much of Zimbabwe in a small aircraft en route from Zambia yesterday, said he had been struck by "the obvious devastation in human terms caused by the drought. That is obviously something we would want to discuss... its effect on the economy."

He slammed as "outrageous" a confidential memo by the bank's chief economist, Larry Summers, suggesting that the agency encourage the export of "dirty" industries to the Third World.

Summers's memo said much of Africa was "vastly underpolluted — their air quality is probably vastly inefficiently low compared to Los Angeles or Mexico City".



# Bank chief's visit boosts funding hopes

LESLEY LAMBERT

THIS week's visit by World Bank president Lewis Preston and a forecast that by 1996 SA could attract R3bn a year from the bank, has renewed this country's prospects of future foreign funding.

On Friday, Preston will pay a short visit to SA as part of his four-country African visit. He is scheduled to meet various government, extra-parliamentary, Reserve Bank and possibly Development Bank of Southern Africa representatives.

Although the visit has been termed informal, it confirms the improvement in relations between SA and major international funding institutions such as the World Bank and IMF, and the advancement in prospects for financial assistance.

MICHAEL HARTNACK reports from Harare that Preston said yesterday he would meet ANC president Nelson Mandela to ensure the bank could respond quickly when SA's political problems were resolved. Although no loans could be given until SA became a World Bank member, teams were in the country studying education and housing.

"It seems wiser to proceed with these missions and not wait until the political situation is resolved. I think a delay once a political resolution has been accomplished would be counterproductive for the new constitution," Preston said.

In another development this week, a former US representative of the SA Foundation forecast that within four years the World Bank would be making annual disbursements to SA of about R3bn.

John Chettle, a partner in the Washington law firm of Freedman, Levy, Kroll & Simonds, said in London yesterday this would make SA the largest recipient in Africa of World Bank funds.

Chettle's forecast was challenged by Finance Department officials who said R3bn a year was unrealistically high and that SA would have difficulty repaying it, particularly since World Bank funds attracted interest rates slightly higher than prevailing market rates.

Subsidised loans are offered by the In-

□ To Page 2

## World Bank

ternational Development Agency, the bank's soft loans arm for the poorest countries, and mildly concessionary loans are offered to less poor countries. But intense pressure from Third World countries, and SA's comparatively high per capita GDP, will limit its access to the softer loans.

"The World Bank is considering support for SA projects but will not make a decision before a legitimate government is in place," one official said.

The World Bank has indicated that its funding priorities will be housing, rural electrification and education because such investments would enhance political stability and economic growth.

Although SA's per capita GDP is slightly higher than \$1 400 — the bank's cut-off for

unsubsidised funds — it has accepted that much of SA's population fits into categories below this level, which means the country could still qualify for mildly concessionary loans, the official said.

"The funding involved is potentially huge and the opportunities for SA companies unprecedented," the SA Foundation said in a statement yesterday. The bank mobilises \$55bn to \$65bn a year, of which up to 20% is allocated to Africa. The largest aid recipient in Africa is Nigeria with \$6,1bn in aid.

While the bank would be cautious about exacerbating inflation in SA, the need to kickstart the economy and reduce high unemployment is likely to cause it to intervene on a significant scale.

● See Page 6

□ From Page 1



# 'Dirty' exports to Africa 'outrageous'

C.T. 12/2/92 (356)

HARARE. — World Bank president Mr Lewis Preston yesterday slammed as "outrageous" a confidential memo by the bank's chief economist suggesting that the agency encourage the export of "dirty" industries to the Third World.

Speaking at a press conference here during his four-nation African safari which will take him from Zimbabwe to Tanzania, Zambia and South Africa, Mr Preston said the memo had been taken out of context.

He was referring to a leaked memo by World Bank chief economist Mr Larry Summers which said that much of Africa was "vastly under-polluted

— their air quality is probably vastly inefficiently low compared to Los Angeles or Mexico City."

Mr Preston said although the language in the memo is "outrageous" it was taken from a much longer document written to staff.

He said Mr Summers was very upset and had apologised "to people who find his remarks offensive".

He saw the incident as "closed".

"The bank's position on the environment is set by the management and it's approved by our executive directors, and Mr Summers supports that position," said Mr Preston. — Sapa-AFP



# Stals urges repeal of US block on SA loans

By Derek Tomney

Governor of the Reserve Bank Dr Chris Stals appealed yesterday to the United States to repeal the Gramm Amendment which, he said, was seriously limiting South Africa's economic growth.

The Gramm Amendment stipulates that any application by South Africa for loan funds from the World Bank and IMF has to be submitted to the US Congress for approval.

Dr Stals was addressing a seminar in Sandton arranged by British Invisibles, a trade body which is in South Africa to promote London's financial services.

He said the Gramm Amendment placed an immediate restriction on the expansionary monetary and fiscal policies South Africa could follow at this stage, and also acted as a deterrent to potential foreign investors.



Dr Chris Stals ... Gramm Amendment placing restriction on expansionary policies

"It is therefore a matter of urgency for South Africa that these restrictions should now be repealed, as the American government has already done with the Comprehensive Anti-Apartheid Act.

"The process of economic development must be stimulated if we want to benefit from a

more rapid rate of economic expansion downstream.

"The restrictions on South Africa from making normal use of IMF and World Bank facilities still places a major constraint on the ability to prepare for more rapid economic growth in a new political environment with a new constitutional dispensation.

Dr Stals made it clear that although the balance of payments had improved, South Africa's economic growth would have to be restrained as long as the country could not attract foreign capital.

Any increase in the rate of economic growth led to a rapid rise in imports, he said.

Even if imports were to rise by only 10 percent, this would wipe out the trade surplus within a year.

In the past it had been known for imports to jump by 35 percent in a year.

It could be assumed that any substantial increase in domestic expenditure would be accompanied by a sharp rise in imports and the emergence of sub-

stantial balance of payments deficits.

Dr Stals warned that South Africans must be modest in their expectations about foreign borrowings and foreign capital inflows.

The world today was very different from what it was before sanctions were imposed.

The debt crisis of the Third World had had a far-reaching impact on the willingness of financial institutions to make loans to developing countries.

This meant that South Africa must become more attractive to foreign investors.

"Only those countries that can offer security plus reasonable yields on investments will be able to draw capital from foreign markets.

"In the case of South Africa, apart from the need for further progress in the political process of reform, we will have to present to foreign investors a stable and sound financial environment.

"This requires a continuation of the a policy of guarded financial discipline," Dr Stals said.



Own Correspondent

JOHANNESBURG —

World Bank president Lewis Preston, who arrived in Johannesburg yesterday, remained tightlipped on the future relationship between SA and the bank and repeated that his one-day visit was private.

When asked whether SA could look forward to an official visit later in the year, Preston said: "If I'm still around by then."

He is reported to be

# World Bank president's visit 'private'

CT 14/1/92

(35b)

flying to Washington today for a back operation. Sapa reports from Harare that he was due to have dinner with ANC president Nelson Mandela last night and breakfast with President F.W. de Klerk today.

Preston told Zimbabwean reporters he hoped his trip to SA would increase understanding on the need for preparatory talks before the bank resumed operations.

"We want to be absolutely clear with both groups that if and when a political consensus is reached, the bank has to have people on the ground doing preparatory work.

"It does take time to make loans and if there is an 18-month delay for the first funds to arrive from the World Bank, it is a bit silly.

"I think this is now understood a little better by everybody. I hope this (trip) will solidify this understanding," he said.

World Bank personnel have visited SA to collect data but Preston would not say when a full bank presence was likely. He did say he thought the bank could be particularly helpful in education and housing.

Reserve Bank Governor Chris Stals has said restrictions on access to IMF and World Bank coffers remained a major constraint on efforts to

promote rapid economic growth for a post-apartheid society.

The SA visit concludes Preston's four-nation Africa tour of Tanzania, Zambia, Zimbabwe and

SA. Preston yesterday added his voice to criticism of proposed legislation by the Zimbabwe Government to enable it

to seize white-owned farmland.

"We think there may have been not as careful drafting as might have been desirable," he said at a lunchtime meeting with journalists in Harare.

He had been asked for the World Bank's opinion of the Land Acquisition Bill, which President Robert Mugabe has promised will be presented to parliament soon.



# World Bank chief puts out some feelers in SA

By MONDLI MAKHANYA

WORLD Bank president Lewis Preston's visit to South Africa this week is a sign of the international financial community's increased interest in South Africa.

The visit — the first by a World Bank leader — is the last leg of Preston's African tour which involved stops in Zambia, Tanzania and Zimbabwe.

While no business will be concluded during the visit, feelers will nonetheless be put out by both the delegation and the parties it will be meeting in South Africa.

"It will be tough business," says Johannesburg Consolidated Investment economist Ronnie Bethlehem. "The visit should come as no surprise to anyone. It's only natural that they should be looking at South Africa. The country has a good infrastructure and a large industrial base."

The South African government is eager to regain access to international financial markets in order to finance social spending in the run up to non-racial elections. The World Bank and International Monetary Fund are the obvious gateways to this. Speculation has it this could be achieved before the year is out.

However, parties on the left are still wary of the Bank and the IMF in view of the "bitter medicine" of economic adjustment programmes these institutions have meted out in many Third World countries.

But they are aware of the key role these institutions are likely to play in the country's reconstruction and re-entry into international financial markets. The African National Congress wants to keep the lid on South Africa's access to international finance until such time as an

interim government is in place.

The World Bank and IMF themselves are keen to move into South Africa. The Bank has in the past 18 months done several studies on the country focusing particularly on the housing crisis. Institute for African Alternatives director Ben Turok — a vocal critic of the two institutions — says the Bank would like to use the country, with its already large industrial base and ready-made infrastructure, as a success story of their lending in the light of failures elsewhere.

But the visit itself is unlikely to result in any contracts. The World Bank usually lends only to countries that have procured an IMF "certificate of creditworthiness".

And right now the IMF is bound by the Gramm Amendment to steer clear of South Africa. The IMF



Lewis Preston

also cannot presently lend to South Africa since the country does not have a deficit on its balance of payments.

However, this does not preclude the Bank and the IMF from rendering other services, such as advice, to various interested parties. The IMF has already advised government on the implementation of Value Added Tax last year and the Bank regularly consults the Independent Development Trust (IDT) on low-cost housing strategies.

"The visit will strengthen ties between World Bank and people like the IDT and the Urban Foundation. That is more important than getting money from them. We have enough finance in this country but we just don't know how to use it," says Nedbank chief economist Edward Osborn.



# World Bank boss jets in for 'private' visit

WORLD Bank president Lewis Preston, who arrived in Johannesburg yesterday, remained tightlipped on the future relationship between SA and the bank and repeated that his one-day visit was private.

When asked whether SA could look forward to an official visit later in the year, Preston said: "If I'm still around by then."

He is reported to be flying to Washington today for a back operation.

Sapa reports from Harare that he was due to have dinner with ANC president Nelson Mandela last night and breakfast with President F W de Klerk today.

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SHARON WOOD

hoped his trip to SA would increase understanding on the need for preparatory talks before the bank resumed operations.

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The SA visit concludes Preston's four-nation Africa tour of Tanzania, Zambia, Zimbabwe and SA.

● Picture: Page 2

8/10/92 14/2/92



# Deep wounds in a bank's war of words

By MICHAEL WEISSKOPF:  
Washington

IN a town where the pen is often mightier than the sword, the World Bank's chief economist is discovering how deep words can cut—even when they were intended to be ironic.

Last December, Lawrence Summers wrote a lengthy memo on trade policies to his staff in which he digressed into a few "nuggets", led off by a rhetorical question: "Just between you and me, shouldn't the World Bank be encouraging more migration of dirty industries to the LDCs (less-developed countries)?"

He proceeded to list the reasons, noting that "underpopulated countries in Africa are vastly underpolluted"; that carcinogenic emissions are of greater concern in a country "where people survive to get prostate cancer" than in one where a fifth of the population dies in childhood; and that countries with the lowest wages should have "a given amount of health-impairing pollution" because the social costs of such pollution are

based on lost earnings from increased death and disease.

"I think the economic logic behind dumping a load of toxic waste in the lowest-wage country is impeccable and we should face up to it," he wrote.

Pulled out of the larger memo and circulated like "samizdat" among lower-ranking officials, the "nuggets" ignited a firestorm at the normally staid bank dedicated to easing poverty and encouraging economic development in the Third World.

As the bank's vice-president for development economics and chief economist, Summers usually does not have to explain himself. But only rarely does a high Washington official deviate so far from standard bureaucratic.

On January 12, a month after the original memo appeared, Summers issued a clarification. He wrote that while the excerpt "unfortunately makes it appear that I am seriously forwarding certain strong arguments", the statements were designed as a "sardonic counterpoint,

an effort to sharpen the analysis".

In an interview last week, he apologized for using "inflammatory" language and stressed that "it is not my policy view that pollution is good anywhere".

Nevertheless, he insisted, "it is a legitimate question whether environmental standards should be the same worldwide", and it is only because the question falls outside the bounds of "political correctness" that it generated such a strong backlash.

"Free-trade policies will have a real effect on the distribution of pollution around the world," said Summers (37), who was an economics professor at Harvard until taking the World Bank job a year ago. "Industries tend to locate in places where (production costs are the least). The consequences need to be considered carefully."

His January 12 clarification only deepened suspicion among the bank's environmental officials, long at odds with its economists and their cost calculus of ecological protec-

tions. Summers' "nuggets" seemed like cost-benefit analysis run amok.

Leaked to environmental groups, the memo came to the attention of Brazilian officials, who lodged a protest with the bank. Brazil is hosting the "Earth Summit" in June, where the bank is supposed to submit its first report on the environment.

Greenpeace has called for Summers to resign.

After defending Summers as a free-thinker who simply sought to provoke debate, a bank spokesman issued a statement last Thursday stressing that the views in the memo "do not represent the position of the World Bank. Mr. Summers deeply regrets the obvious misunderstandings his memo has caused and apologizes for any misconceptions it may have generated," the statement said.

World Bank president Lewis Preston, who will be visiting South Africa this week, has sharply criticized Summers' memo. — The Washington Post

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# World Bank chief: SA must reach consensus

CT 15/2/92 (356)

JOHANNESBURG. — South Africa will not be considered for World Bank aid until political consensus in the country has been reached, says its president Mr Lewis Preston.

In an interview yesterday he said, however, the bank was preparing for action as soon as this occurred.

Mr Preston said his visit to South Africa was exploratory and the bank was continually updating its information on this country so there would be no delay when the time was right to place money here. He said the main

target for the bank would be financial aid for the poor.

During his 24-hour stay here, Mr Preston met Mr Nelson Mandela and other top ANC members, Finance Minister Mr Barend du Plessis, Reserve Bank Governor Dr Chris Stals and Minister of Trade and Industries and of Economic Co-operation Mr Derek Keys. He also spoke with Anglo American's Mr Julian Ogilvy-Thompson, president of the ANC Women's League Ms Gertrude Shope, and her deputy, Mrs Albertina Sisulu. — Sapa



# IMF and World Bank to open doors to SA

SOUTH AFRICA has been assured of access to International Monetary Fund and World Bank finance — when an interim government is in place.

As a result, Finance Minister Barend du Plessis is expected to produce a mildly expansionary Budget this year — combining tax cuts for individuals, substantial investment in selected capital projects such as housing and further incentives for exporters.

Reserve Bank governor

By MIKE ROBERTSON  
Political Correspondent

Chris Stals said this week that any increase in economic growth would lead to a rapid rise in imports and a 10 percent rise in imports would wipe out the trade surplus within a year.

When that point was reached, South Africa would require access to IMF facilities to maintain an economic upswing.

Government thinking is

that with a slow, steady economic upswing starting in the second quarter of this year, an interim government would be in place by the time South Africa needed access to IMF facilities.

South Africa is denied access to IMF funds by the Gramm Amendment which stipulates that any application for loan funds must be submitted to US Congress for approval.

The amendment stipulates four criteria that South Africa must meet to qualify for loans. Three of them relating to capital and labour constraints have been met. The fourth is that the country must have a balance of payments deficit.

President FW de Klerk is understood to have received a personal assurance from President George Bush that should South Africa run up a deficit on its current account (that is more imports than exports), the US will not block an application for IMF funds.

## Faith

South Africa's ambassador to the US, Mr Harry Schwarz, sets great store in a recent comment by US Assistant Secretary of State Hank Cohen about South Africa's access to IMF facilities.

Mr Cohen said on TV1 that if he was South African, he would start reviving the economy and have faith in the US.

Mr Schwarz also argues that South Africa has met all four conditions of the Gramm Amendment.

Mr Schwarz favours greater government intervention to stimulate economic growth.

He said "Social" problems in South Africa require urgent attention. There is no way we can allow the high levels of unemployment and squatter problems to continue.

"Without greater social stability, levels of crime and violence will continue to increase."

But Department of Finance director-general Gerhard Croeser rejected either massive government spending or the slashing of taxes as options to stimulate growth.

The government, he said, would persist with its structural adjustment programme which aimed at an export-led recovery.

## Social

However, he added, the outlook for world economic growth was not particularly buoyant.

He said other aspects of the structural adjustment programme included the lowering of tax rates for individuals and companies and "selective expenditure of a capital nature on a targeted basis".

Following the visit of World Bank president Lewis Preston to this country, Mr Croeser said South Africa could well qualify for assistance from this quarter.

World Bank funds, he said, would be focused on specific social projects.

Before leaving South Africa, Mr Preston said the bank was preparing to step into South Africa once there was political consensus.

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# \$15bn a year in African aid projects now in reach of SA companies

SA's improving political standing on the continent is opening the way for SA companies to tap into at least \$15bn a year of multilateral aid to Africa.

SA Foreign Trade Organisation (Safto) executive Parash Pandya said yesterday that as many as 100 local consultancies and the consulting arms of large companies had registered as consultants with the World Bank in the past year.

He said the bank was just one of several multilateral agencies which were spending billions of dollars a year on development projects in Africa.

Pandya said: "This money is not aid for SA itself, but aid for the rest of the continent which SA companies can tap into for business opportunities."

He said the lifting of sanctions and SA's newfound political acceptability in many parts of Africa meant that local companies could compete for tenders for development projects on at least an equal footing with overseas competitors.

The expertise of SA construction, engineering and mining companies in dealing with African conditions, SA's proximity to the developing countries, and the weak

rand made their tenders for aid-funded projects particularly competitive.

Pandya said Safto advised companies to treat multilateral aid agencies as an alternative source of funding and a market for SA goods, works and services in the same way they might investigate opportunities in another country.

The leading aid agency spenders in Africa are the World Bank, which spent \$3.3bn on the continent in 1991, and the EC, which has committed \$8bn a year until

1995. However, Pandya said, there were equally good opportunities for SA companies on projects financed by the Abidjan-based African Development Bank.

The African Development Bank group — the bank itself, the African Development Fund and the Nigeria Trust Fund — spent \$3.3bn on African aid projects in 1991, of which nearly a third, or \$890m, was spent in central and southern Africa. Pandya said the bank worked very much as an African version of the World Bank, often acting as a co-financier with the bank of

projects such as the Lesotho Highlands Water Project.

The projects the bank financed included rural health services in Lesotho, small- and medium-scale farmer support programmes in Angola, livestock rehabilitation in Mozambique, and water services rehabilitation in Zambia, although it was paying more attention to industrial development.

In April last year, Development Bank of SA GM Andre la Grange said the African Development Bank was set to expand its

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## African aid

activities in southern Africa.

These, he said, included joint financing of projects with the Development Bank. In 1991 La Grange was the first SA representative to attend an African Development Bank general meeting.

La Grange would not comment at the weekend about developments since the meeting last year, but it is understood African Development Bank and Development Bank of SA representatives will meet next month.

Pandya said other sources of multilateral

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aid included the Opec Fund — which spent \$1bn in Africa last year — and UN agencies. Once UN sanctions were dismantled, SA companies stood to gain access to the \$5bn a year agencies such as the UN Development Programme, Unesco, the UN Industrial and Development Organisation, and the World Health Organisation spent in Africa.

And, he said, a significant proportion of bilateral aid was not tied to the donor countries, and with the lifting of sanctions, SA companies would no longer be debarred from winning tenders for such projects.



# SA can tap into aid billions

Own Correspondent

JOHANNESBURG. — South Africa's improving political standing is opening the way for local companies to tap into at least \$15 billion (about R42bn) a year in multilateral aid to Africa.

South African Foreign Trade Organisation (Safeto) executive Mr Pareesh Pandya said yesterday that some 100 local consultancies and the consulting arms of large companies had registered as consultants with the World Bank in the past year.

The bank was just one of several multilateral agencies spending billions of dollars a year on development projects in

Africa.

"This money is not aid for South Africa itself, but aid for the rest of the continent which South African companies can tap into for business opportunities," he said.

The lifting of sanctions and South Africa's new-found political acceptability in many parts of Africa meant that local companies could compete for tenders for development projects on at least an equal footing with overseas competitors.

The expertise of South African construction, engineering and mining companies in dealing with African conditions, South Africa's proximity to the developing coun-

tries and the weak rand made their tenders for aid-funded projects particularly competitive.

The leading aid agency spenders in Africa were the World Bank and the EC, but there were equally good opportunities for South African companies on projects financed by the Abidjan-based African Development Bank (ADB).

The ADB often acted as a co-financier with the World Bank on projects such as the Lesotho Highlands Water Project.

It is understood ADB and Development Bank of South Africa representatives will meet next month.

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# Investment in a sub-continent

**T**HE decision that will be taken by white voters on Tuesday is not just a referendum on the reform process, it is a referendum on whether South Africa wants to be part of the world. South Africa's huge energy and potential have been restricted, both by itself and by its opponents, for more than a generation. Other countries, with few of South Africa's advantages, have surged ahead.

South Africans need to understand that institutions like the World Bank stand poised to make a massive investment in the South African economy as soon as an interim government comes into office. Sources at the bank make no secret of their belief that, within four years, their programme of loans to — in essence, investment in — the South African economy will be the largest in Africa, at more than R3 billion a year.

Their seriousness is indicated by the fact that, while the bank has not made any loans to South Africa since the 1960s, for the last two years they have had 80 professional staffers engaged in economic and sectoral analyses of South Africa.

It is not far-fetched to conclude that, within a decade, South Africa could well exceed Nigeria as the largest single recipient in Africa of World Bank funds, currently more than R17 billion in that country.

The bank is looking at major water projects to relieve the drought and to secure South Africa's water needs into the

World Bank millions are waiting to be invested in South Africa, writes **JOHN CHETTLE** (right), a partner and director of international trade law practice of a leading firm of Washington lawyers, which represents several major South African organisations in the United States.

next century; at an expansion of the Eskom electricity grid throughout the sub-continent; and at massive investments in housing, hospitals, black education and agriculture.

The current thinking would involve an annual infusion of funds into South Africa amounting to more than 1 percent of the gross national product. It is intended to be a massive kick-start to the SA economy, and World Bank officials are talking about making as big an impact as possible immediately, of cutting red tape, even of piggy-backing on existing projects.

The psychological impact may be even greater. South African companies which have been hesitant to invest will have to move smartly to take advan-



tage of the opportunities. The need for goods and services will percolate into every area of the South African economy. The fears that many whites harbour of receiving a smaller share of a diminishing pie could be replaced by a realisation that there will be greater shares and opportunities for all.

For the first time, South African companies could move into a dominant position in Africa. Already the World Bank has given contracts to major SA companies such as Eskom, Sasol and Barlows. Their opportunities are already proliferating.

In the entrepreneurial arm of the World Bank, the International Finance Corporation (IFC), which is the largest

source of project finance in the developing world, distributing some \$25 billion (R70 billion) a year, there is also great eagerness to move into South Africa.

The IFC is responsive to approaches from corporations to look at any project which is (a) developmental, and (b) profitable. It is, for example, busy modernising the Polana Hotel in Maputo, building pipelines in Zimbabwe and extending the Wankie colliery, Zimbabwe.

During a recent three-week visit to South Africa, I was struck by the quick appreciation by South African businessmen of the opportunities this offers, and by the great spur to the South African economy that could develop from this source alone.

South Africa is almost tailor-made for such a collaboration with the World Bank. As a result of its previous isolation, it has under-borrowed internationally. It has the infrastructure and skills to use World Bank aid. While its inflation rate would normally be an obstacle, its huge black unemployment, and its potentially dynamic impact on the whole sub-continent argues for the most energetic programme of expansion.

It is one of the most promising indications that South Africa has yet received that the long night of apartheid is now coming to an end and opportunities can now be glimpsed for South Africans of every race and colour. □

(Report by John Chettle, 1050 Connecticut Avenue NW, Washington, DC)

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13/3/92

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There are countries within the pale and those beyond, writes Richard Dowden

# The West versus the Rest

STAR 27/3/92

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**W**E stepped off the plane from Nairobi into a cold, grey London morning: tourists, businessmen, mothers with babies and children — lots of children, all clutching heavy bags euphemistically called "hand luggage".

We were directed into a Heathrow waiting room and told to sit down. Uniformed officials hovered around us. After about 15 minutes the door burst open and a man in a baseball cap ran in with a dog. Up and down the aisles they ran, the man urging the dog on, forcing its nose on to people's bags, up women's skirts, clambering over luggage and people.

In Africa, dogs are regarded as dirty and many Africans are frightened of them. To Muslims, dogs are unclean. In Africa, too, Britain is regarded as civilised, and many Africans think of it as a source of law, democracy and respect for human rights.

The man was dressed in blue like a South African policeman, and had similar manners. Children screamed and held their mothers' skirts as he and his dog dashed around the room. At last, dog and master were gone, and stony-faced men told us to collect our bags and go. There was no explanation, no apology. Passing police armed with sub-machine-guns, we made for the immigration desks.

This was, of course, a drugs check. None was found. Although Nigeria has become a major drugs entrepot, Africans in general are not drug users. The Home Office will not disclose how successful the use of dogs in this way has been. Even if it did, it would certainly not measure another statistic — the impression such an experience must make on thousands of innocent visitors. Not that the 5.15 from Frankfurt is ever subjected to this treatment. The dogs are only set on

passengers from Africa and other parts of the southern hemisphere. Last year, customs picked on Gambian president Sir Dawda Jawara and his family, visiting Britain at the invitation of the prime minister.

Sir Dawda is an old friend of Britain — or was, until he was given the Heathrow dog treatment.

The point of this story is not just that our customs officials carry out offensive searches. It is that Britain seems no longer to need nor want its old friends.

There are times when civilisations breathe out, spreading their wares and their values. At other times they build walls to guard what is theirs and keep out the barbarians. The Romans built walls and ramparts — then they crossed them and extended their empire. Britain once had an empire, now it is building a wall. So is the rest of the Western world. The world model used to consist

of the First World, the West and Japan, then the Second World, the communist bloc, and, lastly, the Third World, those countries that were developing, catching up the first two.

The Second World collapsed when its leaders and people realised they were getting closer to the Third World rather than competing with the First.

One might have hoped that once the Cold War was over the rich powers, saving millions from the ending of the arms race, could finance the redemption of the Third World.

Instead, the First World has turned in on itself and the world is being divided into those within the pale and those beyond it. Russia is in, other former Soviet republics are out. Turkey is in, most of Africa is out.

The West's image of most of Africa — not an untruce one in many instances — is one of war, economic disaster and destitution.

The message from within the wall to those outside is: save yourselves.

Financial help from Western donors is stagnating in real terms. In 1990, it was eight percent of their gross national products, a decade ago it was 10 percent.

In the '70s, there was a "development debate" about strategies to help pre-industrial societies become sustainably wealthier, now there are only programmes of economic reform imposed by the IMF and World Bank.

They are about balancing the books, privatising national economies and allowing exchange rates to find their market levels. The only debate is about the speed of implementation. Their aim is to recoup debts and allow market forces free range. Will this bring food, clean water, clinics and education to people? Eventually, maybe — but that is not the question any more. When the famines get too bad,

aid agencies rush in with food relief — expensive and unsustainable. Ten years ago, those agencies had begun to move away from emergency relief to development work, but publicity for famines forced them back into emergency work and they have been there ever since.

Outside South Africa, news coverage of African affairs has dropped dramatically in the Western media; reports from Latin America are becoming even more scarce.

Perhaps it is best for those countries that are mired in political and economic turmoil to be left alone to sort out their own destinies. But until they do, the world is being separated into two unequal parts.

To keep the people on the other side out, we are building ever higher fences — and setting the dogs on anyone who tries to cross them. — The Independent News Service. □



**T**HE Africanisation of SA's ruling class evidently proceeds apace. Nigeria's foreign minister acknowledges that Afrikaners are just another African tribe. His SA counterpart Pik Botha disports himself to the media on the flight home from Abuja in a dashiki. SA ambassador to Washington Harry Schwarz is now, like most of his African colleagues here, devoting his energies to drumming up investment.

Schwarz's main task is no longer to fight sanctions. Although they remain in place at state and local levels, the issue is increasingly moot. The ANC's Thabo Mbeki made it clear in Hamburg last week that his organisation has been actively canvassing US firms to invest. A formal renunciation of selective purchasing and other such ordinances by ANC president Nelson Mandela himself can surely not be long in coming.

**T**he ambassador is up against what is perhaps an altogether tougher obstacle: Afro-pessimism. To be part of Africa is to be part of a continent which between 1980 and 1987 offered a net return on investment of just 2.5%, rather lower than the US prime rate after adjustment for inflation. Southeast Asia, by contrast, provided an average return of 22.4% over the same period.

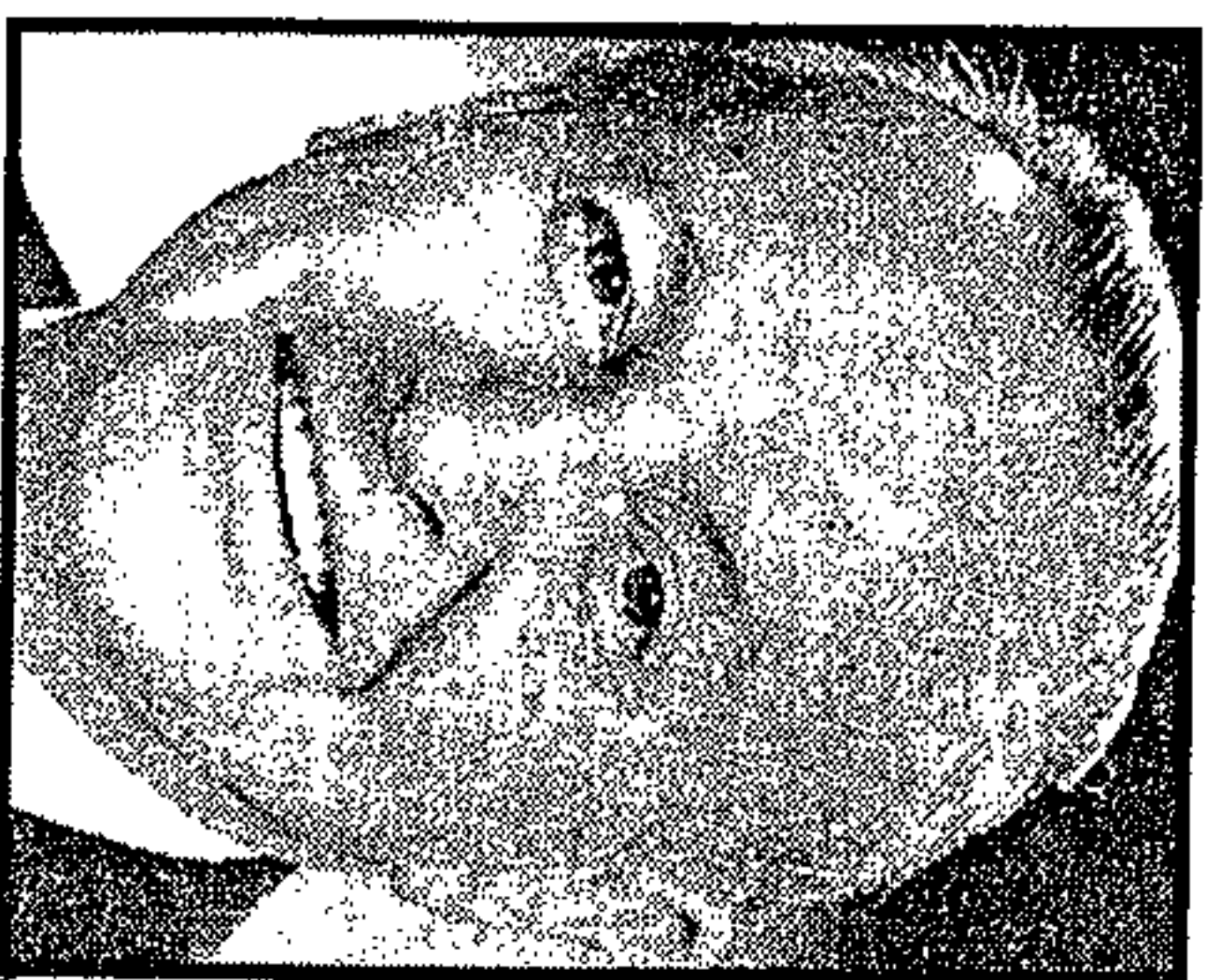
In a report to be released on Thursday, the World Bank projects that Africa's annual per capita growth rate between now and the end of the decade will be a pathetic 0.3% compared with 3.6% for all developing countries. Commodity prices, the bank predicts, will remain flat for several years.

That means the developing world must focus on manufacturing and pray for global trade liberalisation. Unfortunately, the wherewithal for retooling is likely to be limited, especially for Africa. "Concessional external finance will become even more scarce, with access to private capital markets restricted to countries with strong creditworthiness."

Not a rosy picture for the club into which Nigeria's Gen Ibrahim Baban-

# To lure investors, SA must rise above Africa's poor image

8/20/92 14/4/92  
SIMON BARBER in Washington



□ SCHWARZ

gida symbolically welcomed President F W de Klerk last week — but clearly part of the reason why Banganga and others are so anxious to embrace SA even before the ANC has given the official go-ahead. As Roger Riddell and Lawrence Cockcroft of the Overseas Development Institute wrote in a recent paper for the World Bank, SA can "provide the catalyst for investors to take an 'up-beat' look at the continent."

For his part, Schwarz is determined that US capital takes an up-beat view of SA. Last week he took his case to a group who control a sizeable chunk of that capital — the managers of the country's major pension funds whose combined assets easily top \$1.5-trillion, more than a third of which is invested in US corporate equities.

In speeches to the National Conference of Public Employee Retirement Systems and the Council of Institutional Investors, the ambassador offered four reasons the institutions should use their clout to channel investment towards SA rather than away from it.

First, he said, SA was a safe bet. Forget the political rhetoric and media coverage that tended to highlight the ongoing violence. "Doomsday scenarios are not real." Talk of punitive taxation was nothing more than

structure, both financial and physical. Oceans of pent-up demand, and, in some sectors, not a lot of competition. "In some of our industries, machinery and equipment is not the most modern, which means there is not only a market for capital exports but opportunity to set up more competitive, efficient operations."

Third, investment in SA meant jobs in the US, because in the medium to long term it would help the US balance of payments. Hanging back could cost jobs, because others were already rushing in to take up the opportunities and could beat the US to the punch.

"Make a simple judgment as to whether it's good for American companies to make profits in my country, to create jobs for Americans here, and not to leave those markets to other people... the US used to be our major trading partner. Then it became Japan. Now it is Germany and Japan is second. That's how the cookie's crumbling in southern Africa."

Lastly, for those in the audience who believed (as some fund managers still do) that their fiduciary responsibilities extend to safeguarding the immortal souls as well as the assets of contributors, investing in SA was socially responsible. After all, how could it not be if the ANC's

own Thabo Mbeki was not only calling for it but happily predicting that three major US corporations would shortly be taking the plunge?

Besides, Schwarz stressed, "don't make the mistake that we are saying to the world, you must give us money to put right the wrongs of apartheid... I'm talking to you as people who manage other people's money." I don't expect you to come to SA to right my social wrongs. That's my obligation."

Will the pitch sell?

A lot depends, says Witney Schneidman, a World Bank consultant who has been studying the question, on whether, having reintegrated with its continent, SA can avoid being burdened with the continent's stereotypical reputation for corruption, ethnic strife, famine and fiscal irresponsibility.

What investors are looking for above all, Schneidman argues, is "predictability" — a sense that the rules of the game, once set, will not be subject to radical upheaval. "Even the advent of a socialist system would not turn companies off, as long as it is stable and the operating conditions are predictable and conducive to the generation and repatriation of profits."

The rules have yet to be set, and while the violence worries some that they may never be, many other questions need to be answered as well.

**I**n redistributing wealth, will a new government place ideology over efficiency? What will be the costs of affirmative action? Will companies be forced to advance unqualified blacks? What is the likelihood of continued wage escalation and frequent strikes as unions seek to flex their political muscle — a problem aggravated by per capita output levels a quarter to a sixth those of SA's major trading partners.

The sooner such questions are answered, Schneidman contends, the better. He suggests SA may have only two years to "acquire a reputation of stability that contrasts positively with the stereotypical view of black Africa" before investors lose their current interest and decide to allocate resources elsewhere.



# World Bank optimistic on outlook for Third World

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STAR 20/4/92

WASHINGTON — People in developing countries have suffered their first two-year per capita income drop in 25 years of World Bank record-keeping, but bank economists say the decade ahead still looks bright.

In its annual Global Economic Prospects report the world's biggest lender says that although the 1990s started badly in the Third World, improved policies and other factors hold the promise of higher growth.

The bank's estimate of their per capita income for 1991 declined by 0.2 percentage point in both 1990 and 1991, the only time there has been a decline two years running.

The estimate does not include the countries of the former Soviet Union, which economists say would further reduce the overall figures.

The report blames war, radical political and economic changes, failure of some countries to achieve economic reforms and slow growth in industrial nations.

Despite the two-year decline, developing countries' per capita income growth in the 1990s is expected to average 3 percent, compared with 1.2 percent in the 1980s.

The biggest improvements are foreseen in the Middle East, North Africa and Latin America, said chief bank economist Lawrence Summers.

Growth in the industrial countries will be somewhat less, the report says.

At a news briefing, Mr Summers acknowledged that the optimism is "typical of macroecono-

mic forecasting" but added: "In my opinion, these expectations are now unusually well based on facts."

Poorer countries around the world were now embracing economic policies more favourable to growth, including greater openness to trade, Mr Summers said.

"This, together with the lowering of East-West tensions, has brought about a rare set of circumstances particularly conducive to improved growth performance in the developing world," he said.

## Eastern Europe

The bank study says the struggling economies of Eastern Europe, the former Soviet Union and the war-ravaged Middle East are expected to stabilise and resume growth during the rest of the decade, although Mr Summers expressed caution about the Soviet republics.

"It's too early to predict growth for the Soviet Union over the next decade," he said, adding, "I'd be surprised if there is better than average performance."

The report notes that the world is "in the throes of a severe slowdown in economic activity and international commerce," with trade growth slowing to 3 percent last year from 5 percent in 1990.

But it says that in addition to freer trade policies in the developing countries, the recovery in the industrial economies will act as an engine of growth in the developing world.

Mr Summers said the bank report already lagged a little be-

hind. If the very latest figures had been included, it probably would have been "a little more encouraging on the US economy and a little less optimistic on Japan and the European Community."

Signs of recovery in the United States were encouraging. "It appears that monetary easing is at long last translating into real change in economic activity."

Worldwide trade reforms begun in the 1980s are expected to continue through this decade, the bank report says.

It projects varying economic growth from region to region:

- In sub-Saharan Africa, not including South Africa, per capita growth in real income is expected to average 0.3 percent a year, still significantly better than the decline of the 1980s.

- Latin America's economic performance is expected to improve sharply from the decline of 0.5 percent annually of the 1980s to a positive 2.2 percent a year in the 1990s.

- Reforms in major South Asian economies are expected to keep growth at about the same 3 percent a year level of the 1980s.

- East Asia is unlikely to repeat its impressive performance of the 1980s but will still remain the fastest-growing region, with per capita incomes rising at about 5 percent annually.

- Peace and reform in the Middle East and North Africa are projected to support per capita income growth of about 1.6 percent annually, compared with a 2.5 percent yearly decline in the 1980s. — Sapa-AP.



## AROUND THE WORLD

# World Bank help for Africa drought

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WASHINGTON - The World Bank is urgently preparing to help Southern Africa get over a severe drought that could spell disaster for more than 100 million people.

The bank's president, Mr Lewis Preston, told finance ministers gathered for the spring meeting of the bank and the International Monetary Fund in Washington on Tuesday that his agency was actively considering many forms of aid to counter what could prove to be the region's worst drought in decades.

Preston said the drought threatened to set back the considerable progress that countries in Southern Africa had made in overhauling their economies and reducing

Sapa-Reuter

poverty.

The bank, which has dispatched experts to assess the crisis, believes substantial loans will be needed for critical imports of food, medicine and other supplies.

A report by the United Nations Food and Agriculture Organisation called for imports of at least 11 million tons of food in Africa for the year 1991/92, excluding South Africa, which might have to import three million tons.

The World Bank's sister agency, the IMF, is also proposing special measures to soften the blow of the drought.



# In SA's favour

A SENIOR World Bank consultant has listed the advantages which South Africa still enjoys in attracting foreign investors — despite inflation, recession and high interest rates.

Witney Schneidman told a forum on Investment Policy in a Post-Apartheid South Africa this week that the economy's weakness was offset by sound financial institutions and policies.

Mr Schneidman said: "South Africa has a well-regulated financial system that is run in an orthodox, predictable manner. The highly respected Reserve Bank lends a critical measure of stability and predictability to financial developments."

The fact that the dual exchange-rate system provided a discount in the conversion to rands also favoured investors. But most bankers would prefer a single, realistic exchange rate.

Other pluses listed by Mr Witney included:

- the availability of local capital,
- the existence of the Johannesburg Stock Exchange which made the transfer of capital and access to it much easier,

Business Times

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- an excellent physical infrastructure,
- the size of its consumer market with a real cash economy which in percentage terms may be larger than Nigeria's.

Mr Schneidman warned, however, that SA was unlikely to receive major new investment capital soon.



# Bank backs privatisation

CAPE TOWN — World Bank vice-president and secretary Timothy Thahane came out strongly against nationalisation yesterday, saying experience in sub-Saharan Africa showed cumulative losses by state-owned enterprises reached 5% of GDP between 1989 and 1991.

He noted, however, that privatisation raised a country's economic efficiency.

Thahane told the SA Institute of Chartered Accountants annual congress: "State enterprises, far from fulfilling the expectations invested in them, have been inefficient, overstaffed and poorly controlled financially."

He said there had been a worldwide trend towards privatisation to raise efficiency and stop the financial haemorrhage from loss-making public enterprises which lacked entrepreneurship, management

and marketing expertise.

"Many countries, not just developing countries, cannot afford the losses incurred by their state-owned enterprises. In 1989, transfers and subsidies to Poland's state enterprises cost 9% of GDP."

Thahane said state-owned enterprises were inefficient because governments found it hard to resist meddling with them through granting financial subsidies, controlling product or service prices for political reasons and rewarding their friends with positions.

He said privatisation was a crucial element in striking a balance between the state and the market.

However, Thahane said the World Bank

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## Privatisation

was not dogmatic in making its loans conditional on an absence of a policy of nationalisation. This was a question for a sovereign government to decide.

World Bank involvement in SA would depend on the achievement of consensus about the governance of the country, Thahane said, as lenders and investors needed certainty. It would also be necessary to discuss World Bank policies and their implementation with the new government.

Responding to criticism that the World Bank had been tardy in lending to SA, Thahane said bank procedure was to undertake a full analysis of the economy and its problems before getting involved and devising a package. This normally took 18

months to two years to complete.

As the bank had not been involved with SA since the early '60s, there was a need to build up knowledge about the country and its economy. World Bank missions had visited the country and spoken to government and non-government people, the ANC and universities.

"A picture is emerging of an economy which has not grown as it should have. The economy is facing large-scale unemployment, has an income distribution which is very skewed, and a backlog of education," Thahane said. He added that the public service was very large and there was a multiplicity of educational authorities.

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# Faint first signs of a turnaround

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THE aggregate gross domestic product (GDP) of developing countries is expected to grow by 4.9 percent annually up to the end of the 1990s, according to cautious estimates made in the latest projection by the World Bank.

This would be 1.7 percent higher than in the last decade. However, growth is likely to vary significantly between different regions, especially in the republics of the former Soviet Union.

The World Bank expresses most optimism about growth in East Asia. Though it is less likely to grow at the rate of the last decade, per capita incomes could rise at a significant annual rate of 5 percent. The Bank is least optimistic about growth in sub-Saharan Africa, where the projection is for an average rise in per capita of only 0.3 percent annually in the 1990s. Small as this is, it is still better than the negative growth of the 1980s.

Latin America's economic per-

formance is also predicted to improve considerably — up to 2.2 percent a year (minus 0.5 percent annually in the 1980s). South Asia's economies are set to achieve an aggregate GDP per capita growth of around 3 percent a year, close to what the region achieved in the previous decade.

Edward Jaycox, vice-president of the World Bank's Africa region has announced a new strategy for the continent based on extensive consultations within Africa and in the wider international community. The aim of this new strategy, he said, was to meet the challenge of significantly reducing poverty.

While this objective was laudable, he cautioned that meeting a higher target would not come about easily, adding: "Nonetheless, it is imperative if Africa is to regain its rightful place in the world economy, and if African children are to have a better future, as they deserve to, every effort should be made to ensure the

success of the new strategy."

The broad elements of this strategy recognise that:

- People are both the means and the ends of the process.
- There is no alternative to continuous economic reform and adjustment in this dynamic and increasingly competitive world.
- Economic growth is necessary but not sufficient in itself to bring about improvements in human well-being. Aggressive anti-poverty policies must go hand in hand with pro-growth policies.
- Increased agricultural productivity and food security are essential, as are diversification and competitiveness of exports.
- An enabling environment — political and legal — for individual initiative and private enterprise is fundamental.
- The most efficient use possible of scarce resources is imperative, including a review and reduction of military expenditures.
- The empowerment of people

through good governance and accountability, adequate population policies, a larger role for women, and immediate action on environmental issues.

● Regional economic co-operation.

● Adequate external financing with imaginative treatment of outstanding debt.

Mr Jaycox conceded that the implementation of such a broad-based consensus strategy "could yield growth rates in the rest of this decade if only around 4 to 5 percent per annum or 1 percent per capita.

But, he added, with appropriate policies this could be translated into 2 percent per annum per capita for the poorest sections of the population. Such a result — minimally acceptable as it may be — nevertheless requires major efforts by both the African nations and their international partners. □



# World Bank waiting to move into SA and aid may total \$1bn

THE World Bank was ready to move into SA, probably with more than \$1bn in funding, to begin full-scale operations as soon as it received an invitation from an interim government which had created a stable framework in which it could operate.

Bank vice-president Timothy Thahane, interviewed in Johannesburg yesterday, was unwilling to state the amount of annual funding the bank was likely to earmark for SA, but indicated indirectly it was likely to be upward of \$1bn.

Thahane said SA was a large country and entitled to a "good" lending pro-

gramme — which was normally based on a country's size and creditworthiness.

By way of comparison, the current World Bank annual budget allocates \$900m to Kenya (population 25-million), about \$1.3bn to Argentina (33-million) and \$1.8bn to Mexico (85-million).

He said that while World Bank programmes normally took 18 to 24 months to implement, this could be achieved in SA in as little as six months because of the studies conducted since 1990.

Of the four areas under investigation, studies on macro-economic issues, educa-

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tion and urbanisation were far advanced. Studies on the rural economy were still some way from completion.

Thahane said the mechanics of SA's transition were a local matter. All the bank was concerned about was that there be a predictable and stable environment, with state authorities in place in relevant fields (finance and economics, education and housing) with which it could deal.

Asked about the relationship between the World Bank and the ANC — some of

whose left-wing elements are hostile to bank involvement in SA — Thahane said important contacts had occurred over Easter. An ANC delegation, headed by foreign affairs chief Thabo Mbeki, the economic policy department's Trevor Manuel and education head John Samuel, had visited bank headquarters in Washington.

"They came to study our operations. We opened our books to them and let them examine our record. We gave frank answers to their substantive questions. It is for them to say whether they were satisfied with our record," Thahane said.

He said proposed bank operations in SA would be in line with its general objectives, which were to combat poverty rather than merely achieve economic growth.

"We seek to assist countries achieve sustainable economic growth. But our experience shows it is possible to achieve high growth rates without tackling poverty — the trickle-down effect can be ineffective. Our programmes are designed to target the poor, increase their productive capacity through education and better health facilities and living conditions. This increases their employment opportunities."



May 16 to May 21 1992

# Southbousiness 15

A senior World Bank official warned last week his organisation was watching what decisions were taken in South Africa before granting loans to the country. **Noel Bruyns** reports:

**C**ODESA's decisions on a future government, and its democratic performance and accountability to all citizens, will influence the World Bank's decision whether to resume granting loans to South Africa.

This warning was given by the World Bank secretary and vice-president, Mr Timothy Thahane, at a business breakfast of the Independent Business Forum in Cape Town last week. He is a Lesotho national based in Washington DC.

"It is important to ask: would you invest your money in a situation in

**'Codesa decisions to influence' World Bank**

*South 16/51 - 21/5192*

which the rules of the game or the framework are unclear?" he said.

"Our experience with economies in transition is that investment recovery is often preceded by a stable macro-economic framework, which means those who are to invest need to see a predictable environment in which the rules of the game are clear," he said.

The World Bank was studying the South African situation and hoped to be able to assist quickly if the country reached consensus on government.

"But if consensus is not reached on the underlying economic constraints, then there may not be much assistance flowing."

He also warned that international aid would be only complementary, and South Africa would have to look closely at domestic resources. This was because the country would have to compete for funds with Latin America and Asia, while the demand after German unification and from former Soviet economies would be enormous.

*'Growth was highest in those countries where the public sector was efficient and limited itself to those functions it performed best'*

"Our experience throughout the world indicates the private sector has a very important role in the recovery of investment and growth. Efficiency in the economy requires the government to create incentives to encourage the private sector to invest.

"Growth was highest in those countries where the public sector

The World Bank could assist in areas such as the development of the urban sector, education and agriculture.

However, many issues needed to be addressed first with the dissolution of apartheid.

Before assisting in education, for instance, the bank would need to know whether South Africa would have a unified educational structure that would provide consistency and permit the participation of the local community.

The disparity in resources, housing and services and in the political process would have to be addressed. Sustainable development required regarding people as the major resource.

"Looking at the macro-economy and competitiveness of the South African industry, labour-intensive techniques are not used.

"In fact, the production pattern in the manufacturing sector will have to change and focus more on job-creating activities," Thahane advised.

● The Independent Business Forum is an initiative sponsored by SOUTH, Commille Insurance Brokers and M Brey and Associates, Chartered Accountants.

The forum is open to all, but was created especially to meet the need of disenfranchised business people for assistance in the debate on issues affecting business generally.



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## Bank advises on environment control

WASHINGTON — The World Bank said on Sunday that using trade barriers as a weapon to force countries to modify practices that damaged the environment probably caused more problems than it solved.

In its annual World Development Report, the bank said there were more direct ways to combat deforestation, soil erosion, use of pesticides and industrial pollution.

"Liberalised trade fosters greater efficiency and higher productivity and may actually reduce pollution by encouraging the growth of less polluting industries and the adoption and diffusion of cleaner technologies," the report said.

Developing countries have accused richer countries of restricting imports that

compete with their own industries by suggesting the products do not adhere to certain environmental standards. The bank says the developing countries have a case.

It said when countries used trade policy to impose environmental standards, they effectively protected domestic producers from foreign competition.

The bank report dismissed the idea that some countries, by lowering their environmental standards, provided so-called pollution havens.

It said since it was cheaper for multinational corporations to use the same technologies as they did in industrial countries, they could be a potent source of environmental improvement. — Sapa-Reuter.



# Beware the World Bank and its 'gifts'

5/ Times (Buss) 24/5/92

RUMOUR has it that the World Bank is poised to enter the South African scene in a big way.

It is said that the bank is "impatiently awaiting the formation of an interim government" when it will offer a loan of \$1-billion to that government.

The bank also seems to have some new ideas on how the loan could be used, making the important distinction between achieving high growth rates and tackling poverty.

It seems to have finally got the message that in a highly skewed economy like ours it is perfectly possible to invest in the existing developed enclave without there being much benefit for the rest of the underdeveloped economy or for the disadvantaged population.

## Great

Would that some of our own more simple-minded economists understood this point.

Indeed, one of the World Bank vice-presidents, Timothy Thabane, recently claimed that "our programmes are designed to target the poor, increase productive capacity through education and better health facilities and living conditions. This increases their employment opportunities."

So far so good, just the kind of help needed by an interim government which comes to power amid such great expectations from the black community. What makes the proposal particularly interesting is that the loan will be linked to generating productive capacity among the poor, rather than being used in a splurge of welfare handouts as might be tempting to a new government.

Yet there are serious nagging worries. Those of us who

BEN TUROK, recently returned from many years in exile, warns against being seduced by offers of easy money from the World Bank

have lived in other parts of Africa and know the Third World have seen it all before. Easy money borrowed from an eager donor, perhaps even on soft terms, is spent without a care and becomes an albatross when it has to be repaid.

The Third World is choking with huge debts derived precisely in this way. Africa owes \$270-billion, service charges alone being \$25,3-billion a year.

So there are serious worries about borrowing and perhaps Nedbank's Edward Osborn is right to argue that we should rather find the necessary sources in the country.

One of these worries is about what might happen if the post-apartheid economy enters stormy waters, for whatever reason — capital flight, excessive spending, social unrest etc — and we then have to repay a huge loan.

Or, what if the world market in the minerals we sell abroad falls drastically. The collapse of primary commodity prices has been another major reason for Third World inability to repay debts.

## Stormy

But there are other major worries too. Should we have pressure on our balance of payments for the above reasons? Will this make us vulnerable to pressure from the International Monetary Fund? Indeed, we should insist on knowing whether the current World Bank offers are in any way tied to IMF conditionalities.

The IMF admits openly that it is not concerned with redistribution in recipient countries, even if the World Bank does want to target the poor. But in the end, once the IMF gets involved, seeking to introduce its infamous structural adjustment programmes (SAP), will not the fund control the bank?

There are solid grounds for this supposition since the bank will not lend unless the fund grants creditworthiness status to a particular country.

As it is, there are advocates enough in this country for an IMF structural adjustment programme. None other than Reserve Bank Governor Chris Stals openly argued for such a package in April this year.

## Cuts

The Standard Bank wants us to go for a "precautionary standby-by facility", which necessarily opens the door to structural adjustment programme conditionalities.

Looking again at Third world experience we know that a structural adjustment programme includes:

- 1 Government spending cuts which lead to large job losses. (This is no doubt justified in our own bloated bureaucracy, but some caution is still warranted because black workers are still easier to fire than white managers who are paid far more).
- 2 Cost recovery in areas such as education and health which impose severe burdens on the poor — the very people the World bank wants to help.



3 Abolition of any constraints on prices — again imposing harsh increases in the cost of living for the poor.

4 Removal of subsidies in industries and services which supply the poor.

Since there has been such a public outcry against the impoverishment caused by these programmes around the world, the IMF has put in place a "safety net" provision which is supposed to relieve their plight.

Helpful as it may be for those at the very bottom of society, it cannot counterbalance the overwhelming effect of the "harsh medicine" (the IMF term) for the economy as a whole.

## Taxis

In most Third World countries, once repayment of these loans starts, it is the poor who are squeezed, having a serious effect on workers wages and living standards generally.

Devaluation also has the effect of lowering living standards so that a professor at an African university earns a tenth of his American counterpart. This is why so many African academics work abroad, or drive taxis in their spare time or spend more time on chasing foreign consultancies than teaching.

Even more disconcerting are the political implications. Throughout the Third World, implementing SAP has required tough government measures associated with authoritarian regimes. These regimes have generally negotiated agreements in secret which have only become public once the severe measures are in place.

## Soft

Is that where we want to head a post-apartheid government? In case this seems mere alarmist talk, we might indicate that the 20 or so World Bank teams who have toured SA in the past two years have scrupulously avoided publicity and tried to bind their contacts to confidentiality. Just try to get hold of one of their documents.

So World Bank lending is still very problematical. Certainly we need foreign loans, and there can be no objections to this in principle. But let us beware of soft talk about easy money. These are not gifts for the poor — they are loans to a future government, which have to be repaid, with interest.

Ben Turok is director of the Institute for African Alternatives (IFAA) and the author of many books and papers on the issue raised in this article.

# Carbon tax threat to SA coal mines

5/ Times (Buss) 24/5/92

By IAN ROBINSON

SOUTH Africa's coal industry faces a major challenge from environmental lobbies in the current decade.

The European Economic Community (EEC) proposes to adopt the most ambitious environmental measure ever contemplated — the carbon-energy tax.

The EEC Commission has

approved a directive — subject to endorsement by the Council of Ministers — to impose the tax. The intention is to reduce carbon dioxide (CO<sub>2</sub>) emissions. Carbon dioxide has been blamed for the greenhouse effect and global warming.

The commission's plan stems from an EEC decision two years ago to stabilise CO<sub>2</sub> emissions, which will mean cutting their predicted level in 2000 by 12%.

The proposed tax would start at \$3 on the equivalent of a barrel of oil in 1993, rising to \$10 by 2000. Half of the tax would be levied on the use of energy from non-renewable sources (excluding nuclear) and half on carbon emissions.

## Weighted

The carbon tax is weighted against coal because it would be imposed at different levels on different primary fuels according to their carbon

world's CO<sub>2</sub> emissions — and Japan are hostile to an energy tax. The impact of the tax will be watered down by exemptions or reductions granted to important energy-intensive sectors of EEC industry, such as aluminium, steel, glass, paper and others. Although loopholes and opposition from other countries may prevent the effective application of the tax for some years, the EEC Commission's directive represents a "strong way" of presenting its position and exerting pressure on trading partners.

## Signal

Counsellor (mineral and energy) at the South African Embassy in Paris, Arthur Dykes, describes the carbon tax as "potentially a major threat". Even if the proposed tax has no teeth, it has an adverse psychological effect on coal use.

The proposal sends a signal to coal users that if they fail to use energy more efficiently, they would be liable to penalties at some time.

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# North vs South: The great divide

*A recent report points out that the rich fifth of the world now gets 150 times the income of the poorest fifth.*

By **CHARLES ENGLISH**

DEVELOPING countries are losing 10 times as much money to rich countries as they receive in aid because of unequal access to the world's financial, trade and labour markets. These restrictions cost poor countries \$500-billion a year, according to a new report by the United Nations Development Programme (UNDP).

Furthermore, the gap between rich and poor has doubled during the past three decades. The richest fifth of the world's population now receives 150 times the income of the poorest fifth.

While the rich nations constitute only a quarter of the world's population, they consume 70 percent of the world's energy, 75 percent of its metals, 85 percent of its wood and 60 percent of its food.

These are just a few of the conclusions of the third Human Development Report, one of the largest surveys of its kind, which calls for dramatic changes to open up global markets. The alternative, it points out, is worsening poverty in the developing world and increased pressure for large-scale migration.

Despite these tragic findings, a new World Bank study projects per capita growth in developing countries this decade of 2.9 percent each year. This represents a large increase over economic growth in the 1980s, which averaged a stagnant 1.2 percent.

The World Bank credits sweeping policy reforms in developing countries themselves for their projected increased growth.

Both organisations agree that industrialised nations must bring down trade barriers to encourage growth.

## North

- Life expectancy is 75 years
- Average income increased 3.5 times in the last 30 years
- Social security benefits average 11% of GDP annually
- One person in two has a television
- There is one doctor for every 460 people
- 60% of people are served by water treatment facilities

## South

*W/ mail - 22/5 - 28/5/92*

- Life expectancy is 63 years
- 750 million people per year suffer from acute diarrhoeal diseases, of which 4 million die
- 1.3 billion people have no access to safe drinking water
- 2.3 billion people lack access to sanitation services
- 135 million people live in areas affected by desertification

### The wealth gap ... As wide as the grave

According to the World Bank, a halving of the trade barriers in the United States, Japan and the European Community would raise developing countries' exports by more than \$50-billion — almost as much as development aid to the developing world.

"Global markets remain restricted," agrees UNDP administrator William Draper. "Where can developing nations sell their products unless global markets are also freed of protectionist restraints?"

The report warns: "It should never be forgotten that poverty needs no passport to travel across international frontiers ... in the form of migration, environmental degradation, drugs, disease and political instability."

Current aid levels are too low to help close the wealth gap. Moreover, existing aid is badly distributed. Only one-quarter of it is earmarked for the 10 countries that contain three-quarters of the absolute poor of the developing world.

Less than seven percent of total aid is spent on basic education, primary health care, safe drinking water, nutrition and family planning programmes.

The aid system, says the report, "has critical weaknesses, in quantity, equity, predictability and distribution".

South Asia, home to nearly half the world's poorest people, receives \$5 a person in aid. Aid-receiving countries in the Middle East, with three times South Asia's per capita income, get \$55 a person.

The richest 40 percent of the developing world population receives more than twice as much aid as the poorest 40 percent.

Countries that spend heavily on arms — more than four percent of their gross national product (GNP) — receive twice as much aid per head as more moderate military spenders.

The UN target for Official Development Assistance is 0.7 percent of GNP from each industrialised country. The average contribution is only half of that — 0.35 percent.

This average covers a wide variance that shows Norway giving 1.17 percent of its GNP, while the US gives just 0.19 percent. Britain gives less aid per person of its population than any other country in the European Community.

Official aid is highly unpredictable. Seventy percent of overseas aid is given directly by one country to another, and is therefore sensitive to political relations between the two nations.

Hence if a donor country withdraws aid because of human rights violations, poor people can suffer a double punishment: political oppression and a withdrawal of aid.

In 1960, the fifth of the world's population that lived in nations with the highest per capita incomes were 30 times better off than the poorest fifth. By 1989, that disparity had doubled to nearly 60 times richer.

But wide discrepancies exist within

many countries. Comparing the billion richest individuals in the world with the billion poorest, that ratio would leap to at least 150 to one, according to the report.

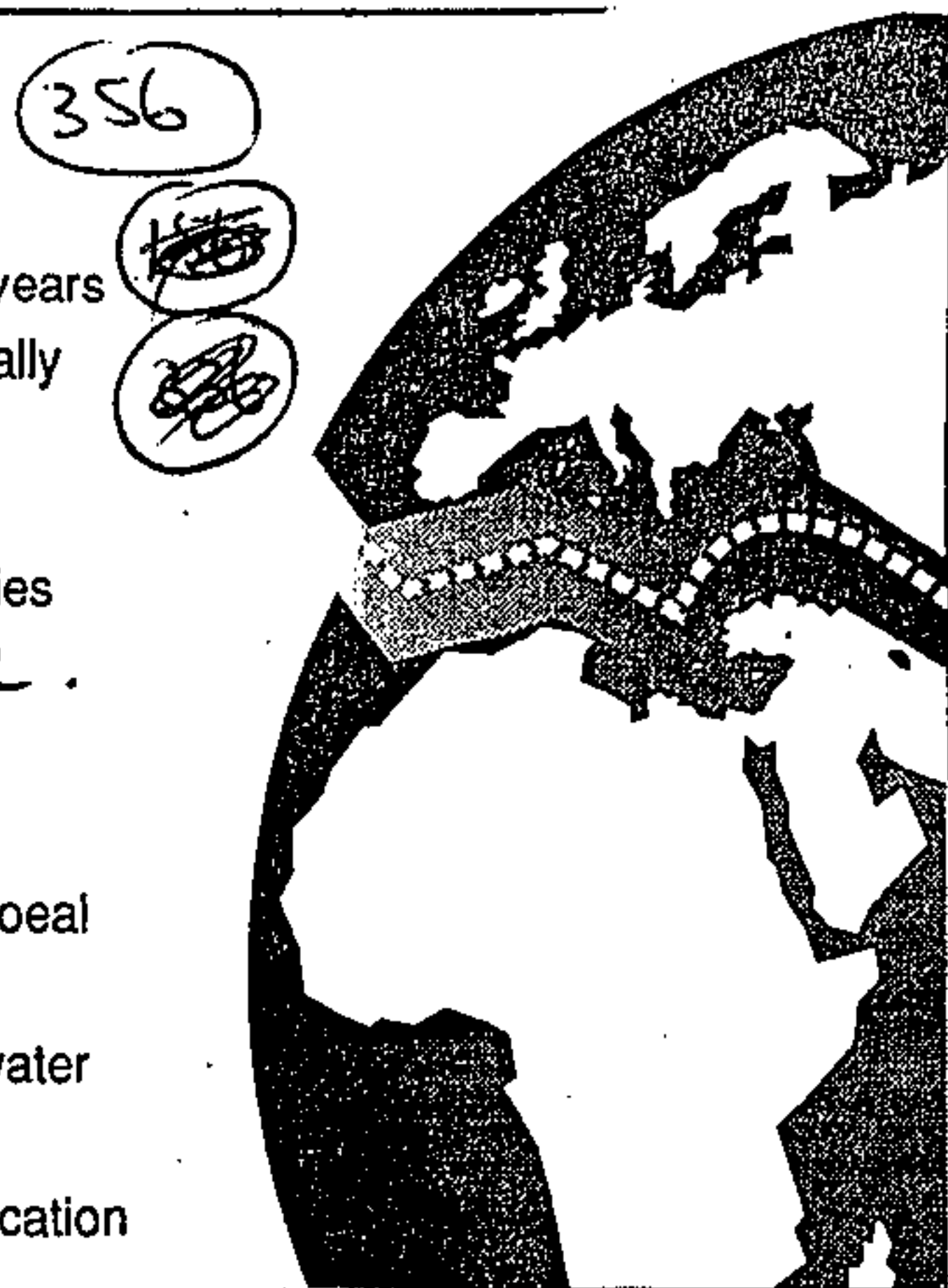
"In developing countries, it is not the quality of life that is at risk, it is life itself," says the report. "Poverty is as great an enemy ... as misspent affluence."

The report proposes a global pact between rich and poor nations to lift the poor out of their poverty. Funding would, it is suggested, come from a reduction in military expenditure worldwide — giving a peace dividend of \$1 500-billion.

The pact would also lay plans for the opening up of global markets, a reform of foreign aid and the striking of a new "debt bargain" to halt the current net transfer of \$50-billion each year from developing countries to industrial countries.

Major changes in the functioning of the World Bank, the International Monetary Fund (IMF), the General Agreement on Tariffs and Trade (GATT), Global Environment Facility and UN programmes are also recommended by the report, to ensure better management of the global economy.

As the UNDP report points out: "Poor nations cannot accept that the industrial countries are entitled forever to an 85 percent share of the world's income and a perpetuation of their energy intensive patterns of consumption." — Gemini News





So the new broom at the head of the World Bank is promising to help sweep away poverty in Africa ("World Bank chief's pledge to reduce poverty", Business Day, May 22). Indeed, he invites us to judge the bank's performance by the demanding criterion that its lending will lead to "sustainable poverty reduction".

This is a tough commitment since all the trends of the past decade have been in the reverse direction, increasing poverty amid serious economic malfunction. What are the chances of reversing the trend?

First, we need a reminder that, although there is a welcome emphasis in Lewis Preston's statements, his predecessor Barber Conable was also not short on pro-poor declarations. In the authoritative report issued by the Bank of Africa in 1989, From Crisis to Sustainable Development — A Long-term Perspective Study, Conable urged "special measures to alleviate poverty and protect the vulnerable... empowering ordinary people, especially women... and a more bottom-up, less top-down approach to programme design rather than the imposition of blueprints".

Yet the record in Africa since 1989 is no better than in the previous decade, and the condition of the poor probably worse. Why?

First, Africa's debt. This now stands at \$270bn with an annual debt servicing requirement of \$25.3bn — a massive drain on Africa's export revenues. The IMF and World Bank made a \$4.7bn profit from Africa between 1986 and 1990 — much of this in loan repayments.

The bleeding of Africa continues. In 1990 there was a net repayment to the IMF from Africa of 400-million Special Drawing Rights (or SDR, the reserve currency the IMF uses in settling international transactions and based on a basket of currencies). Between 1983 and 1990 Africa has paid back \$180bn in interest repayments. Will the World Bank and its sister institution the IMF cancel Africa's "crushing debt burden" (the IMF's own words) in order to achieve poverty reduction?

# World Bank aid for Africa hurts those it would rather help

By Day 29/5/92.

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BEN TUROK

Second, there is the matter of Structural Adjustment Programmes (SAP) which are imposed by the IMF before lending. These programmes entail devaluation, cuts in government spending, removal of price controls including those on basic necessities for the poor, and so on. Does the World Bank now intend to dissociate itself from these measures? If not, how can there be any significant poverty alleviation? The SAP is designed specifically to serve as a harsh medicine.

In the latest issue of the IMF and World Bank's quarterly publication, IMF head Jean-Michel Camdessus says: "Adjustment is an extremely difficult process... many countries continue to be buffeted by external shocks, so it is not surprising that some of these efforts were not as successful as had been hoped."

The solution he offers is that since "vulnerable groups suffer during adjustment in the short run... we try to identify these groups and target short-term subsidies, for example food supplies." Fine, but the problem is that when the whole country is going through the pains of adjustment, the poor are more likely to suffer than the rest.

This has certainly been the case in Ghana, the country in Africa most favoured by the IMF. It received \$4bn in loans since 1983 only to find, in the words of its finance minister, that the benefits had yet to be seen in

improved living standards. Indeed, internal investment had not increased either, indicating that the business sector had yet to be convinced that the SAP was a feasible programme of recovery.

Doubts about SAPs were earlier expressed by no less than the head of the World Bank for Africa, Edward Jaycox, writing in Africa Update, a World Bank bulletin published in 1989: "Neither the World Bank nor anyone else really has all the answers on what an effective adjustment programme should look like

(and) it is very hard to predict the social impact of a given programme in advance... it is incredible how little is known about where and how to manage the social side."

Quite. So why have the bank and the IMF persisted with SAPs, with their resulting increasing poverty? Some argue that it is easy to criticise the IMF and the bank, but Africa has no other options.

Well, there are alternatives, as the UN Economic Commission for Africa (ECA) points out. First, before undertaking any further experiments, the IMF and the bank must be pressed to cancel Africa's debts to them and to urge the cancellation of official bilateral debt. Without that, their claims to poverty alleviation cannot be taken seriously.

Projected 1990 figures show sub-Saharan Africa's total debt to be \$162bn, of which official bilateral debts (that is, between governments, in this case mostly with OECD countries) was \$65bn, multilateral (World Bank and IMF) debt \$43bn and total private lending \$55bn. Elimination of the first two categories would eliminate about two-thirds of the region's debt and close to that in servicing obligations.

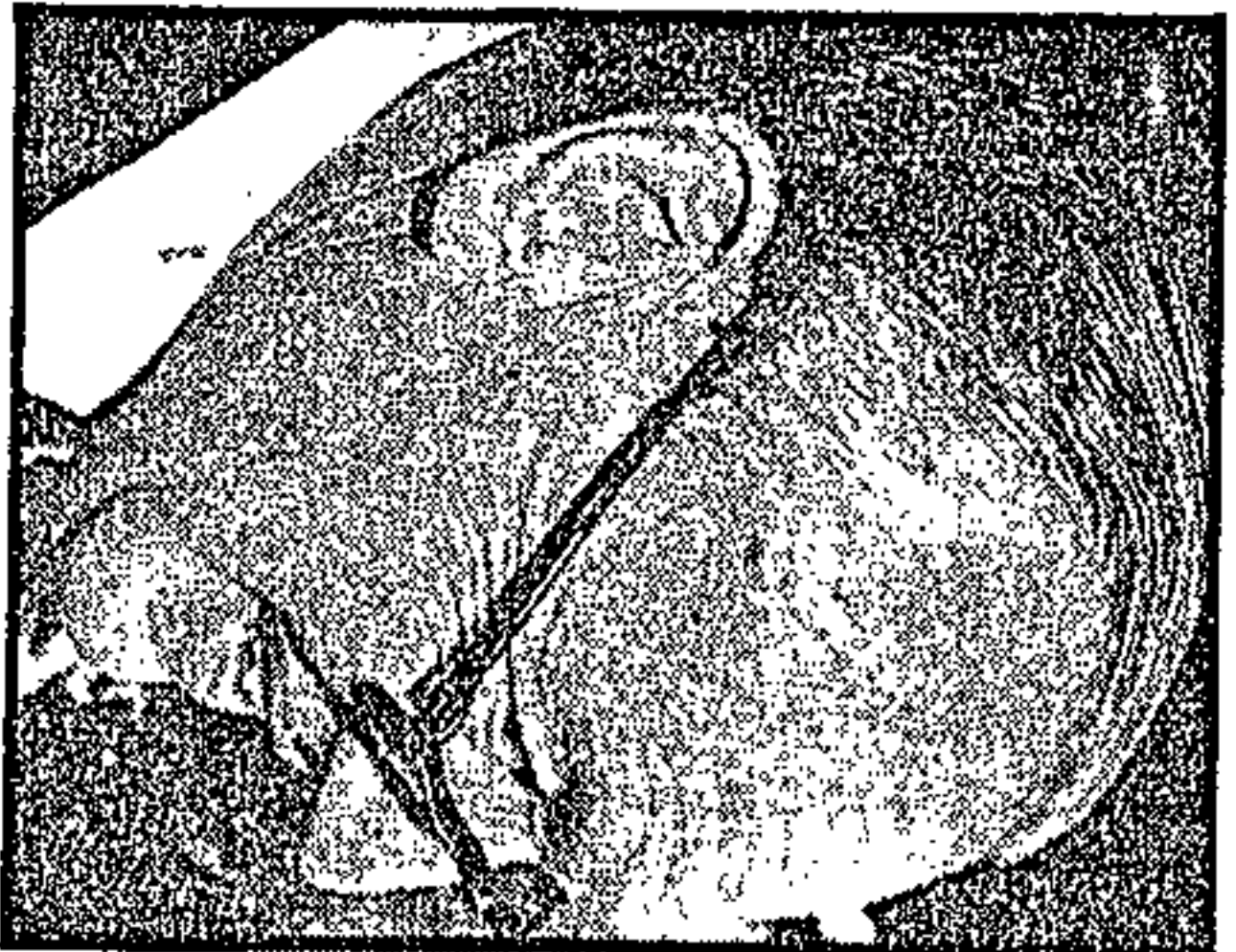
Second, they should be pressed to take action about the prices paid for Africa's export commodities. These have fallen by 30% in a decade, making a large contribution to the fall in

any in Africa is extremely costly though, one has to say, the tendency has been reinforced by the harsh measures required by the IMF. The surge towards democracy must therefore be associated with demands for drastic cuts in government spending and the freeing of resources to stimulate production, not so much for export but for internal consumption.

Also, since many countries are too small to be anywhere near self-sufficient, regional co-operation is a must, and not simply in trade but in joint ventures, maximising the comparative advantage of climate and location of each.

Finally, Africa must take much more seriously than before the notion of bottom-up development involving popular participation in projects on the basis of common decision-making. Neither the World Bank nor any other external agency can democratise economic life in Africa, it has to come from within. Fortunately, this understanding is taking root, and it holds much promise. It reflects the main point of this article — Africa cannot find relief from poverty in the declarations of the World Bank; it has to stand on its own feet.

Turok is director of the Institute for African Alternatives.



PRESTON



# The World Bank and the Inte

"Markets alone generally do not ensure that people, especially the poorest, receive adequate education, health care, nutrition and access to family planning... Openness to international flows of goods, services, capital, labour, technology and ideas spurs economic growth... Restoring the confidence of the private sector is now a major challenge for several countries with a long history of macro-economic instability."

— Barber Conable,  
President of the World  
Bank 1991

## Restructuring the Economy - the World Bank and the IMF

The present government has been looking to join the IMF for some time now. COSATU has in fact argued that initiatives, such as privatisation and VAT, are the result of World Bank interference in South Africa. The World Bank has been doing reports on South Africa since 1987 and in 1991, its president was here. Out of these investigations and his talks with a broad range of officials and organisations, recommendations were made for South Africa.

The World Bank president spelt out what he regarded as the negative and positive features of South Africa. On the negative side he listed the fact that there was still too much emphasis on redistribution of the wealth and that business was still being taxed too much. On the positive side he pointed out that the treasury's continued commitment to high interest rates and curbing state expenditure is good for the World Bank's vision of South Africa.

What is the World Bank and is its programme for South Africa in the interest of the working class? What is the IMF? Why do peasants reply with such anguish to people who talk about the benefits of IMF loans: "Please don't IMF us"?

The World Bank is a short name for the International Bank for Reconstruction and Development which is an international bank which provides loans for development projects. The shareholders of the Bank are the governments of the major capitalist countries who have voting rights in the bank in proportion to the amount of money they put into the Bank. The IMF is also a bank with funds supplied by the member countries but which supplies short term loans to countries which have balance of payment problems. These are countries where the value of the goods imported is more than those the country exports, so that they are forced into debt. Both the World Bank and the IMF were started at the end of World War 2.

## The Bretton Woods Agreement

At a small town in the USA called Bretton Woods, the finance ministers of the major imperialist powers sat down in 1944 to attempt to solve the mess in the capitalist world after the years of war. The USA emerged towards the end of the War with complete domination of all world trade - about 70%. Its economy was the only one not shattered by the War. On this basis the USA was able to operate as the greatest imperialist power.

But trade depends on the use of money or currencies, just like we use rands when we buy things. Because every country has a different currency, international exchange needs some standard to measure the value of currencies by. Earlier on in this century currencies were expressed in terms of gold as their standard. At Bretton Woods an agreement was made to express all currencies in the world

in terms of the US currency - the dollar, and the dollar was fixed at the value of \$35 dollars an ounce of gold. This made possible the stabilisation of world trade after the War but on the terms of the USA as the dominant imperialist power.

Because the other industrialised countries were so shattered however, special methods were required so that these countries could have credit to buy American goods. The IMF was set up as a fund to provide loans to countries which would not otherwise have the dollars to buy goods. The World Bank was set up to provide loans for specific development projects like dams or power stations since these were important to ensure that countries were a viable market for commodities.

The components of the Bretton Woods agreement, such as the setting up of the dollar as the international expression of value, the World Bank and the IMF, have shaped the world ever since then. By the extension of credit the capitalist world experienced a boom as mostly US commodities found a ready market. The economies of Europe and Japan were built up on this basis and the USA was ensured continued world domination because all trade took place via its currency and it had the greatest voting rights in the World Bank and the IMF. Moreover, because it dominated the world's market, the USA became the champion of free trade and the opening up of markets. When other countries attempted to build their economies against US domination by restricting foreign companies and building their own home market, then the USA would try to do away with these restrictions.

## The End of the Bretton Woods Agreement

However, by the beginning of the 1960s the USA entered a period of crisis and found itself challenged by the rebuilt economies of Germany and Japan. Moreover, the expenses of the Vietnam War pushed the US into Balance of Payment difficulties for the first time. By 1972 the USA could no longer prop up the capitalist world on its own terms and the dollar was devalued. This meant that the world no longer had all their currencies in a stable relation with the dollar and the dollar no longer had a fixed relationship with gold. The period became one of what we call floating exchange rates, where the value of all countries' currencies went up and down on a daily basis. This has changed the role of the World Bank and the IMF.

## The World Bank and the IMF - Their new Role

### ● The Debt Crisis

Since the 1970s most of the countries of the world have suffered from a crisis of inflation. Suddenly it required a



## A Spectre is Haunting South Africa...

Last year the National Party government imposed Value The Governor of the South African Reserve Bank, Chris interest rates (the money people have to pay for credit) circulation. The Johannesburg Stock Exchange (JSE) has those which limited the trading powers of foreign companies. Finance, Derek Keys, announced that foreign companies interest accrued on their investments in South Africa.

Since 1987 the state has committed itself to privatising railways. Together with privatisation have gone massive housing. In education, the state's Education Renewal Strategy of cutting the state's responsibility and making p

vast amount of money to buy what formerly cost relatively little. How many of us can remember a rand note and the fact that with such a note in 1972 we could buy 15 litres of petrol and travel for a whole week on that petrol? Today a motor-car driver can't even buy 1 litre of petrol for a rand and a rand note no longer exists because it is now regarded as small change. This is an example of what we call inflation.

With floating exchange rates and inflation many currencies, particularly those of Third World countries, have become so worthless that they cannot be used for international trade. Most of the countries of the Third World were forced to borrow enormous amounts of dollars in order to buy the goods they needed from the industrial countries. With inflation, and few goods that they could sell to the rich countries, the borrowing of the third World countries reached such proportions that a Debt Crisis came about in the 1970s and 1980s.

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## ral Issues

# national Monetary Fund (IMF)

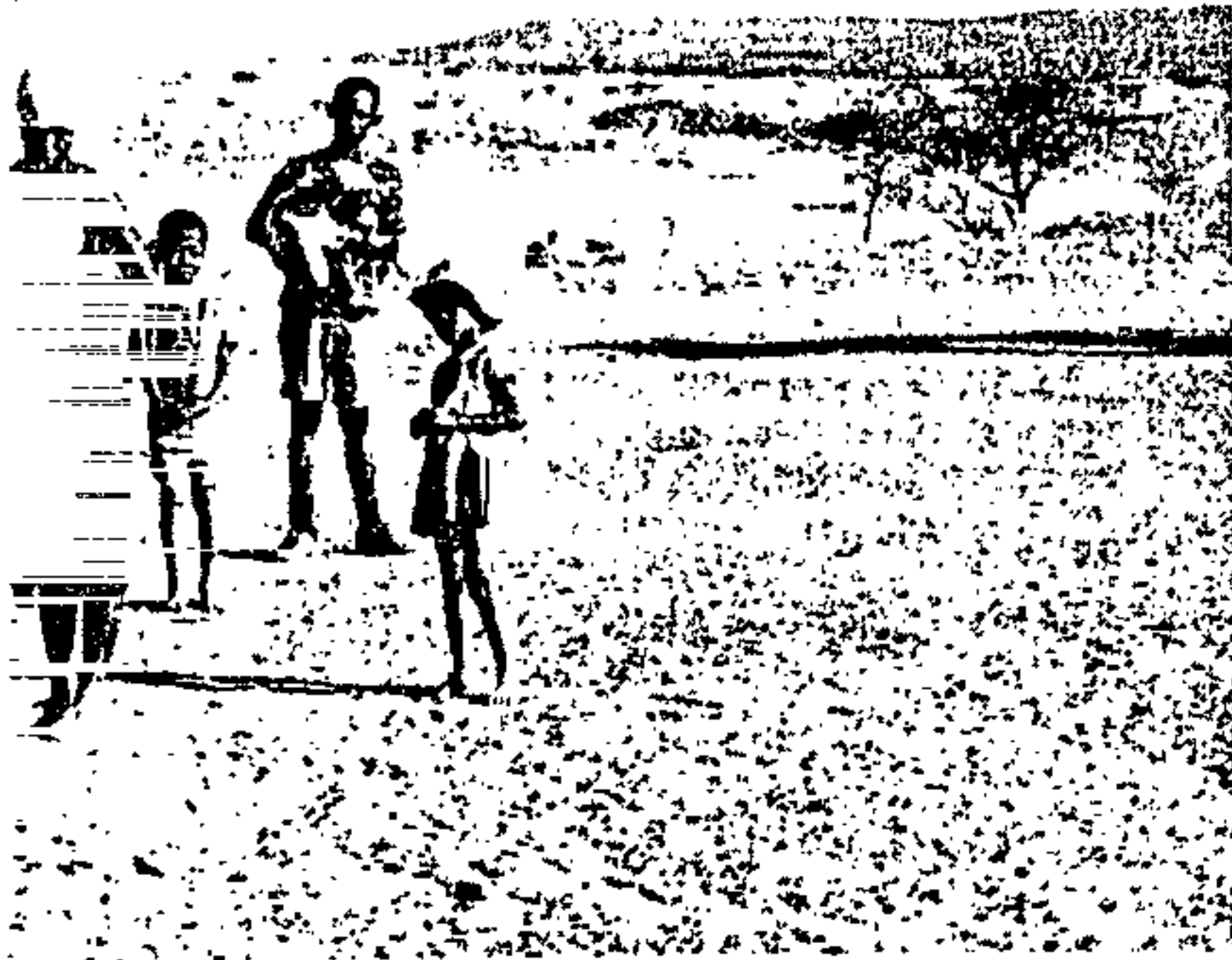
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"... the economic programmes (of the World Bank) ... are aimed at further ensuring Africa's ability to repay its debts to the rich nations, not to strengthen Africa's independent development. These programmes are essentially based on theft, deceit and intimidation. Theft, because international transfers from the poor to the rich are rapidly increasing. Deceit, because the poor are always told that development is just around the corner, if they would only tighten their belts for a short while. Intimidation, because conditionality keeps the poor countries under constant pressure: "If you do not do it our way, we will cut you off from further loans and aid."

— Fantu Cheru, Advisor to the Ethiopian government



attempted to restrict the domination of the multi-national companies and embarked on programmes of local industrialisation and making their own goods. Other countries such as Cuba looked to creating regional markets of Third World countries to break the hold that the imperialist countries held over the Third World.

The threats posed by Third World debt to the imperialist world, and the attempts by many poorer countries to try and escape the cycle of dependence, have brought about a new role for the IMF and the World Bank. Whereas these institutions were started to rebuild Europe and Japan, the IMF and the World Bank now play the role of reopening Third World countries for greater imperialist exploitation. Ensuring that Third World debt doesn't threaten the

restructure the economy before a democratically-elected constituent assembly. But the need for money to finance the rebuilding of South Africa after apartheid has made many people think that the World Bank and the IMF can be such a source of money. Some people in the liberation movement argue that we can use their money provided we have control and do not fall prey to their programmes. Yet others say that the World Bank and the IMF will sabotage a democratic South Africa.

With the important task of overcoming the legacy of apartheid capitalist poverty for the vast majority of South Africans, this is a difficult choice to make. We need to debate these questions in our organisations and in our community. We hope that this article can contribute to such a debate and help us make an informed decision about the role of the IMF and the World Bank, and whether they can help us finance our future development.

- Added Tax (VAT) on the people of South Africa.
- Stals, has insisted that is necessary to keep very high to cut down on the amount of money in
- removed restrictions on trading particularly
- On Thursday 4 June the new Minister of
- individuals would no longer pay tax on

most of the public sector - from ISCOR to the cuts in state expenditure on hospitals, schools and strategy and Model C schools clearly spell out the parents pay for education.

Soon most countries in Africa were in the position where more than half of their wealth was debt. Countries like Mexico were in so much debt that they started causing problems for the banks who had loaned them the money in the first place because they had no hope of ever paying back the debt. People started saying: "If you owe the bank \$100 000 dollars then it is your problem, if you owe the bank \$100 million then it is the bank's problem."

### ● Third World Industrialisation

In the late 1960s and early 70s many Third World countries fought battles against US imperialism and tried to free themselves from dependence and poverty. For most of this century the Third World countries have engaged in world trade as sellers of cheap primary goods, such as food, base metals and coffee, and buyers of manufactured goods such as machinery and tools. This has kept them in the power of the imperialist powers and the multinationals

world financial system and that economic programmes of Third World countries are sabotaged, that has become the new role for the products of Bretton Woods.

### The Method Used by the World Bank and the IMF

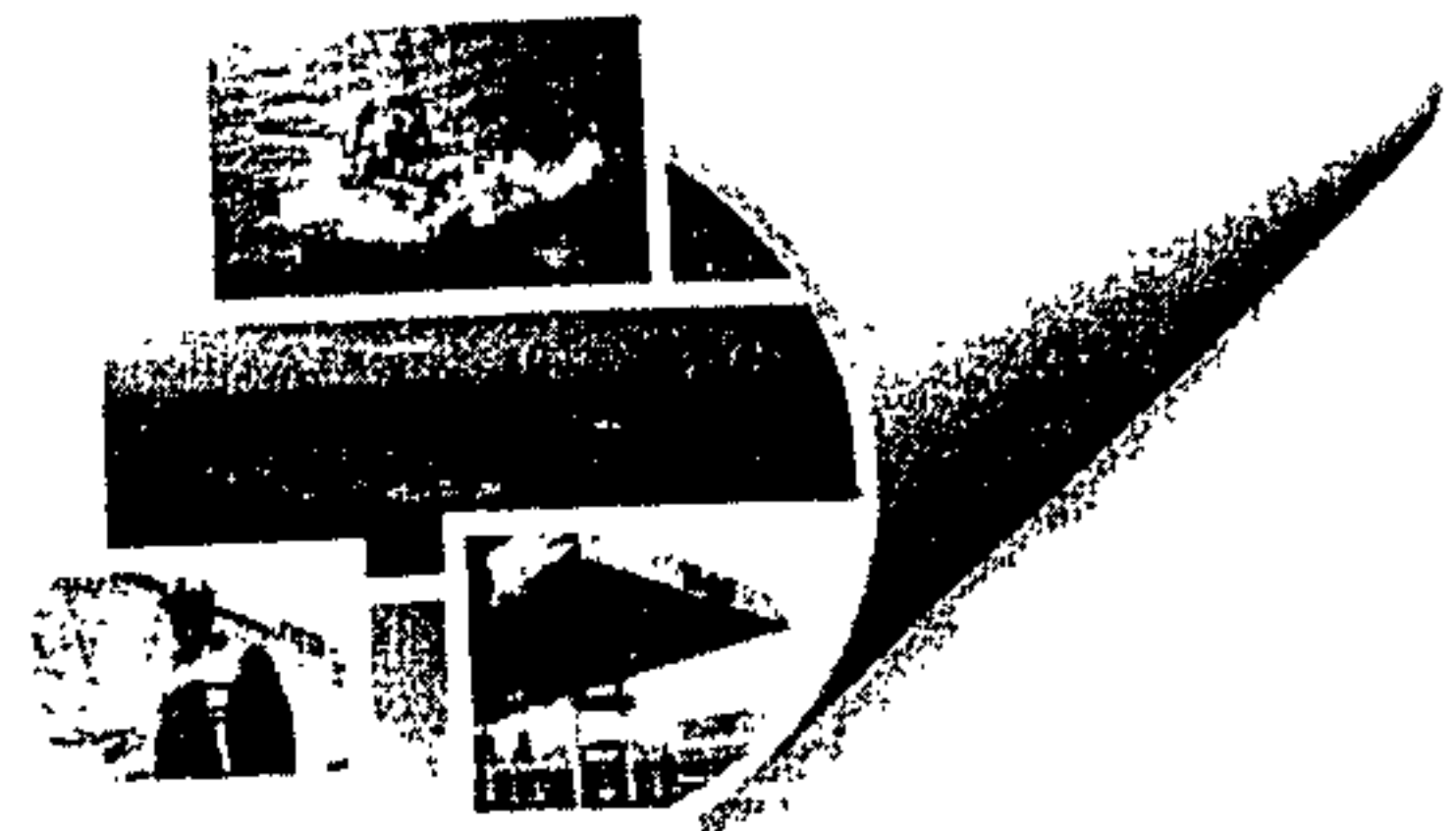
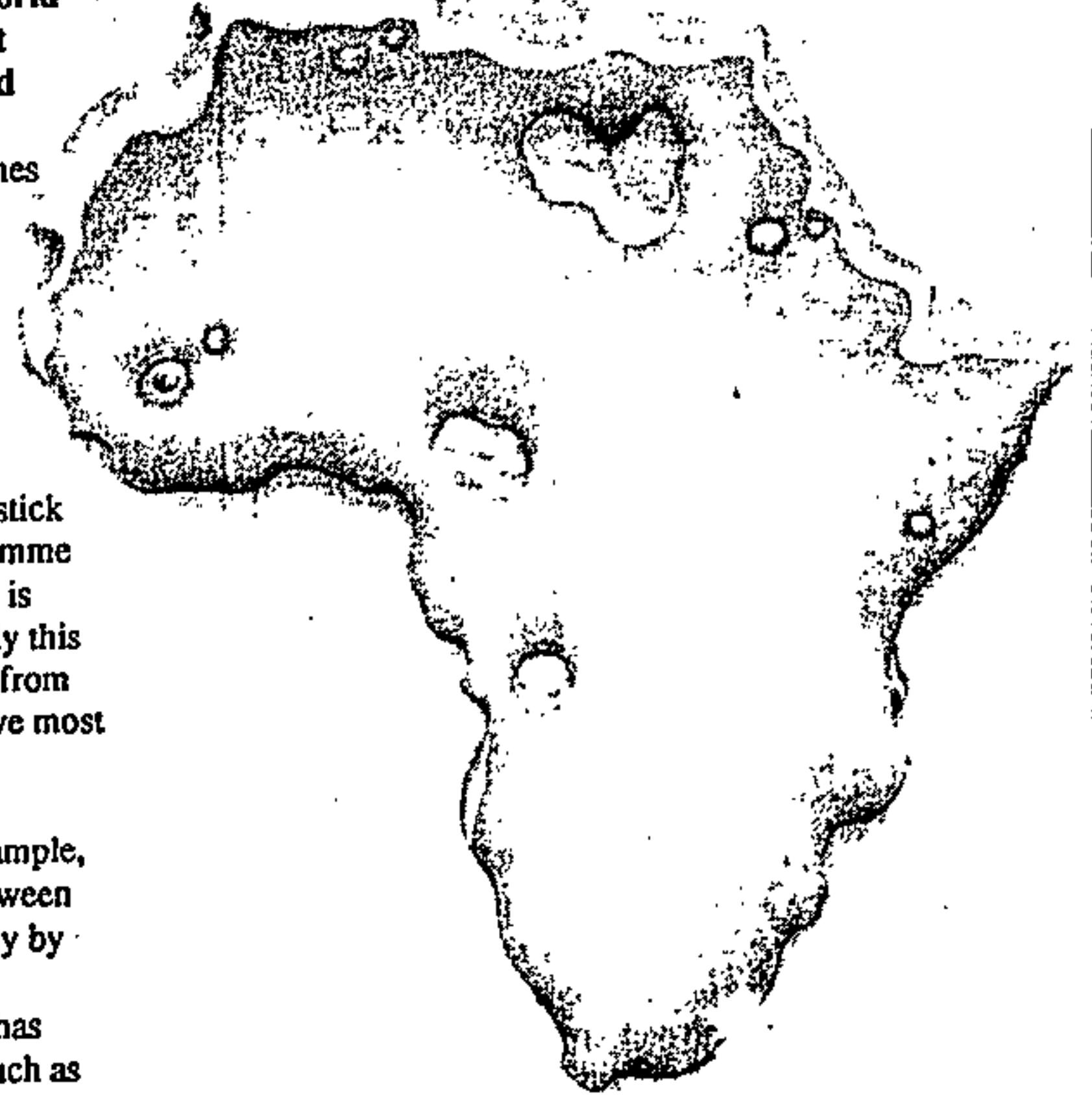
The approach of these institutions is the carrot-and-stick method. Countries are examined and given a programme which they must adhere to to qualify for loans. This is called the World Bank's "conditionality". Frequently this "conditionality" must be adhered to even for loans from private banks. The elements of their programme have most often been:

- trade and exchange restrictions must be reduced
- the country's currency must be devalued. For example, Zambia has had to devalue the kwacha by 84% between 1983 and 1987 and Nigeria has devalued its currency by 79% at IMF insistence.
- state expenditure must immediately be cut. This has mostly meant cutting subsidies on basic foodstuff such as bread. In both Algeria and Zambia this caused food riots.
- state investment programmes must be cut and greater foreign investment encouraged.

This programme has been given the name the Structural Adjustment Programme (SAP) by the IMF.

### The Choices for South Africa

The ANC and COSATU have





## In my view . . .

A daily commentary on current economic affairs by writers of the Star.

# Blessings from abroad

STAR 1/6/92.  
The prospect of South Africa receiving funds from the World Bank and the IMF is viewed positively by leaders of all political persuasions.

Correctly so, since SA needs capital for socially related infrastructural spending. And the money being channelled in this direction would thereby be freed to fill the depleted tank that drives the economic engine.

More importantly, an influx from global institutions would be tantamount to a signal to world bankers and investors that SA can be trusted to use foreign capital to improve the living standard of all.

However, several criteria must be met before the sought-after dollars reach their destination.

While the politics aren't yet right, at least they seem to be getting there. Equally crucial is the requirement that the World Bank and IMF be satisfied that a firm enough foundation exists for growth to proceed from where it languishes at present.

They will certainly query the inability of the monetary authorities to conquer inflation via the orthodox measures they've pursued for so long.

They'll want to know why the Government hasn't eliminated the monopoly pricing policies of major retailers. They'll ask why the outcome of an official inquiry

By John Spira



into the exorbitant margins being reaped by exploitationists in the food sector hasn't yet seen the light of day — weeks after its scheduled release date.

And after the money has landed, they'll want to know how it's being spent and whether or not the economy is being run in such a way that such expenditure reaps the optimum results.

For those many of us seeking an end to corruption and mismanagement, along with all the benefits accruing from an influx of foreign capital, we say roll out the welcome mat.



## World Bank mission to report on SA

AN eight-man World Bank economic mission is due in Johannesburg next week to finalise its economic report on SA.

The mission would update data it collected previously, said Finance Department spokesman Fred Brown.

It would also fill in any omissions.

Two other low-profile delegations would also visit SA this week: a poverty and a procurement mission. There would be two Bank representatives with each mission.

The poverty mission would assess the

PATRICK BULGER

availability of data.

If it could not gather enough information during the visit, it would return to conduct a full study later this year, he said.

The procurement mission would start the groundwork for future World Bank projects in SA. *Blouay 1/6/92*

It would investigate the tender procedures of private and public companies and the export and import of machinery.

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#### Public administration course

■THE World Bank's Economic Development Institute is to sponsor a major public administration course to be held at the University of the Western Cape from May 31 to June 12. Aimed at middle management and technical staff in non-governmental organisations, civics and government, the course will be co-ordinated by UWC's Job Mokgoro. The course director is Orlando Hohls, senior lecturer in Public Administration. For further information, Mokgoro and Hohls can be contacted at (021) 959 2911.

w/mad 5/6-11/6/92



## EDUCATION

By PORTIA MAURICE

AN education policy to cushion the poor may be needed if economic growth does not exceed the predicted two to three percent during the transition to a new schooling system.

This was the prognosis of University of Cape Town economics lecturer Pundy Pillay when addressing a World Bank seminar held in Johannesburg this week.

Free and compulsory primary education is likely to be a priority of a new government, but leaving parents to foot the bill for secondary schooling will prejudice the poor, Pillay warned.

The seminar, hosted by development agency Kagiso Trust, included World Bank representatives from Brazil, Malaysia, Mexico, the United States, Nigeria and Zimbabwe.

Though its theme — The Organisation, Management and Financing of Education: Towards Decentralisation and Unity — sounded highfalutin, it really boiled down to the size of the hole schooling is likely to leave in parents' pockets in future, how much the state will pay, and how much say different groups will have in the education system.

The second in a series of four exploratory discussions with the World Bank, the seminar was attended by educationists from groups as diverse as the South African Communist Party, the Development Bank of South Africa, the (government) departments of National Education and

# How to fill the growing hole in parents' pockets

01/06/92 5:16-11:16/92

Finance, the Workers' Organisation for Socialist Action, academics and trade unionists, who all came to learn from experiences in other countries.

"As South Africans, we open our doors to people who have expertise to share with us, but they will not impose anything on us," Kagiso spokesman Eric Molobi pointed out.

Pillay's proposal, for example, runs contrary to World Bank education policy, which tends to favour primary schooling and leave the rest to market forces. And in a recent article published in the journal *Work in Progress* and pointedly titled "The Piper Calls The Tune", Institute for African Alternatives director Ben Turok warned against allowing the World Bank to determine education priorities, as it has done in the rest of Africa.

Structural adjustment programmes on the continent have resulted in cuts in social services and increased privatisation of schooling, Turok said. "The World Bank is now insisting that parents contribute to school and university costs, result-

ing in rapid polarisation of society into those who can afford education and those who cannot. This undermines the vital principle adopted by all African governments at independence: that education should be based on merit alone."

In addition, Turok pointed out, the bank has proposed that parents be made more responsible for the costs of food, lodging and other expenses, and that students should take on tasks now performed by non-teaching staff such as maintenance and administrative support.

Turok based his views on 1988 and 1989 World Bank reports on education in sub-Saharan Africa. He described its aid policies as "immensely disturbing": of direct educational aid only 11 percent goes to operational costs like local salaries, consumable and instructional materials.

Brazilian Professor Guiomar Namó de Mello, the only female international speaker at the seminar, told the delegates her country was a "continent in itself", and a melting pot of educational problems and challenges.

After 30 years of military rule, Brazil had opted for a more participatory system in 1988 and education is now governed at federal, state and municipal levels. Although children now have greatly increased access to the country's 200 000-odd schools, there has been little improvement in quality and pupils get stuck in the "repetition trap", she said. On average, it takes 11 years to complete the first eight grades.

De Mello pointed out that there were huge inequities between spending on primary and higher education: whereas the equivalent of between \$28 and \$200 a year was spent on young children, about \$8 000 was spent on university students.

The director general of Malaysian education, Tan Sri Rahman Arshad, said his country, though much smaller, bore comparisons to South Africa. After independence in 1957, ethnicity and nation-building through education became priority areas.

"We had problems of many races, religions, cultures and languages," he said. "Our central objective was to build a nation from diversity."

Malaysia has a common content curriculum, but separate mediums of instruction, at primary level. At the end of six years, pupils have a year to switch to Malay, the national language.



# Sowetan hosts major indaba

By THAMI MAZWAI

A TOP official of the World Bank will be the guest speaker at a major conference on business and entrepreneurial development, organised by Sowetan.

Mr Alexander Keyserlingk, general manager of the Africa Project Development Facility and a senior official of the International Finance Corporation, will speak on "Entrepreneurial Development - Lessons from Africa".

The conference will be held at the Eskom College, Midrand, from September

● To page 2

**Win a  
BMW  
— Page 28**

# Major indaba



● From page 1

13 to 15.

It is sponsored by the Development Bank of Southern Africa and is part of Sowetan's Nation Building campaign.

Says Sowetan editor Mr Aggrey Klaaste: One of the pressing needs South Africa faces is the development of small businesses to medium-sized enterprises to combat unemployment and the vicious cycle of poverty in which the majority in the country live.

"The conference will thus focus on strategies to develop businesses operating in the informal sector and our townships into successful and growing organisations.

"They must be helped to employ more people and they can only do this if they are successful. We hope the ideas that flow from this conference will help our businesses grow."

The IFC, which is part of the World Bank, funds and promotes private-sector development projects in the developing world, including Eastern Europe.

Keyserlingk has supervised entrepreneurial development in the Middle East, Asia, South America, and northwest and central Africa.

The four areas to be discussed by the conference are:

- \* The role of Government in entrepreneurial development;
- \* Finance for developing businesses;
- \* Big business as a source of growth for small business; and
- \* The path into the future.

To ensure maximum attendance, particularly from small and black business people, the conference fee will be kept as low as possible.

Details will be published regularly in Sowetan.



STAR 1/7/6/92  
**Russia joins World Bank**

WASHINGTON — Russia yesterday became the first former Soviet republic to join the World Bank. The move opens the door for it to borrow billions of dollars to help remake its economy in the capitalist mould.

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# 'Gang of thieves' could make SA another 'desperate debtor'

SOUTH 2016-2416192

By Mark Swilling  
and Patrick Bond



**T**HE WORLD Bank is on its way to South Africa, and already finding the going rough. Reverend Frank Chikane of the South African Council of Churches recently warned about the "universal outcry and misery" in Third World countries which applied World Bank structural adjustment medicine.

"We cannot believe the salvation of our country lies in an unctious and undemocratic subjection of it to International Monetary Fund (IMF) and World Bank policies."

The following day white municipal government officials in the (now dormant) Central Witwatersrand Metropolitan Chamber were blasted by the Soweto Civic Association's Laurence Boya for dealing with the World Bank behind closed doors.

The same week the World Bank's chief economist was attacked by progressive people across the world, including South African environmentalists, because he supports "more migration of the dirty industries" to the Third World.

What these events indicate is the World Bank will come to South Africa with just as much political baggage as its sibling, the IMF.

The IMF designed Value Added Tax, and its recent report on the South African economy concluded redistribution should not precede growth, which pleased big business and the state enormously.



IMF officials are hated in the Third World. Julius Nyerere calls them "a gang of thieves".

Since the early eighties, the World Bank has prescribed "structural adjustment programmes" nearly identical to the IMF's, alongside tough conditions applied to loans for projects like dams, roads, housing and rural credit programmes.

The Bank was, however, expected to make a smoother entrance in South Africa for, unlike the IMF, it refrained from granting the apartheid regime loans during the previous twenty years. The IMF pumped in over a billion dollars between the

Soweto uprising and 1983, when it was finally prohibited from lending any more money to South Africa.

The Bank kept clear of South Africa during this period and, after February 2, 1990, embarked on a clever strategy to get back into the country. Bank officials met secretly with Nelson Mandela when he visited Washington in June 1990.

The Bank even went to the trouble of allowing a former member of the South African Communist Party, Geoff Lamb, to guide a 1990 mission aimed at breaking the ice with the democratic movement.

Lamb, a left-wing scholar at the

Sussex Institute of Development Studies in the seventies, is an expert on making structural adjustment programmes appear "home grown".

With personnel like Lamb, the Bank is showing great sophistication, and most progressive South Africans who have met with Bank missions have been impressed with how willing Bank staff appear to work with what might be viewed as an ANC-government-in-waiting.

What of the medium term? John Chettle, a US advisor to some of South Africa's biggest companies, writes: "It is not far-fetched to conclude that, within a decade, South

Africa could well exceed Nigeria as the largest recipient in Africa of World Bank funds, currently more than R1,7 billion in that country." He continues: "The current thinking would involve an annual infusion of funds into South Africa amounting to more than one percent of the gross national product. It is intended to be a massive kick-start to the South African economy, and World Bank officials are talking about making as big an impact as possible immediately."

If Chettle is right, South Africa can expect to see R25 billion a year in loans from the World Bank. South Africa's foreign debt, currently R55 billion, would grow the first year by nearly 50 percent. That debt would be extremely expensive to repay, since the value of the rand is declining against the dollar.

The fear of South Africa becoming another desperate Third World debtor remains strong.

Chettle concludes: "South Africa is almost tailor-made for such a collaboration with the World Bank."

Yet this is not necessarily true, for in South Africa, unlike most Third World countries, there is a democratic mass movement aiming at increased worker and community control of development.

The Bank is adapting to this challenge, but it will not be long before the contradictions in its policies become apparent. Progressive people are already beginning to assess where those contradictions will appear, and how and when to respond.

— **Work In Progress, June.**



its 10 factories. ~~about 50 brick factories had been closed over the past five years due to~~

ment emphasis in this sector from brick and mortar homes to serviced sites using other materials. Vujovic said that on a regional ba-

the national housing shortage existed, homeland government agencies were showing much interest in purchasing bricks, Vujovic said.

## Bank examines incentives <sup>356</sup>

THE World Bank has produced a report which cites unrestricted entry for private investors as an important tool for attracting outside capital, the latest edition of African Business reports. ~~1992~~ <sup>Biday 22/6/92</sup>

The Foreign Investment Advisory Service, a subsidiary of the bank, says countries should reduce the number of areas in which investment was subject to screening.

In a recent economic study the ANC said it intended to introduce measures which ensured foreign private investment fitted in with the national development strategy.

Report co-author Guy Pfeffermann said countries should have a short negative list rather than a longer positive list.

GAVIN DU VENAGE

The negatives could relate to highly sensitive industries such as defence. The list should avoid vague and open-ended criteria like activities of strategic importance or small businesses. ~~1992~~

All industries not on the list should be open for investment without being subject to approval.

Pfeffermann suggested countries defined clearly what investment incentives were available and granted these automatically, as incentives lost their attractiveness if investors had to bargain for them.

Haggling for incentives wasted time, eroded confidence and led to corruption, he said.

## Black accountants

GAVIN DU VENAGE ~~1992~~

COMPANIES remained reluctant to employ black accountants, Black Accountants of Southern Africa (Basa) president Juneas Lekgetha said last week. ~~1992~~ <sup>Biday 22/6/92</sup>

He called on the private sector and professional bodies to facilitate the training of more black accountants, 52 of whom had qualified this year.

Reluctance to take on blacks had resulted in many candidates not writing their final exams as they had not had the opportunity to complete their articles. Of the 52 who passed the Public Accountants Auditors' Board exams, 12 were African and the rest Indian and coloured, bringing the total number of African accountants to 54 from 42 last year.



Blpny 25/6/92

# **World Bank cuts aid**

THE World Bank confirmed yesterday it had cut off its credit to Mozambique's state-owned electricity company, Mozambican news agency AIM reported. The Bank's Maputo representative, Nils Tcheyen, said it suspended funds because it did not approve of the way the project's accounts were handled. (356)



## Credit line is cut 356

THE World Bank confirmed this week it had cut off its credit to Mozambique's state-owned electricity company, Mozambique's news agency reported.

The World Bank's Maputo representative, Nils Tcheyen, said they suspended funds because they didn't approve of the way the accounts for the project were handled. *Sowetan 26/6/92.*

The accounts, currently managed by the Bank of Mozambique, should be placed in the hands of the electricity company, Tcheyen said.

"This decentralisation of financial management would substantially speed up the pace of implementing the projects that we fund," Tcheyen said.

The World Bank-sponsored energy project concerned was approved in 1987 and involves R56 million, R19.5 million dollars of which has already been disbursed.

Mozambique's 15-year civil war has destroyed its economy, leaving 50 percent of the country's population dependent on international aid for survival. - *Sapa-AP.*



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# 'Long wait' for World Bank aid

356  
B/day 1/7/92

SHARON WOOD

SA WILL not receive World Bank funding for a long time, says Development Bank of Southern Africa CE Andre le Grange.

Speaking at the release of the bank's annual report yesterday, Le Grange said SA was closer to receiving African Development Bank investment, and World Bank funding could be expected only two to three years down the line.

"SA will still qualify for World Bank technical assistance and the bank's seal of approval will create access to other international private sector funding ... but we are not looking for large amounts of World Bank funding."

SA had to get its act together and get the maximum amount of grant funding, concessional funding and export credits. Commercial borrowings should move down to the bottom of the list.

The Development Bank's first loan of DM200m on German capital markets earlier this year had been well supported. "It was supported at levels even I find surprising," he said.

At the end of last year the bank had lodged two applications for loans

with the Japanese ExIm Bank and the Taiwanese Development Foundation. The ExIm Bank had come on a formal mission to SA to evaluate the proposal and initial indications were very positive, Le Grange said. The amount requested was between \$300m and \$400m.

"The Republic of Taiwan is in SA at the moment to do a loan evaluation," he added. It and the Development Bank would meet today.

Le Grange expected the Taiwanese response to the bank's application to be positive, but warned it was perhaps a bad time to talk, because the result was wholly dependent on the political process, which was in the doldrums at the moment.

In the bank's report, he said: "It may be argued that the current volatile political and social environment is not conducive to development actions. ..." But he warned there was a distinct danger in taking that approach because it could lead to stagnation, loss of development momentum and the increasing erosion of development assets.



# World Bank to study SA poor

STimes (Buss)

19/7/92

(356)

By KEVIN DAVIE

THE World Bank is to undertake the most extensive study on poverty in SA to date.

The project, which will involve many of SA's major universities and research institutions, could take as long as two years.

European governments have expressed willingness to fund the project. It is still in the design phase, but could begin by the end of the year.

The World Bank intends the study to provide an accurate profile of poverty. It wants to assess the efficacy of poverty-alleviating policies.

The study will update and extend the Carnegie report on poverty by Francis Wilson and Mamphela Ramphele in the 1980s.

Whereas that report relied largely on qualitative data, the World Bank study will provide a quantitative poverty baseline for SA.

## Infancy

One researcher says: "There have been huge population movements since the Carnegie report, so we need up-to-date information."

One source suggests that as many as 10 000 households may be surveyed. But informed sources stress the project is in its infancy and no hard design decisions have been made.

The study will be conducted on non-racial lines and cover both urban and rural poor.

A World Bank poverty mission will visit SA in late August when the detail of the proposed project is expected to be discussed.

ANC economics head Trevor Manuel says that on visits by the ANC and Cosatu to

the World Bank in April concern was expressed that it was not giving the study of poverty sufficiently high priority in its explorative work on SA.

Mr Manuel says the bank identified poverty alleviation as an area of study, but the ANC asked that it be given key priority along with one of the macro-economy.

Mr Manuel says a poverty mission which visited SA a few weeks ago indicated the bank was willing to undertake "a massive household survey to establish levels of poverty in SA".

"There is tentative agreement for funding from one of the European governments."

Mr Manuel says the bank has agreed to involve SA researchers, including ANC members, in its research work. The ANC is also to send interns to the bank "to try to enhance capacity in SA".

Finance deputy Director-General Estian Calitz says the Government welcomes the World Bank's involvement. The bank is gathering background material for future involvement.

Everything the bank does is designed to reduce poverty, one source says.

"To do this the bank does poverty profiles to understand who is poor and what factors make these people poor."

Many developed countries have banks of statistics about the poor, but this data is inadequate in SA. Unemployment is, for example, not known.

The source says the bank will not fund this project because it "has had no lending programme with SA since 1966".

The poverty study is further evidence of the quickly developing relationship between the bank and SA. The bank, the world's primary development institution, has had almost no relationship with SA since the 1960s.

It is keen to raise its profile in SA, but says financial support depends on an interim authority being installed.

## Bombed

Mr Manuel says the ANC "recognises the wealth of experience in the bank. Its comparative analysis is important. We also realise the bank may have reasonably low-cost strategies which can have a rapid impact in helping to achieve an upturn."

He says there are vast differences in the ANC about its future relationship with the bank. Bank-backed structural adjustment programmes have "bombed out badly in Africa".

The ANC is prepared to take part "on equal terms" with Reserve Bank Governor Chris Stals who is drafting a structural adjustment programme.

"There is no question that we need to restructure the economy," says Mr Manuel.

Economic policy needs the integrity of domestic formulation, but he agrees that SA "will have to interface with the bank and the IMF".



# Australian official moots aid programme for SA

CANBERRA — World governments, the IMF and World Bank should do something positive to help SA when financial sanctions were finally lifted, a top Australian official said at the weekend.

Treasury Secretary Tony Cole, who chaired a committee in 1988 which devised the basis for the British Commonwealth's financial sanctions package, said it was difficult to see SA's political transition going "entirely smoothly".

"The need for capital will be immense," he said. "Official flows will be needed for comfort programmes like education, and these should point the way for unofficial finance to be used for development."

Australia still imposes trade and financial

81 DAY 2717192  
TREVOR BISSEKER  
sanctions, in line with the Commonwealth's official standpoint taken at the organisation's Harare summit.

Trade and investment will be permitted when there is agreement in SA on transitional arrangements, and financial barriers will go when a democratic constitution is drawn up.

"At this stage, the Australian government says 'OK' to notebooks, but not to cheque books," a department of trade official said.

Asked about the role Australia could play when financial sanctions were removed, Cole said his country could work through the boards of the IMF and World Bank. It could lobby "to

get them to do something for SA".  
It could also establish a "facility capacity" at its embassy for potential traders.

Cole expected Australian companies to be anxious to establish a presence in SA. Mining companies would be looking for business and wine companies might also be interested.

It would be natural for Australia and SA to renew their old ties. "We would not have felt so strongly about events in SA if it had not been for the kinship," said Cole.

The trade department in Canberra receives about 10 calls a day about possible trade with SA. However, the Australia-Southern African Business Council expected 100 people at a recent meeting here, but only 30 turned up.



year and 30,4% in 1990. —  
Sapa-AFP.

## Bank lends Africa \$4bn

WASHINGTON — World Bank loans to developing countries totalled \$21,7bn (\$22,7bn) for fiscal 1992 ending June 30, the Bank said this week. 31044 29/7/92

The Bank's International Bank for Reconstruction and Development extended \$15,2bn in loans for 112 projects and its International Development Association \$6,5bn for 110 projects.

Loans to Africa increased to nearly \$4bn, some \$600m up on last year. Most of the loans went to drought relief in Malawi, Mozambique, Zambia and Zimbabwe. — Sapa-AFP.



# US plan to revitalise SA

■ **GREAT IDEA** US support for the new

South Africa includes endorsing World

Bank involvement and black housing:

~~Sowetan~~ 356

**Sowetan Foreign News Service**

WASHINGTON - The White House has disclosed details of a bold international plan to support an interim government in South Africa.

The plan includes housing guarantees, loan guarantees for black-owned businesses, high-level trade and investment missions to the country.

It also envisages US backing for greater World Bank and International Monetary Fund involvement.

The plan was outlined in a letter from President George Bush's national security adviser, Admiral Brent Scowcroft, to Congressman Howard Wolpe of Michigan, who has been one of the strongest critics of the administration's policy on South Africa.

~~Sowetan~~ 3111192

"We are convinced that establishment of a nonracial interim government in South Africa will occur. When it does, it will be a watershed event and we must be prepared to move rapidly to support further positive evolution. This will call for new steps by the US and our allies," the letter says.

● Consideration of "a housing guarantee project which builds on our current R150 million five-year Agency for International Development housing programme";

● Discussion of "a loan guarantee programme with selected private financial institutions to support the credit needs of black-owned business";

● Support for the granting of IMF facilities to the new government, and an effort inside the US to persuade state and local governments to lift their sanctions against South Africa.



Business Report

# World Bank on the receiving end

CT 4/8/92 (356)

WASHINGTON. — The World Bank, biggest source of loans to countries needing aid, has been getting more money back from borrowers than it's been lending for the past five years.

The bank has reported a net inflow of \$5.5bn for the year that ended June 30.

Since 1987 the bank has been receiving more in repayments and interest than it has been disbursing in new loans. In 1991 the figure was about the same — \$5.5bn. In 1990 it was lower: \$858m. The situation is expected to continue, though the bank will not say publicly for how long.

One official who showed a reporter some figures on a page kept his thumb over the projections for the next few years.

The bank, which operates like commercial banks, made a profit for the year of \$1.645bn, up from \$1.2bn the year before. It will give \$675m of the profits to the International Development Association (IDA), its fund for loans on easy terms to the poorest countries.

Another \$250m will be used to lower interest rates for borrowers that pay up promptly.

Critics say the bank should put out more money to needy areas than it takes in.

The UN's "Human Development Report" earlier this year said the major industrial countries had a surplus in their international transactions of more than \$150bn for 1990-1.

"The private financial markets

recycled most of this to richer industrial countries," the report said. It said some \$100bn was borrowed by the United States to finance its budget deficit and the World Bank, instead of soaking up some of these rich-country trade profits and re-lending to developing nations, actually withdrew \$500m from the developing countries.

Bank officials discounted the importance of the net inflow to the bank.

"We don't regard this in and of itself as a particularly useful number in terms of the contribution to development finance which we make," said Johannes F Linn, a German who is vice president for financial policy.

## Repayments

"Among other things, this includes repayments by borrowers who hardly borrow from us any more for a variety of reasons. Australia for example repays us still on a debt outstanding."

There are other such borrowers, particularly our mature borrowers such as (South) Korea.

Officials also pointed out that governments in many poorer countries think they have too much debt already. And in the Third World new investment projects are hard to find that meet the bank's exacting standards.

Jessica Einhorn, treasurer of the bank, said it disbursed \$11.431bn in loans for the year that ended in June 1991. In the following year disbursements rose to \$11.666bn.

These figures apply only to the International Bank for Reconstruction and Development (IBRD), the official name for the main part of the World Bank group. It makes loans at interest rates close to those charged by commercial banks, though it allows longer periods for repayment. It gets its money from bonds it sells on world markets, and from interest on the loans it makes to Third World countries.

IDA is a separate "soft loan window". It is operated by the World Bank but gets almost all its funds directly from contributing nations, the largest sums from the United States. It committed a record \$6.550bn in new loans for the year that ended on June 30.

These loans go to countries where the average citizen's income is no more than \$740 a year — about \$2 a day.

They call for interest at less than 1% a year and repayment over 40 years.

Linn said he expected lending to eastern Europe and the Soviet Union to build up quickly and noted that the bank has plenty of "headroom" to make additional loans when good projects can be found. It has as much as \$68bn available, he figured.

So there was no question of one area such as eastern Europe crowding out another area as some African and Latin American leaders fear, he added.

The World Bank is owned by 163 countries, with the United States holding the largest block of shares. — Sapa-AP



## NEWS ANALYSIS *Number of poor set to soar in Africa*

# 1,1 billion live in abject poverty

*Sowetan 5/8/92* (356) *Education for youngsters is the first*

*casualty as many families struggle to make ends meet:*

**W**ASHINGTON - More than 1,1 billion people live in abject poverty - on less than R2,75 a day

- and the number is growing.

However, the World Bank's latest World Development Report 1990 indicates that there have been significant long-term improvements in reducing the mortality rate of children under five, and life expectancy - an important indicator of health and well-being - has risen to an average of 62 years.

Despite this impressive progress, more than 1,1 billion people lived in poverty in the developed world as of 1990. There was no significant progress in reducing poverty during the second half of the 1980s, with the numbers of poor people increasing at roughly the rate of population growth.

### Poverty varies

The percentage of people living in poverty varies by region. In South and East Asia, the percentage has continued to decline steadily.

The percentage has increased in sub-Saharan Africa, the Middle East, North Africa and Latin America.

The majority of the poor are concentrated in two regions - South Asia, with 500 million to 600 million poor people, and sub-Saharan Africa, with 200 million to 250 million poor. They earn less than R1 110 a year.

How much a person earns and spends to sustain a bare minimum standard of living are important measures of well-being. But other indicators, such as a person's health, life expectancy, nutritional status and literacy also help to measure the human condition.

### Health care

The poor lack adequate nutrition, clean water and access to social services such as basic health care or primary school education, and they have extremely low incomes and few assets.

Poverty is most severe in rural areas where arable land may be scarce and harvests poor and where drought, floods and environmental degradation are common. The World Bank's World Development Report 1992 points out that about half the world's poor live in rural areas that are environmentally fragile.

### Overcrowded slums

Poor people living in towns and cities generally have higher incomes and better access to social services than rural families. However, they often suffer more from other aspects of poverty, and they often live in overcrowded slums and squatter settlements.

As in rural areas, water and air pollution often are serious problems in urban areas. Sanitation is inadequate, and shanty towns are vulnerable to flooding and landslides. The ranks of the urban poor are expected to swell rapidly as cities throughout the developing world expand.

In the developing world, the burden



The young from poor backgrounds are susceptible to disease and malnutrition.

## Africa needs a strategy to address poverty both as an economic and social phenomenon

of poverty disproportionately falls on women and children. When measured by health, nutrition, education and labour force participation, poverty among women often is severe.

Women in many societies are expected to manage the household, rear children and be the main food producers or have other employment. They typically work longer hours, and if they are paid at all, they receive lower wages.

The problem of child poverty is particularly acute. The very young are highly susceptible to disease, malnutrition and illness. Child labour is common in developing countries, and many households depend on it for their subsistence. But the work children perform often is at the expense of schooling.

For many poor people, the costs of sending children to school outweigh the future benefits - especially for girls, whose economic value often is reckoned to be lower than that of boys. Poor households are more likely to invest in education for boys than for girls.

What are the prospects for reducing poverty? It will depend on economic growth and the effectiveness of each country's economic strategy. The World Development Report 1992 concludes that even under fairly

hopeful assumptions about economic recovery, there will be more than 50 million more poor people in the year 2000 than in 1985. But if economic growth is low and recent trends in poverty continue, there could be 200 million more - a total of about 1,3 billion - poor people by then.

The outlook for the rest of the 1990s is that the number of poor people in Asia would decline, and the adverse poverty trends in Latin America and Eastern Europe would be reversed. Sub-Saharan Africa is the only region in which the situation is expected to deteriorate.

With an increase in the proportion of Sub-Saharan Africa's population in poverty, the number of poor in the region would rise by about nine million a year on average. By the end of the decade, about one-half of the world's poor would live in Asia and one-quarter would live in sub-Saharan Africa.

### Social services

The main objective of the Bank's lending and advisory work is to help its borrowers reduce poverty. The World Development Report 1990 outlined a two-part approach for reducing poverty by promoting sustained economic growth to generate income-earning opportunities for the poor and improving poor people's access to social services such as education and primary health care so they can take advantage of opportunities.

An additional, but essential, part of the strategy is the establishment of a system of targeted transfers and safety nets to assist people who are not able to take advantage of new economic opportunities.



# World Bank failures add to Third World misery

B/DAY 13/8/92.

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Own Correspondent

LONDON — More than a third of all World Bank aid projects fail, adding to the foreign debt of the poor countries they are meant to help, the results of an internal World Bank report have shown.

The report's author, W A Wapenhams of the World Bank's portfolio-management task force in Washington, admits that "something is not quite right" with the bank's project supervision.

The report, which shows the highest recorded rate of failure in the bank's history, has been leaked to the Ecologist magazine published in Britain.

It comes at a particularly embarrassing time for the bank which has just been entrusted by 180 countries at the Rio Earth Summit with running the new global "green" fund, the global environment facility.

It shows that the proportion of pro-

jects reported by the bank's operations evaluation department as "unsuccessful" rose from 13.1% for the period 1979-1981 to 35% for the period 1989-1991.

Unsuccessful, in bank terminology, means both failing to yield a 10% rate of return on capital and failing to meet their targets; for example, a hydroelectric dam which fails to live up to the power output its designers claim for it.

The most intractable "problem" projects also rose from 10% to 17% of the bank's portfolio in the same comparable periods.

Wapenhams warns of indications that "technical output or proficiency has declined markedly in supervision" and that the bank has "optimistic" expectations of rates of return from projects.

The report shows that the failure rate has been speeded up by the package of free market reforms, known as "structural adjustment" imposed on Third World countries which is supposed to create an environment for projects to thrive.

Since borrowing countries have to repay capital and interest to the bank on all its loans, failed projects create financial liabilities for the lender which are larger than the benefits generated and leave poor countries poorer than before.

Ecologist editor Nicholas Hildyard said: "We have long known that World Bank projects bring environmental catastrophe and human suffering on a grand scale.

"Now that we know the projects are economic failures as well, Britain should lose no time in cutting off the £158m a year that it gives to the bank." — Daily Telegraph.



**S**OUTH Africans are frequently told that they are overcoming their isolation and re-joining the world community. Well and good. But what kind of world are they re-entering? And what can they expect when they finally do so?

In the 1970s, the then German Chancellor Willy Brandt launched an important report which argued that we lived in an interdependent world and that north and south were closely linked. But the nature of this connection was not fully spelt out and remained a matter of controversy. Now that the East-West conflict has ebbed away, the focus is on North-South relations, and the picture that emerges is not a happy one.

The most salient feature is that the G7 group of industrial countries in the north now have a totally dominant position in the world economic order at the cost of southern subordination. Despite protestations about the flow of "aid" and talk about "poverty alleviation", the bare fact is that Third World debtors are paying their northern creditors an average of R80 million more than they receive in lending each year.

The reason for this is the preponderant self-interest of the North at the cost of the South. In the 1970s, commercial banks, the International Monetary Fund and the World Bank induced southern governments to borrow freely, leading to a rapid build-up of debt. Soon the massive scale of this misfortune became evident as interest was added to capital, bringing severe repayment problems.

The scale of the debt came to pose a near-fatal threat to the survival of US banks and the international banking system. The IMF and World Bank stepped in and took control of the whole debt crisis, to the

point where they are now in charge of over half the Third World's official debt.

But why should this debt "overhang" have been allowed to occur? Many economists argue this was because Third World governments were induced to borrow to increase their spending on foreign imports — in other words to open up their economies to foreign investment which had previously been closed to them. IMF and World Bank advice was central to this, and these institutions continue to advocate debt-building policies.

The heart of the present problem is that inward flows are being diverted to servicing obligations to the point where the situation gets totally out of hand. In the years 1982-90 total

*Now that the East-West conflict has ebbed away, the focus is on North-South relations, and the picture that emerges is not a happy one.*

payments of interest and capital by the South were a staggering R3 725 billion. During the same period there was a flow of finance from North to South to the tune of R2 567 billion, leaving a net reverse flow to the North of R1 158 billion.

Because of the debt build-up from accumulated arrears, the debtor countries as a whole were 61 percent worse off in

**THIRD World countries have become trapped in an impossible cycle of increased borrowing and rising debt by northern creditors, in "aid" deals brokered by the IMF and the World Bank. This should ring alarm bells for South Africa as it prepares to leap into world money markets with the eager encouragement of these two organisations, writes BEN TUROK.**

1990 than in 1982. Sub-Saharan debt increased by 113 percent during this period, and Africa paid back R500 billion between 1983-90, the worst period economically in recent history. It is now repaying, in debt-servicing alone, far more than what it originally owed.

Most damning is the record of the IMF. There has been a net transfer from Africa to the IMF of R12.7 billion between 1983-90, the very time that many African countries were under "structural adjustment programmes", imposed by the IMF, which were supposed to lead to recovery. Percy Mistry, a former top manager at the World Bank, says: "While the IMF is exerting considerable influence over Africa's economic policies, it has been extracting resources at an unconscionable rate. Africa actually pays heavily for the privilege."

Curiously enough, the new funds flowing to the South from multilateral institutions like the IMF have actually been applied to the debt-servicing of private creditors, mainly commercial banks. So the IMF now has the role of debt-collecting agency for private capital, since the banks continue to receive interest payments while official creditors allow debtors to postpone repayments.

This should ring alarm bells for South Africa's entry into world money markets, and in

particular into relations with the IMF and the World Bank. These organisations have already sent many teams into South Africa and they have been in contact with many officials, non-government organisations and movements.

These contacts are private and no IMF officials will speak to the press. Reports have been drawn up, which are not generally available, in which advice on "post-apartheid" economic policies is freely given. Most worrying is the clear anxiousness of both these bodies to prescribe a structural adjustment programme for South Africa which must inevitably resemble that imposed on other Third World countries, and now, eastern Europe.

Borrowing from the North might have been useful to the South if international conditions had been more favourable. The problem arose because, as repayments fell due, so the capacity to repay declined, partly due to increased interest rates, partly because of falling revenues from exports.

**A**FRICA experienced a 30-percent fall in the terms of trade in the last decade due to falling commodity prices in the North. In 1986 alone, Africa lost R95 billion from falling export prices, which was more than the aid it received.

No wonder that the collective gross national product for Africa fell from R1 000 billion in 1980 to R700 billion in 1990. Per capita incomes have fallen by 2.2 percent annually over the decade, making a total decline of 30 percent. There are now 335 million people living in absolute poverty in countries where health and education expenditures have been slashed.

Since South Africa remains an exporter of mainly primary commodities, the dangers of getting into debt at a time of instability on world commodity markets are obvious. Ought it not to learn the lessons from other Third World countries? Or does South Africa think it is already part of the First

*While the IMF is exerting considerable influence over Africa's economic policies, it has been extracting resources at an unconscionable rate.*

World?

The dangers are particularly severe because of the world recession. The recent G7 summit drew attention to the global economic situation, and especially to the unemployment crisis in the North. Their communique argued that growth in the North would help other countries too.

To this end they favour the signing of an agreement which "must create more open mar-

kets for goods and services". Since protectionism remains rampant in the North, they are presumably talking about opening up the South, so one sees that the old policies remain in place.

The North will lend to the South to provide finance for imports from the North, thereby creating jobs in Europe and the US. These loans, not gifts, will once again incur debt-servicing and so the problems are compounded.

**T**HE G7 also argued for increased competition globally, a formula that guarantees that the strong North will easily outclass the underdeveloped south. Without undue cynicism, one is bound to conclude that the G7 are now managing the world economic order to serve their own interests without hindrance.

The former East Bloc was once an obstacle to G7 domination, and the Non-Aligned Movement was also a forum for Third World resistance. These have gone and we are left with the cries of anguish coming from the Third World poor and some subdued complaints from their governments.

This is the global system awaiting South Africa. Why are some of its leaders in and outside government so careless about the terms on which it gets involved?

● The author is director of the Institute for African Alternatives (IFAA). He recently attended the alternative economic summit in Munich which was sharply critical of the G7. His paper on debt and development is available at R10 from IFAA, 4th Floor, 41 De Korte Street, Braamfontein 2001. (Phone 330-6752.)



## World Bank and IMF help rouble

THE Russian government breathed an audible sigh of relief at the weekend, following the announcement that the International Monetary Fund and the World Bank had approved loans worth \$1.6 billion to shore up the ailing Russian economy. 14/8 - 20/8/92

"Potentially they are a great contribution to the rouble's stabilisation," said the acting prime minister, Yegor Gaidar. The IMF loan of \$1 billion is to be used primarily to build up foreign currency reserves, he said, in a television interview, while the World Bank funds will be spent on essential imports.

"This money will make it possible for us to speak more calmly with our creditors. Now at last we are emerging from a situation when our great country had to live without currency reserves."

Russia has been in danger of defaulting on the interest on its foreign debt of about \$74 billion, as well as seeking repeated moratoriums on capital repayments.

Until last month's appointment of the former Soviet state bank president,

By John Rettle  
in Moscow

Viktor Gerashchenko, as head of Russia's central bank, precious foreign currency had been lavished on trying to shore up the rouble's collapsing exchange rate. But in a shift of policy, Mr Gerashchenko has allowed the rouble to decline faster against the dollar, saying foreign currency would be better spent on paying the country's debts.

Mr Gaidar told his television interviewer that the IMF and World Bank loans would not be wasted. "I won't allow this while I'm in office," he declared. However, next month President Yeltsin is expected to appoint a permanent prime minister — a post he still formally holds — and it is far from certain that Mr Gaidar, the chief architect of the "shock therapy" of the past seven months, will get the job.

But while still holding office, Mr Gaidar took the opportunity to warn that foreign loans would not solve Russia's deep economic crisis. "We have to understand that any form of credit is only a prop for our domestic policy," he said. "If our internal policy is irresponsible, these props won't help us."

This comment may well have been directed at those among his conservative opponents who have been pressing for more state aid to state firms, and particularly to the military-industrial complex.

At the end of last month Mr Gerashchenko sent a telegram to provincial banks ordering them to cancel debts between state firms and provide them with additional credits.



# World funder for SA

5 Times (Rus) 16/8/92  
THE International Finance Corporation (IFC), a World Bank affiliate which specialises in private-sector financing in developing countries, is poised to open a six-man office in Johannesburg.

IFC's Richard Parry says it will be prepared to co-finance projects from \$500 000 small businesses to those which top \$1-billion. The IFC office will open "a few months after a consensus government is installed in SA".

"We have a substantial role to play in SA, especially in the black community where clients have unmet financing needs."

Mr Parry declines to say how much the IFC will invest in SA, but expenditure will be driven by demand. IFC disbursements total \$6-billion and have grown by 26% annually for the past four years. Last year it provided finance of \$1.8-billion for 140 projects.

"We would like to be active in SA from early on, particularly in small and medium businesses," says Mr Parry.

By KEVIN DAVIE

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The IFC is yet to determine the interest rate for SA customers, but has approached the Reserve Bank for permission to make loans in rands to protect borrowers from currency devaluation.

Mr Parry expresses interest in the six-project, R29-billion programme which the Industrial Development Corporation (IDC) is involved in to export beneficiated raw materials. IFC looks for projects which will provide jobs, add value to domestic resources and earn foreign currency.

Mr Parry says the IFC is already providing finance for SA companies, including an Anglo American project in Brazil.

"We are also looking at projects in Eastern Europe involving SA companies," he says.



7  
diverted to E. Europe ● 'No reason to wait for ceasefire'

# World Bank bolsters Africa

*Sowetan* 17/8/92  
HARARE - World Bank president Mr Lewis Preston has assured African countries that no finances of the bank will be diverted from Africa to other parts of the world, notably Eastern Europe, *Ziana* news agency reports.

In an interview with *Finance and Development*, a quarterly publication of the International Monetary Fund and the World Bank, Preston said Africa received more attention in the bank's objective to alleviate poverty.

"There is no reason to expect that we will not be able to continue our existing programmes in Africa. No bank finances will be diverted from Africa to other parts of the world," said Preston.

■ Money will continue to flow to troubled, drought stricken continent: (356) (8)

Economic and political analysts have expressed fear that the enormous attention and pull of resources towards the former Soviet Union might lead to the neglect of Africa.

The bank chief said his recent visit to Africa, including Zimbabwe, had shown him that structural adjustment programmes being pursued by different countries had been severely affected by the drought.

It was therefore important for donors and people to understand the importance of persevering on the adjustment path. - *Sapa*



## Zaire's new leader pledges rule of justice

KINSHASHA — Zaire's new prime minister, opposition stalwart Etienne Tshisekedi, promised huge crowds of cheering supporters on Saturday to bring democracy and justice to the crippled country.

"We are going to install the rule of law where justice exists," he told a jubilant crowd of about 12 000 people massed outside his Kinshasha party headquarters. **BIDAY 17/8/92**

In a defiant challenge to President Mobutu Sese Seko, delegates at Zaire's national conference named Tshisekedi to lead the country to multiparty elections within two years.

"The country has seen a lot of speeches. Now we have been given the chance to take action. This action is what will count," Tshisekedi, Mobutu's most redoubtable adversary, said after his election as interim premier on Saturday.

Tshisekedi told supporters he would name his government next week after talks with political parties and interest groups. — Sapa-Reuter.

## NEWS IN BRIEF

### Greek nets control of Pravda

MOSCOW — Millionaire Greek publisher Yannis Yannikos had bought a controlling share of former Communist Party newspaper Pravda, Itar-Tass news agency reported last week.

Yannikos is bailing out the ailing newspaper through his firm Steel Light. His family runs the Greek publishing house Akadimos, which specialises in books from the Soviet Union and Cuba.

### Cameras for New York ATMs

NEW YORK — The city's bankers have been given 18 months to install surveillance cameras and other security devices on their 1 038 automated teller machines, under a city ordinance signed last week.

The measure, which bankers say will cost them up to \$1.29m a year in maintenance, follows 743 ATM robberies over a two-year period.

### Boost for battered rouble

MOSCOW — The battered rouble was given a vote of confidence at the weekend as Ukraine's top banker said he favoured using the currency and the president of Kazakhstan pledged full support for it.

Kazakhstan President Nursultan Nazarbayev said the rouble should be placed above national interest and he would propose moves to revitalise it.

### World Bank reassures Africa

HARARE — World Bank president Lewis Preston has assured African countries that no finances of the bank will be diverted from Africa to other parts of the world, notably Eastern Europe. **BIDAY 17/8/92**

"There is no reason to expect that we will not be able to continue our existing programmes in Africa," he said at the weekend.

REPORTS: Sapa-Reuter.

(356) (0)



# World Bank may back Eskom's power plans

ESKOM has given the proposed multiparty electricity forum its full support and has disclosed that the World Bank responded positively in talks on funding SA's electrification drive.

Marketing and electrification executive director Allen Morgan said yesterday the utility believed it was vital to involve all interested parties in the planning and execution of electrification.

It is expected that the go-ahead for the forum will be given at a conference next month convened by the Development Bank of Southern Africa and attended by 160 representatives of political parties, community groups, local authorities and other interested groups.

Morgan said the electrification forum would look at all obstacles to the cost-effective and efficient delivery of electricity. This could involve a restructuring of organisations involved in supplies. Apart from Eskom, some 450 local authorities are also involved in bringing electrical power to consumers.

"People want access to energy and their needs are urgent. Given the need for development, the supply of electricity has to happen parallel to the political process. We

can't wait until a new government is in place. One needs to emphasise the importance of participation in this type of planning. Eskom can't come up with a grand plan and force it on the others."

Morgan said an important advantage of having co-ordinated control over electrification was the possibility of attracting outside development aid.

The World Bank, he said, had indicated to Eskom that it would consider becoming involved in electrification within SA, "but only if there is a co-ordinated approach".

Eskom had allocated about R2,5bn for its project to bring electricity to 900 000 consumers over the next five years.

It is expected that another 2,3-million users will get electricity from other suppliers, particularly local authorities and development agencies, whose input is likely to cost more than double the R2,5bn being invested by Eskom.

While the plan will double Eskom's user base to about 6-million, it will only increase maximum demand — currently about 22 500 MW — by about 10% as domestic consumers currently account for just 14% of Eskom's output.

PETER DELMAR



# SA exporters should look at aid agencies

310A-1  
8/9/92  
FOR SA exporters, Africa offers almost limitless opportunity — if the locals had the means to pay. But some organisations active on the continent have plenty of money with which SA could do business.

Local suppliers have traditionally identified specific geographical units as their target markets. Safto executive Paresh Pandya says they now need also to start focusing on international aid agencies.

Last year the World Bank spent \$3,9bn in Africa, and a plethora of multilateral, bilateral and non-governmental organisations gave aid worth a collective \$5bn.

The EC will disburse about R40bn in Africa, the Caribbean and Pacific in a five-year period ending in 1995 — a healthy portion of it in Africa. Billions more flow each year from various UN agencies and the Commonwealth. Another major player is the African Development Bank, which last year spent some R3,9bn. SA access to the Abidjan-based bank's business, however, remains restricted by the country's exclusion from the OAU.

Pandya says aid agencies represent a massive, untapped market which SA is uniquely positioned to supply. Locals' advantages over other potential suppliers in-

clude shorter supply routes, their ability to supply appropriate technology, and knowledge of African conditions.

Traditionally, exporters have believed that groups such as the World Bank are simply off limits. But this country was a founder member, and is therefore eligible to take part in its projects.

Similarly, the EC's Lome Convention does allow non-signatories to take part in its projects. In terms of article 296 of the convention, non-signatories are allowed to render products and services if their participation meets certain conditions.

These relate to the proximity of the non-member to the project location, price, appropriate technology, transport, time saved, and the need to avoid excessive cost increases.

Pandya says these conditions could — as far as Lome IV is concerned — give SA suppliers a competitive edge as far north as Kenya, Zaire and Uganda.

The World Bank is about to launch a \$980m programme to rehabilitate 1 200km of Tanzanian roads — a golden opportunity for local suppliers and contractors.

PETER DELMAR



# Keys and Stals to address World Bank suggestion on SA inflation

A CONTROVERSIAL suggestion by a World Bank economist that SA accept moderate inflation — up to 20% — is expected to feature in talks between SA and the World Bank later this month.

The discussions will take place when an SA delegation, including Finance Minister Derek Keys and Reserve Bank Governor Chris Stals, attends the World Bank/IMF AGMs in Washington next week.

The South Africans are expected to respond to suggestions on inflation and trade policy made in an unofficial World Bank report on SA.

11/9/92

The suggestion that SA should "live with moderate inflation" was made by the World Bank's economist Michael Walton. Although the report is not an official World Bank document, it was done for the bank's use. The other authors were UCT's Michael Kahn and Abdel Senhadi from Pennsylvania University. Walton was responsible for the work on inflation.

Stals declined to comment but noted the report was not an official document. Sources said the Reserve Bank regarded the report as ambiguous in its policy conclusions.

GRETASTERN

The report suggests meaningful reductions in inflation from present levels are unlikely. "Its (the inflation rate's) invariance to macro-economic conditions in the 1980s indicates a high degree of inertia. This is likely to remain a problem. Radical disinflation may be costly and living with moderate inflation could be the best alternative until real recovery is under way."

It says international experience from Colombia to Spain indicates it is tough to break the dynamics of moderate inflation.

"It has rarely been achieved without increases in unemployment. This is clearly not a desirable option in the transition in SA. An appropriate stance could be to live with moderate inflation for the transition."

But the report warns against accepting rising inflation, saying there is an important difference between a persistent and accelerating inflation rate. "Strong corrective action would make sense if the inflation rate headed up (above 20%). Whether this is driven by the deficit or by a wage-price spiral, the costs of a shift from moderate to high inflation are too high."

But the message becomes more ambiguous when the report says "the major risk of accepting moderate inflation is that it could so easily become high inflation."

It also believes that an independent central bank that dislikes inflation is "healthy measure of security" against high inflation and notes in its conclusion that the continuation of an inflation-averse central bank remains essential.

The report also suggests an undervalued rand as a trade strategy, but SA policy makers have already indicated that rand devaluation is not being considered.



# Fear not the Democrat bearing new SA policy

BIDAW 8/9/92

WITH America's presidential election now headed into its final lap, which outcome would serve SA's interests better: another four years of George Bush or the return, after a 12-year absence, of the Democrats led by Bill Clinton? Or does it really matter all that much?

Pauline Baker, formerly of the Carnegie Endowment for International Peace, now with the Aspen Institute, and long seen as aspiring to the State Department's assistant secretaryship for Africa under a Democratic administration, suggests that Clinton would make few changes to current US policy.

The Democrats, she says, are basically happy with the way the Bush team has been handling things. Its even-handed, multilateral approach, its balance on the question of violence, its aid programme and its stress on negotiations all have broad support. Despite the occasional flash of rhetoric on Capitol Hill about Bush's "premature" decision to end sanctions, "the differences between the parties are very minimal".

Baker expects them to remain that way unless there is some major breakdown in SA. Otherwise, the only departure she would recommend would be one of priority. She thinks SA should be accorded more.

Of course, in terms of US policy towards Africa generally, SA is already pretty near the top of the totem pole. It is now the largest recipient of non-emergency aid on the continent, and everyone agrees that it is a critical engine of growth for its

neighbours to the north. But Baker believes it should get special attention in the global context as well.

In a world increasingly riven by ethnic cleavages and savage nationalisms, SA, more than anywhere else, has "the capacity to serve as a laboratory of racial harmony". The fact that after all the vicissitudes of the past 300 years, the "dominant political thought" in the country is "still non-racism" is "quite an achievement" — and one that must be nurtured as a model. How SA deals with "the conjunction of First and Third World economies and cultures", how it "wrestles with the division between rich and poor", may also teach important lessons, Baker believes.

If these are the themes of a Clinton administration, and if it continues the hardnosed Bush approach of refusing to take sides while stressing certain economic and constitutional principles, a Democratic victory will be just as useful an outcome for SA as a Republican one.

Clinton, if Baker's analysis is correct (he himself has said little), will not revoke the present administration's policy of encouraging US investment, though he may be marginally more open to retaining social responsibility requirements. He will maintain, if not increase, present aid levels. Nor is he likely to veer from current policy on SA access to the IMF and World Bank — that funds will be available once an interim government is in place.

As for state and local sanctions —

## SIMON BARBER in Washington

endorsed in both the Democratic Party platform and Clinton's own foreign policy position paper — he will go with the flow, just as Bush has done. The fact is these sanctions are beyond Washington's purview.

Everyone, except perhaps ambassador Harry Schwarz, recognises that local disinvestment and selective purchasing ordinances will start to be repealed when the ANC itself specifically gives the word, and not before. The point was definitively proved by the California state assembly last week, which would exempt US companies engaged in humanitarian, drought-related efforts only after receiving written approval from Shell House.

Baker's soothing words notwithstanding, don't count on a transition to Clinton being seamless.

Bush, Secretary of State James Baker and Assistant Secretary of State for Africa Herman Cohen have done a fine job of removing SA from domestic contention while at the same time making a substantial contribution on the ground. They have used the prestige of superpowerdom well to prod, reassure, assist and educate all the major players without arousing any serious ill will.

They have used the lifting of sanctions and like inducements to help

move the government in positive directions. They declined to shun Inkatha president Mangosuthu Buthe-lezi, and so avoided fuelling civil bloodshed. Equally, and often despite the best efforts of former ambassador William Lacey Swing, they have played an important role in pulling ANC president Nelson Mandela and his colleagues back from many of the alliance's more fanciful ideological solecisms. It is to their credit as much as his that Mandela did not exploit the coincidence of last July's Security Council session with the Democratic convention to score points at their expense.

New boys will be new boys, however, and a Clinton administration, well intentioned though it might be, must be relied upon to try to reinvent the wheel with the help of State Department professionals anxious to prove their fealty. Even though, as Baker acknowledges, this particular wheel is in little need of modification, Democrats, no longer in the wilderness, cannot be expected to avoid the temptation.

The result is that a lot of misbegotten signals may be sent in the early months, embittering whites, scaring investors, enraging Inkatha and giving elements of the ANC the sense that with the party of Randall Robinson, Ron Dellums and human rights lawyer Gay MacDougall in power, the balance of international forces may have shifted back in their favour. Not a useful mix at this stage.

Should Clinton win, the best hope is that he should swiftly name Congressman Stephen Solarz his Secretary of State. It's not beyond the bounds of possibility.

Solarz, generally reckoned the Democrats' smartest foreign policy voice in the House, has had his seat redelimited from under him in the name of perfecting racial proportional representation, and may well be available after next Tuesday's congressional primary, in which he has been obliged to run for an officially Hispanic seat.

An ardent supporter of the Gulf war, Solarz is in the Clinton, neo-moderate, new generational mould. As far as SA is concerned, he has the virtue of knowing and caring about the subject deeply without cant or illusions. He is the only senior member of the House who makes a point of attending hearings on SA and who has had the guts to show open irritation with Robinson, the whiner members of the black caucus and even the ANC. Were he secretary, his long dormant plan for a massive, multilateral SA aid package conditioned on genuine democracy and a real commitment to market economics might finally be realised. One could also expect him to be serious about the conditions.

That is important because un-seriousness about such matters, and a willingness to take ANC propaganda at face value, are what SA has to worry about most from a Democratic administration, especially while it is finding its feet.

## LETTERS



## Ministers to discuss funds

~~NEW YORK~~ — Against the background of a world economic slowdown, 46 Commonwealth foreign ministers met yesterday to discuss how to keep development funds flowing to poor nations. ~~NEW YORK~~

More than 250 delegates are expected at the two-day British Commonwealth finance ministers' conference, held before next week's IMF and World Bank annual meetings.

Commonwealth delegates will discuss better cooperation between its London-based secretariat and the Commonwealth Fund for Technical Co-operation, which promotes development in poorer countries.

World Bank and IMF topics will be discussed, as some Commonwealth nations are worried about getting IMF loans. (256)

The Commonwealth Secretariat said in a news release there was concern about difficulties some of the fund's traditional borrowers continued to have in gaining access to resources. The secretariat said continued impediments to development included high real interest rates, weak commodity prices and difficulties in debt servicing. — Sapa-AP. 8/10/84 17/9/92.



# World Bank backs Eskom-ANC plan

DET S/Times (Buss) 20/9/92.

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By KEVIN DAVIE: Washington

THE World Bank has thrown its weight behind the Eskom-ANC initiative to electrify low-income households.

A position paper by the bank estimates that a three-to-five-year programme to electrify 3-million houses could result in 150 000 to 750 000 new jobs.

The paper follows the visit of a bank household energy fact-finding mission this year.

The mission says 2.4-million of SA's 7-million households have electricity.

"The proportion of electrified households is rising, but so is the number without electricity."

The bank supports the national electrification forum and would help if asked.

## Pilot

The World Bank's Alun Morris says electrification is an area where the consensus-building process is farthest down the road. Successful development will need agreement on the issues plus an institutional framework.

Other bank projects in SA include a training programme for potential public servants.

A pilot study has been completed at the University of Cape Town and more are to follow countrywide.

Four universities — UCT, Stellenbosch, Western Cape and Wits — are establishing the first quantitative profile of poverty in SA. The three universities and others will undertake a national household survey which can be updated periodically to track poverty and its alleviation.

Mr Morris says the project, which has financial backing

from Norway (the Netherlands and Denmark are also "seriously interested"), will cost about \$1-million and is "ready to go".

The bank has also offered its expertise in the amalgamation of local authorities. It will study SA's urban areas, describe scenarios and their cost-benefits.

The bank is constructing several macro-economic scenarios facing SA.

Mr Morris says the bank can offer its experience in many other countries which have faced similar problems to those now being dealt with in SA. The bank intends developing tool-kits for these problems.

The bank has increased its internal budget for its SA programme.

A year ago this budget was minimal, the bank's SA activities being funded to some extent by countries such as Sweden, the UK, Norway, Denmark and the Swiss and by aid agencies like the UNDP.

Now the bank's SA effort is significant compared with other African countries, although still not on the scale of Latin America, says Mr Morris.

The bank intends opening an office in SA when "internal and external consensus has been reached".

The bank's annual report makes brief mention of SA, saying: "Growth performance has deteriorated over the past 15 years and real per capita incomes have fallen by about 1.6% a year over the past decade."

"The challenge facing a new government will be to revive economic growth while facilitating a more equal income distribution and access to publicly provided services."



STAR 21/9/92.

# World Bank draws attention to plight of commodity exporters

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By David Canning

WASHINGTON — South Africa shares the fate of the developing world in facing continued sluggish demand for its commodity exports, says Lawrence Summers, chief economist and vice-president, development economics, at the World Bank.

Speaking shortly before the Group of 24 developing nations made an impassioned plea to industrialised countries to stimulate growth and external trade, he warned at the weekend that the coming economic upturn in industrialised nations remained fragile and vulnerable.

He said: "This is the first time since World War 2 that low- and middle-income countries have experienced three consecutive years of negative

growth in Gross Domestic Product (GDP) per capita."

"Cumulatively, they have suffered a three-percent drop in income.

"In fact, commodity prices are at their lowest in real terms since records started being kept 100 years ago.

"Nevertheless, some improvement in world trade and living standards should start to become evident," he said.

World Bank forecasts for sub-Saharan Africa show a tentative 0,5 percent growth in GDP per capita in 1993 after 1992's estimated decline of 0,4 percent.

Africa's growth will be poor in relation to the sluggish 1,7 percent rise for all low- and middle-income countries. Asia, by contrast, can expect growth of 4,2 percent.

The World Bank estimates

that the slowdown in industrial countries is costing middle- and low-income countries more than \$50 billion a year in lost income.

This exceeds the entire aid programme for these countries.

While Dr Summers described world stagnation problems as very serious, he dismissed suggestions that trade barriers should be maintained for the benefit lower-income countries.

Referring to the stalled Gatt talks, he said: "A Uruguay Round would certainly be better for developing countries than no Uruguay Round."

The World Bank figures show that real prices of metals and minerals (still an important part of SA's export basket) have declined 14 percent since 1990 and have halved since 1974.



# No one listens to the Third World

WASHINGTON — A monetary turmoil of world proportions and a key vote on European unification in France are hitting poor nations on two fronts.

On one hand, the currency debacle that has left the European Monetary System in shreds is undermining developing nations' efforts at overcoming poverty, famine and debt crises.

On the other, Sunday's French vote on European unification took centre stage at the IMF-World Bank annual meeting, muffling the poor nations' calls for attention to their plight.

"Turmoil in industrial countries is devaluing our assets," Mohamad Imady of Syria, the first chairman of the Group of 24 developing countries, told a weekend press conference.

"It is affecting the terms of trade," he complained.

The plight of the Third World will be further pressed forward at a meeting of the Development Committee, a grouping that brings together 22 poor

and rich countries.

Their problems are many. First and foremost, a drought-related famine is wreaking havoc in East Africa. In Somalia alone, two million people could starve to death unless they get urgent international help.

The G24 urged Western nations to "provide adequate financial flows to ... improve their prospects for sustainable growth, poverty reduction, environmental protection, and the resolution of the debt crisis."

Officials voiced concern that the fallout from the crisis — weaker currencies and tighter budgets in Europe — would end up in cutbacks in aid for the world's poor.

The developing world is also concerned that their needs will be shunted aside in the rush by rich nations to help Russia and the other former members of the Soviet bloc.

The French "yes" to Maastricht might return some calm to the markets and eventually translate into re-

newed attention to Third World problems. But it took place during the IMF-World Bank conference, robbing poor nations of a prime chance to publicise their cause.

"This is all we needed," commented a Latin American official referring to the combination of a monetary crisis and a vote in France.

"This is the wrong place and the wrong time to come to ask for help," he added.

Still, and just in case anyone was hearing, the G24 asked industrial nations for "substantial debt cancellation and provision of adequate new financing ... to deal effectively with the interrelated problems of growth and debt."

Other problems such as a slow and uneven recovery of world output, the deceleration of global savings and the weak growth of world trade in 1992 are also making a dent on poor nations. — Sapa-Reuter.



# Keys regrets lack of access to international aid

By David Canning

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WASHINGTON — In view of its current needs, it was unfortunate that South Africa could not obtain "firmer and more substantive" commitments from the International Monetary Fund (IMF) and World Bank, Finance Minister Derek Keys said here yesterday.

In his maiden address as an IMF governor, Mr Keys also urged the world's major industrial countries to boost their economic performance and to move away from unjustifiable market distortions, generous subsidies and protectionism.

He told the world bodies that, in line with world trends, "eco-

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nomic liberalisation and political democratisation" had progressed in southern Africa.

South Africa was committed to addressing current economic imbalances and to exploring the possibilities of forging "closer regional structures and mechanisms" with its neighbours.

While disappointed about the continuing lack of access to full IMF and World Bank facilities, he was grateful that those bodies were becoming increasingly involved in South Africa. This was occurring through technical assistance and through policy and sectoral work.

Mr Keys said he hoped this would be the last time South

Africa would have to speak to the world bodies as a "non-normal" member — one without a constituency to represent it on the executive boards.

Like many other countries, South Africa was involved in a transition to democracy. Unfortunately this was occurring in an environment of social unrest and economic stagnation "with the added constraint of the most severe drought in living memory in the region".

Despite this, South Africa had already gone some distance along a difficult road towards establishing the stability needed to support sustainable economic growth in the longer term.

Eventually this programme would raise the wealth-creating

capacity of the economy and also increase its international competitiveness.

"It will also, hopefully, through the monetary system of the South African-bloc countries, have a spin-off on the economies of other countries in the region."

Mr Keys said the interim committee of the IMF had made special mention of South Africa's "extraordinary transportation efforts" to help its neighbours to obtain vital foodstuffs. South Africa was, in fact, providing additional assistance.

However, further financial assistance needed to be provided by aid institutions. Referring to the wider pic-

ture from the perspective of a developing country, he welcomed movement towards macro-economic reforms aimed at achieving world economic stability conducive to growth.

However, it was imperative that the industrial countries should improve their economic performance.

These countries also bore responsibility for ensuring a speedy and positive outcome for the General Agreement on Trade and Tariffs' Uruguay round of multilateral trade negotiations.

The sacrifices of world economic restructuring policies fell disproportionately on those least able to bear them.



# Keys bemoans IMF and World Bank response to urgent SA needs

WASHINGTON — Finance Minister Derek Keys yesterday expressed disappointment that SA remained a "non-normal member" of the World Bank and IMF with no access to their financing facilities.

"In view of our urgent needs," he told the organisation's annual meeting, "the absence of firmer and more substantive commitments is unfortunate."

SA's relations with the bank and fund remained "constrained and artificial", he said, but expressed the hope that the situation would be different by next year.

Making his first speech to the meeting as Finance Minister, Keys nonetheless noted that the bank, which is delaying direct

financial assistance until an interim government is in place, was "positioning itself for greater future involvement" by providing "technical assistance" and undertaking policy and sectoral studies.

Though confronted with social unrest, economic stagnation and the effects of severe drought, SA was playing its own part to align itself with the policies favoured by the bank and fund.

Keys warned that the successful restructuring of developing economies such as SA's was dependent on stronger growth among the major industrial economies.

He reminded delegates of the developing economies' broad acceptance of and moves

SIMO N BARBER and  
SIMON WILLSON

towards macro-economic reforms.

"Success in such matters often critically depends on the strength and stability of the global economy. It is therefore imperative that the industrial countries improve their economic performance," Keys said.

While multilateral institutions such as the IMF and the World Bank had stressed the need for corrective action among the developing economies, industrial countries' trade policies were characterised by unjustifiable market distortions, generous

subsidies and protectionism.

Even though democratisation and good government were becoming realities in Africa, the continent was being increasingly marginalised by the international community, with tragic consequences. Real official development assistance had stagnated during the past decade as a result of new demands from other countries.

He told the meeting SA was in transition to democracy but was also caught in an environment of social unrest and economic stagnation, with the added constraint of the most severe drought in living memory. Nonetheless, SA was committed to addressing its current economic imbalances.

"We have already gone some distance on the difficult road towards establishing the internal and external financial stability needed to support sustainable economic growth in the long term."

"Eventually, this programme should raise the wealth-creating capacity of the economy and also increase our international competitiveness."

Keys thanked the bank for publicly praising SA's "extraordinary transportation efforts" to help its neighbours cope with the drought, but stressed that "further financial assistance needs to be provided by aid institutions."



# Economic gurus left puzzled by currency chaos

WASHINGTON — Economic policymakers wound up a week of tense meetings yesterday with more questions than answers about what ails the world economy and how to manage unruly currency markets.

Two weeks of unrelenting, costly chaos in world currency markets have left officials attending the annual meeting of the IMF and World Bank shaking their heads at the damage. The European Monetary System was unravelling when officials gathered last week, and few believe conditions will have altered substantially when they bid each other farewell. Likely to be left unresolved will be the questions of how to boost the world economy, which is experiencing one of its weakest years since the Second World War, and how to manage destructive currency markets.

US Treasury Secretary Nicholas Brady voiced financial leaders' growing agitation and helplessness in a speech on Wednesday.

"Capital markets have grown dramatically in size and complexity ... well beyond the resources governments can bring to bear (to control them)," he said.

Brady also called for coordinated efforts to get the global economy rolling again.

The US has been calling on Germany for more than a year to cut interest rates to boost sagging European growth, and it finally made a small adjustment downward early last week. Dealers say further cuts are necessary.

If the events of the last week had not been so gruelling they might almost have been comic, as things went from bad to worse despite all-out efforts to get the markets back in line.

The stage was set when the ministers arrived, as speculators last week succeeded in driving both sterling and the Italian lira out of the EMS.

The French franc and the Spanish peseta were next to come under attack. By late Wednesday, Germany and France had kept the EMS pinned together, as Bonn intervened to support the franc and France raised its chief lending rate to banks to 13% from 10.5%.

But a long-term solution to the untamed markets still appeared elusive.

Responding to the increasing unruliness of the markets and the growing power of speculators over a currency's fate, Brady called for a new study of how the markets work — the second US proposal in less than a week in response to the currency havoc. — Reuter.



## Call for less currency control

WASHINGTON — World Bank president Lewis Preston yesterday urged the industrialised nations to address key fundamental weaknesses rather than seek out stop-gap measures to address the turmoil in foreign exchange markets.

Preston, speaking to reporters at the end of the joint annual meeting of the IMF and World Bank, emphasised that the US and Germany should reduce their reliance on monetary measures in managing the economy and expend more energy on dealing with their fiscal constraints.

The World Bank chief also urged the EC to avoid implementing currency controls, a comment that followed news from Europe that Spain and Ireland had moved to implement certain controls in an apparent bid to stabilise their currencies.

"I certainly hope the response will not be controls," Preston said. "That would be treating the symptoms and not the disease." *310 Amy 2579192*

Turning to the key issues among the G-7 nations, Preston stressed that "the over-reliance on monetary policy is just not going to work".

Preston noted that interest rates remained a central bank's primary management tool. But he said when interest rates formed the predominant method of economic management, then "no system is going to function smoothly".

Preston added the G-7 had been slow to address key fundamental issues, including opening world markets through negotiations in the Uruguay round of the GATT.

"Obviously it's troubling, troubling to any thoughtful person that these delays in the GATT round and in getting these fiscal deficits under control have taken so long. But that is one of the problems of being rich," he said. *(356)*

Preston noted that "self-interest" was likely to be the impetus for industrial countries to implement reforms. But he added that generally he found a keen interest among all nations at the annual meeting, including the major industrial powers, in improving policy co-ordination to help foster world economic growth.

"I think the response from virtually every minister that I've talked to is the realisation that there hasn't been sufficient co-ordination and that it is in everybody's interest to work in a constructive way," Preston said.

The US has urged greater co-ordination among the world's industrialised nations, including a proposal by Treasury Secretary Nicholas Brady to conduct a study on the changes in the depth and scope of the world's financial markets to determine what appropriate remedies and interventions might be needed. — AP/DJ



SA's ability to borrow depends on political settlement

# Strapped for cash

44-26/9/92  
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WASHINGTON. — The continuing lack of political settlement caused South Africa to return from this week's IMF and World Bank meetings largely empty-handed.

Its decision to turn down an invitation to join the Swiss group, carrying with it a valuable deputy directorship, disappointed many in the local camp who felt a golden opportunity had been thrown away.

Minister of Finance Trade and Industry Mr Derek Keys also disclosed South Africa had not got around to applying for drought relief under a special aid fund.

But progress was made behind closed doors, in discussions with World Bank and IMF teams on their research into the desired shape of the economy and on development priorities to be pursued.

The exercises "deepened and strengthened" ties which have been built up with the world bodies since Mr Nelson Mandela was released in 1990 and this will translate into practical aid as soon as an interim government is formed.

These institutions are maintaining the stand that there can be no lending until internal and external political consensus is reached.

South Africa's economic, development and banking teams held a series of meetings with their World Bank counterparts.

■ Institutions like the World Bank and the International Monetary Fund are maintaining the stand that there can be no lending until internal and external political consensus is reached in South Africa.

DAVID CANNING, Weekend Argus Foreign Service

Development priorities were discussed, with some South African speakers pressing the opinion that, in view of the critical need, sectoral rather than "macro" consensus should be sufficient to allow development projects to go ahead.

They argued it was quite possible to get broad political and community agreement on specific projects, even before broad political agreement was reached.

The World Bank and IMF, however, remained sensitive to the political pressures of their member countries on the issue.

On the macro-economic outlook the IMF was reportedly concerned about the country's high fiscal deficit — likely to be more than twice the maximum guideline this year — but understood political constraints prevent the government from raising taxes.

Mr Keys told the world bodies, in his annual address that South Africa was committed towards establishing stability need-

ed to support sustainable economic growth in the longer-term.

He also said, in view of its current needs, it was unfortunate that South Africa could not obtain "firmer and more substantive" commitments from the world bodies.

In relative terms South Africa remained a very minor issue at a meeting which saw a procession of leaders espouse the benefits of "opening up" their economies.

Even while currency markets were in a turmoil flowing from "unsound fiscal policies," the ministers promised to achieve better policy balances and greater coordination among themselves.

World Bank president Mr Lewis Preston said conditions were very difficult for developing countries, in view of slow world growth and the attitude of major nations towards renewal of GATT.

On one hand, the major nations continued to insist poorer countries should undertake expensive economic restructuring ex-

ercises; on the other, the major countries themselves were running budget deficits and protectionist policies. The poorer countries also faced reduced incomes from low commodity prices.

He said the foreign exchange turbulence was a reflection of an imbalance — over-emphasis on monetary policies with too little attention being given to fiscal disciplines.

There were bright spots. Though slow, the world economy should start to pick up next year. The debt crisis was over for many banks, although debt remained an enormous problem for some poor countries.

IMF managing director Mr Michel Camdessus admonished leading nations for their failure to work with the IMF to present disorder on currency markets.

Loss of confidence had resulted from inadequate fiscal policies, resulting in an over-burdening of monetary policy.

Resulting wide gaps in interest rates in Europe and North America had caused serious problems and allowed currency speculators to have a field day.

An avalanche of speculative capital last week forced the British and Italian governments to withdraw from the European exchange rate mechanism while, this week, the Spanish were forced to defend their currency.



# Sout

## World's 'terrible twins'

Sout 26/9 - 30/9/92.

WHY ARE the World Bank and the International Monetary Fund (IMF) so powerful — and so hated in developing countries?

They were formed at a gathering of finance ministers of the Allies after World War II. The ministers met at Bretton Woods in the United States to map out ways in which they could help with the reconstruction of war-battered Europe.

Millions of dollars were pumped into what came to be known as the Bretton Woods Institutions — the International Bank for Reconstruction and Development, later known as the World Bank, and the IMF — which did a very good job.

The World Bank helped fund development projects while the IMF acted as a sort of banker of last resort, providing loans on easy credit to help support imports of vital machinery and other goods to rebuild the European countries.

But once they had achieved their initial task, they cast their nets wider and soon became, literally, international financial policemen.

Any economy that was in trouble asked them for help — help they only received if they adopted certain economic policies. Because they were desperate, the countries involved often had no choice but to accept those policies.

Unfortunately, such policies did not always work. This was because they were badly implemented, or affected by political decisions, or plain wrong for the country concerned in the first place.

But there have been some successes. This, added to the fact that traditional aid from the developed to the developing countries has been drying up, has meant that developing countries have come to depend more and more on the Bretton Woods institutions.



SUNDAY

# World Bank seeking to link cities

STimes (BSS) 27/9/92

By KEVIN DAVIE: Washington

This is much higher than cities such as Stockholm (\$223), Munich (\$267), Hong Kong (\$267), Melbourne (\$335) and Singapore (\$338).

Data for blacks, in contrast, suggests that more than 50% of them in urban areas are informally housed.

About 40% of the land within a 10km radius of SA city centres — the focus of employment — is vacant.

This leads to real economic costs. It increases transport, depresses the housing sector and labour market and contributes to the growing fiscal deficit. It causes inefficient investments in bulk infrastructure.

Urban transport subsidies are projected to cost R1.9-billion next year. Black households will still spend more this year on transport than on housing, the paper says.

The average distance travelled by urban commuters has grown from 24km 10 years ago to 37km.

The paper says housing has been depressed by apartheid. Housing investment at about 2.5% of GDP is much lower than the 4% to 9% in other countries at similar levels of income per capita.

The paper says three policy archetypes typify the housing debate: huge government intervention in the provision of housing, enabling strategies which require the

Government to play the role of facilitator of largely private-sector and community-based efforts to deliver houses, and enabling strategies accompanied by a targeted programme of subsidies for the most disadvantaged members of society.

The paper says that international experience has shown that the first option does not work. In the US, for instance, it has been found that publically funded housing schemes lead to a decrease of privately funded ones. There is little net increase in the overall housing stock.

## Demand

It suggests that the Government will need to intervene nonetheless to ensure the success of enabling strategies.

"On the demand side there will need to be active intervention to increase the availability of housing finance, improve security of tenure and design effective subsidies.

"On the supply side, government will have to ensure adequate infrastructure supply (including electricity, water, sanitation, drainage and water facilities), rationalise the legal and regulatory framework and foster a competitive building and construction industry."



WORLD Bank experts have begun a study on how to amalgamate SA's racially divided cities.

They rank with those in the former Soviet Union as the most economically inefficient in the world.

The Witwatersrand, Cape Town, Port Elizabeth and Durban will be studied in the first phase of a project designed to contribute to SA policy making.

The study is intended to facilitate the process of urban reform, the bank being one actor in the process, says a bank source.

The results of the study, which kicks off formally with the visit of a bank mission to SA in November, are intended to provide a technical tool for politicians, the source says.

The study will include a full fiscal analysis of local government.

## Conflict

It will consider housing strategies in the context of the overall urban economy.

The study will include white local authorities, which are efficiently managed and largely self-financing, partly because they do not carry the responsibility for the low-income population as do most cities in other parts of the world.

A World Bank position paper, *Cities in Conflict*, says an urban strategy for SA will need to be guided by three principles.

Apartheid structures will have to be dissolved, decision making must be transparent and accountable and local governments must have the technical and financial ability to deal with inequalities in urban living conditions.

Whites in the Pretoria-Witwatersrand-Vereeniging area, says the paper, enjoy an annual per capita expenditure of about \$552 on the principal types of residential infrastructure.

# World Bank seeking to link cities

By KEVIN DAVIE: Washington

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## Prospects dimmer

POINTERS to recovery from one of the worst recessions of the century are diminishing and uncertain, says the Bureau for Economic Research (BER) in its survey of the manufacturing sector.

The BER says domestic sales, new orders and unfilled orders in relation to sales have fallen from the previous mild positive expectations reported in the second quarter.

Stocks are still considered to be too high and there are indications of substantial spare capacity in the whole manufacturing sector. Production and employment are expected to remain under pressure, even after economic conditions start to improve.

There was also a significant rise in the number of respondents reporting the general political climate as a serious constraint — both on day-to-day business activity and fixed-investment plans.

The BER says a downward spiral is identifiable because increased unemployment will have a negative impact on social unrest and political progress.

Business confidence suffered in the process and reached a new low in the third quarter, it says.

## Kaye quits

LASER Transport managing director and executive chairman Dennis Kaye has resigned. Peter Thomson will become executive chairman and Eric Puccini will fill in as managing director.

Mr Kaye, who founded the company 23 years ago and took it to the JSE in 1986, says Laser has a competent management that can cope well without him. He will retain his 56% shareholding.

## Seeff's latest

PROPERTY investor Seeff Holdings has launched Seeff Projects for project-related townhouse and cluster-home developments.

It starts with a R300-million residential property portfolio, half of which is in up-market development in the Western Cape.

Seeff Projects will offer developers a one-stop project marketing service, which includes site procurement, building design, financial and legal considerations as well as sales and marketing input.

## St Helena cut

GENGOLD's St Helena gold mine, near Welkom, will reduce its staff complement by almost a half before the end of the year.

Staff numbers will be cut from 5 700 to 3 000 in two phases. In the first, 2 300 will be retrenched.

Ore production will drop by half to 50 000 tons a month and gold output will fall by about 250 kilograms a month to about 360.

## M3 in tune

SOUTH Africa's broadly defined money supply, M3, showed a year-on-year rise of 8,72% in August, according to preliminary figures from the Reserve Bank. This is well within the bank's 7% to 10% guideline for 1992 and compares with a revised 10,11% for July.

STimes 27/9/92



# No bar to SA joining World Bank agency

By David Canning

STAR 29/9/92

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NEW YORK — There should be no difficulty in South Africa acquiring membership of the Multilateral Investment Guarantee Agency (MIGA) if its business sector motivates an application through the Government, says its deputy director, Mr G el-Rifai.

Mr el-Rifai said in an interview he recently met a group of South African private sector representatives who were interested in membership for the country.

MIGA, an affiliate of the World Bank group, promotes private foreign direct investment in its member countries and, significantly for South Africa, grants insurance covering political and other risk to investors.

SA has never joined the body but Mr el-Rifai says he has held talks with government representatives in the past. South Africa is virtually entitled to membership by virtue of its role in the World

Bank.

The South African party included representatives of the Human Sciences Research Council, academics and businessmen.

Mr el-Rifai said guarantees on each investment project in SA would have to be approved on its merits.

However, thus far, MIGA had never refused to grant a guarantee. In the past, guarantees had been given for other countries with political risk files, such as El Salvador and Indonesia.

Like an insurance company, MIGA charges premiums for its guarantees and these premiums obviously reflect the degree of perceived risk.

MIGA indemnifies investors in the eventuality of war, civil destruction, or terrorism, expropriation, breach of contract and currency convertibility.

However, one of its biggest tasks is to help to find foreign investors for a country.



Capital, business may flee CBD

# Bank warns on merger with Soweto

BIDAM 5/10/92

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GRETA STEYN

THE World Bank has warned that capital and business could flee the Johannesburg city centre for the northern suburbs to escape the tax burden after Johannesburg and Soweto merge.

The warning came in the latest update of a major exercise undertaken by the bank to build a financial model for budgeting at the local level.

The updates are released on a limited basis to interested parties.

The bank was concerned over where new city boundaries would be drawn. Its model would be used to assess the fiscal impact of alternative metropolitan boundaries and would analyse the impact of rationalising lower tiers of government.

Referring to the present moves towards "city mergers", the bank warned that the way in which the process occurred could deepen fiscal stress at the local level.

"The ad hoc approach of 'city mergers' may rapidly result in imbalances in the sharing of fiscal responsibility by different white local authorities," the bank said. It believed it was "very conceivable" that Sandton and Roodepoort might take over the administration of Alexandra leaving Johannesburg with the responsibility of a larger area like Soweto.

Such a demarcation could spark the "flight" of business and capital, creating a weaker fiscal base for servicing the needs of Soweto and Johannesburg.

The bank was concerned that transfers to local authorities would continue to be used to finance current spending by black local authorities instead of investment in infrastructure.

It said as long as the focus of economic

activity remained out of step with population distribution the central government would have to bear the burden of financing the growing deficits of the poorer regions.

"The combination of transfers to black local authorities, the TBVC states and self-governing states have been increasing at a rate of 24% annually since the mid-eighties and in fiscal 1990/91 absorbed about 85% of central government revenue growth."

The latter, it said, was used primarily to finance current expenditure. A real reduction in all other services must have been required to allow this large increase in transfers.

"In the case of provincial administrations, a significant shift has been under way ... as to whether the grants are to finance capital or current expenditure.

"In fiscal 1987/88, 23% of the budgeted transfers were for capital expenditure while in fiscal 1992/93 the figure has fallen to 6,9% of the transfers."

The bank said it was also worried that the current fragmentation at the lower levels of government has resulted in "ad hoc, unco-ordinated and frequently inefficient" investment.

Next month it will resume its study on regional spending and financing needs.

The exercise is being conducted in two phases: the first to establish the investment needs and financial impact for the metropolitan areas of the Witwatersrand, Cape Town, Port Elizabeth and Durban.

In the second, the financial model would be implemented. The model would help assess the implications of changes in taxes, tariffs and service fees.



# Export schemes under scrutiny

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B/DW 7/10/92

WASHINGTON — The World Bank is casting a critical eye on SA's decentralisation and export incentive policies and believes they may be hampering the growth prospects of other members of the Southern African Customs Union.

In particular, the bank is concerned that Namibia's ability to create badly needed manufacturing jobs, already restricted by the smallness of its domestic market and past sanctions, may be being undercut.

In a comprehensive new study of the former colony's economic prospects, the bank argues that by extending generous export incentives to customs union members and non-members alike, SA has rigged the union in favour of itself, "the largest and wealthiest member".

"In most common market and free trade areas," the study notes, "the usual arrangement is to give more favourable treatment to least developed member countries."

Furthermore, "national export incentives usually are not applicable to trade flows between two member countries of a regional trading group. In the union, SA not only has the strongest export incentives, but they apply to exports to all markets."

This makes it difficult for Namibia to attract export-orientated investment in sectors other than fisheries and mining — both of which the bank feels have only limited employment growth potential — since it cannot afford to offer anything like the subsidies provided by SA.

SA's regional industrial development programme, under which the government offers a wide array of rebates, concessions, tax allowances,

SIMON BARBER

subsidies and outright grants to enterprises that will move to selected "industrial development points", is also putting Namibia at a competitive disadvantage.

While the Common Monetary Area guarantees the free flow of capital between members, and labour costs in Namibia and SA are on a par, firms that locate on the SA side of the border not only have closer access to the largest regional market, the development programme gives them "important subsidies" as well.

That said, the bank concedes that the programme has posted an impressive record of job creation in SA.

Between 1982 and 1987, development programme employment "increased more than total employment... Not only did (it) generate in net terms all the new jobs in the manufacturing sector of SA, but, in addition, it sucked in employment from existing sources."

But this is not good news for Namibia, which currently has up to 60 000 unemployed and which the bank believes may be able to create only about 3 000 formal sector jobs a year over the next five years.

Under present conditions, says the bank, the intriguing question is not why the Namibian manufacturing sector is so small (it contributes only 5% to GDP) "but why it exists at all".

However, the report stops short of recommending that Namibia pull out of the Southern African Customs Union, from which it earns higher customs receipts than if it were to collect them on its own and which enables the country's livestock producers to sell their meat in SA at 30% above world prices.



**T**HE World Bank is emerging as one of the key players in the formulation of post-apartheid economic policy. For the immediate future it will be playing this role not, as some have naively predicted, through the provision of finance, but rather by making available to all parties its vast experience.

At this stage, the bank has no official line on the kinds of policies it wants to see South Africans adopt. Rather, it is assessing the options. Unofficially, of course, it has a pretty good idea of what needs to be done and has quietly been working with the ANC, Cosatu and others to show them why and how.

The assessment process, begun last year, has resulted thus far in three discussion papers — dealing with macroeconomic issues, trade and industrial policies and employment prospects — with a fourth, on public expenditure, due to be completed by the end of the year. In addition, a number of preliminary sectoral reports — on urban issues, for example — are circulating.

An internal summary of work completed as of September 16, as well as that planned over the coming year, provides a useful snapshot of the bank's present thinking. The central question, says the document, is how to "shift the economy onto a higher growth path that is both poverty reducing and sustainable, and addresses current inequities".

**T**he bank's research tends to the "very important conclusion" that there is little scope for "kickstarting" the economy by using government spending to stimulate demand. The problem lies not only with the swelling deficit — now headed for well over 6% of GDP — but because, as surprising as it may seem, the economy now has "fairly limited spare capacity". To use the Budget to promote a consumption-led recovery would entail raised demand for imports and higher inflation.

The preferred approach is to spur domestic investment. This will require a "credible" political transition and an end to "turbulence and uncertainty", backed by "clear rules of the game", a depreciated real exchange rate, and sound fiscal management that keeps the debt burden

# World Bank works discreetly to shape SA economic policy

13/10/92

SIMON BARBER in Washington

in check. Solid domestic investment would be a signal for foreign investors to re-engage, and SA could "comfortably" become a "moderate capital importer" — but only "in the context of steady export growth".

"International experience with nationalisation is not encouraging." Better to "broaden ownership of the means of production" by following the example of Malaysia, which maintained overall support for the private sector while using the capital market to expand equity ownership among its disadvantaged Bhumiputera majority. This had "efficiency costs", but created a strong political support base for growth-orientated policies without threatening the private sector.

The fiscal deficit is already too high. Levels above 4%-5% of GDP do not look sustainable without increases in domestic borrowing that would abort needed investment through higher interest rates. Printing money is not sensible. Borrowing abroad would "progressively weaken" the country's foreign reserves.

That said, spending on public services for the black population and for infrastructure in neglected areas does have to be increased substantially. Since "total spending requirements are likely to be far in excess of the finance dividends related to the further dismantling... of the apartheid system", that means a major reallocation of resources, increased user fees for those who can afford

them, and higher taxes.

Preliminary work on expenditure restructuring suggests "there may be little room to raise further revenue from existing sources. Income tax has risen substantially as a proportion of GDP over the past decade, and there are obvious political difficulties in further raising VAT. There may, however, be some revenue to be gained from a revamping of the tax allowances currently received by large corporations."

**H**istorically, the stubbornness of inflation has had more to do with higher import prices than with "de-liberate or inadvertent" increases in the money supply. Disinflation will be difficult without maintaining high unemployment, even if the union movement is co-operative on nominal incomes policies. "Moderate" inflation is preferable to higher interest rates. "An appropriate stance could be to live with moderate inflation during the transition, but take strong corrective action if an inflationary acceleration threatens — in SA's case, 20% has the feeling of a good warning bell."

As for the exchange rate, the rand should be depreciated to keep exports competitive and act as a brake on imports. Capital inflows

and restored confidence could lead to upward pressure on the currency as investors buy in. This should be counteracted by reducing import protections, relaxing restrictions on capital outflows and abandoning the dual exchange rate.

Even under the best of conditions, prospects for a rapid reduction in unemployment remain grim, with job growth in the formal sector barely moving ahead of labour supply into the next century.

Reasons for present historic unemployment levels include upward pressure on black wages from the unions; a past and ongoing emphasis on capital-intensive "strategic" investments "which could not be justified under rational cost-benefit methodology" (Sasol, for example); the effects of job reservation; and the recession.

Of these, only the recession can quickly be dealt with, and even then the other "inhibitory" factors "are likely to further slow formal employment growth".

There will therefore have to be a major emphasis on encouraging the informal sector, chiefly through the continued removal of regulatory impediments. Government job creation schemes will also be needed, preferably paying below-market wages and targeted at areas where there are "substantial concentrations of surplus labour". Experience shows such programmes to be most effective

when tied to infrastructure development in neglected regions.

Training will be a priority but will not, in and of itself, make a substantial dent on unemployment. "There is little evidence that unemployment declines sharply by education among black school-leavers below diploma or degree level." Employment subsidies are a "natural choice", but to avoid over-claiming by employers a national employee registration system might need to be instituted.

Ideally, trade and industrial policy should be geared towards promoting "labour-demanding, outward-oriented expansion", particularly in the manufacturing sector. The question is how that ideal is to be achieved.

The bank's research suggests that SA's comparative advantage over its foreign competitors may be in relatively capital-intensive manufactures, including steel, certain basic chemicals, non-ferrous metals, and pulp and paper products. But is this a result of longstanding distortions and can downstream industries, encouraged in the past by import-substitution policies, flourish and compete without protection?

"Our work suggests that there continues to exist significant competitive potential in upmarket segments of labour demanding activities" — clothing, for example — "although the prevailing set of incentives has inhibited the realisation of this potential in export markets." A separate paper stresses the potential both for exports and employment of high value agriculture linked to land redistribution policies.

**I**n the coming year, the bank proposes to complete a comprehensive model of the economy to get a clearer picture of what levels of fiscal deficit the country can sustain and for how long. It will be also looking at a model to predict the effects of its advice on income distribution.

The bank's advice is not to be treated lightly. The extent to which its counsel is taken or ignored will determine how viable other lenders and investors, both public and private, judge SA to be under its new management. Nor, when the time comes for the bank's directors to decide what specific projects and programmes to support, will they be anxious to back what their experience tells them is a loser.



By KEVIN DAVIE

FOOD production favours producers at the expense of consumers, according to an internal World Bank paper on agriculture and the rural economy in South Africa.

The paper also says the close links of public sector organisations, such as co-operatives and marketing boards, with private sector companies — which are often oligopolistic — "have combined to create an interlocking system of mutual interests which have not necessarily been responsive to the needs of producers and consumers."

Food production has been in the spotlight in recent months in SA as food prices have been increasing by about 30% since last year.

The paper says that regulations governing movement controls of key commodities, hygiene, production and packing standards are extremely rigorous.

"In the opinion of many analysts they are too rigorous, forming barriers to entry of new and informal enterprises and in some cases militating against the interests of low-income consumers."

"There is a strong case for promoting the

# SA FOOD PRODUCERS UNDER FIRE IN REPORT BY THE WORLD BANK

growing informal sectors of the economy and to include a review of the regulatory framework as part of this process.

The paper does note, however, that substantial reform of agriculture in SA is already under way. It says the effects of legal, institutional and economic controls have already been dramatic for parts of the agricultural sector.

It cautions that even with vigorous affirmative action programmes to correct past inequities, South African society will for a long period reflect patterns developed in the past.

The World Bank is developing a rural

strategy to run in conjunction with its lending programme for SA. Subjects currently being examined are:

- Land distribution and use patterns
- Land tenure
- Pricing and marketing
- Agricultural production potential, and
- Rural credit.

This briefing note says preliminary drafts have been completed on these topics and are due for release as more formal documents in February 1993.

The bank also intends analysing the policy environment for individual commodities, most notably maize, dairy products, red

meat, poultry and sugar.

"Since most of the commodity pricing and marketing arrangements were designed to serve the interests of producers, a government that is concerned with consumer interests will wish to pursue reform policies in this area."

"It will be necessary to develop policies which balance the interests of consumers and producers."

The bank will also investigate the equitable and viable redistribution programmes. It says that to avoid the mistakes of countries such as Zimbabwe, the resettlement programme will need to be flexible enough to accommodate a wide range of production activities.

It notes that a unique aspect of SA's homelands is that much of the population has little or no involvement (or experience) of agriculture. "It is unlikely that many of these individuals will become agriculturalists even if opportunities are available."

"Nonetheless, the welfare of these groups will be a political priority as financial flows (remittances and pensions) diminish. Hence it will be necessary to design a transfer programme that addresses the welfare needs of these groups."

The paper also says that public sector agricultural institutions are not orientated towards the needs of the rural sector and will need to be restructured.



# SA clothing industry slated by World Bank

STW 21/10/92

(Buss)

25/10/92

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THE South African garment industry is well placed to become a major exporter and to create hundreds of thousands of new jobs, according to a preliminary World Bank study of the country's manufacturing sector.

But this potential is being hampered by an "inward-oriented" mindset, inappropriate government policies, vested union and textile industry interests and continuing political uncertainty, says the assessment.

The textile producers, and the conglomerates and foreign multinationals who control most of them, are subject to particular censure. Tough government measures may be needed to get them "to accept restructuring as necessary for the broader objective of dynamically efficient, labour-demanding expansion of manufacturing".

The study, completed last January, is one of a series of papers the Bank is starting to make public to stimulate debate on South Africa's post-apartheid economic options.

The author, Bank economist Brian Levy, concludes that there is a substantial international niche for the high-quality, up-market

By SIMON BARBER, Washington

clothing now being produced in such centres as Cape Town and Durban.

Assuming output per worker and production for local consumption remain constant, an additional \$2-billion worth of exports — comparable with Turkey's performance in 1980-1987 — might produce more than 300 000 new jobs, more than doubling 1991 employment (135 000) in the industry.

## Reluctance

Even if lower protection and other policy reforms caused production for the local market to decline by a third, employment gains would still be of the same order.

By contrast, expansion of the industry based on growing domestic demand from low-income consumers would likely entail maintenance of currently high import duties on low-end clothing, implying increased costs for those least able to afford them and leading the industry "down an uncompetitive dead end".

As the present tariff structure indicates, the low end is not a market segment in which SA is internationally competitive. In part, this is

because it is a "middle wage supplier", with industry wage levels double those of Thailand and two-thirds those of South Korea and Portugal.

On the other hand, the industry does have the necessary skills, experience and infrastructure to focus on the "higher-end" export market, since it has long been serving the same kind of market domestically.

However, interviews with 12 large to medium sized firms in Durban and the Cape found a marked reluctance to compete overseas, despite the General Export Incentive Scheme and inducements offered by the Department of Trade and Industry as part of the Structural Adjustment Programme it launched in 1989/90.

These changes were viewed by many firms as "temporary windfalls" in a climate that otherwise did not lend itself to shifts of long-term strategy.

Further reforms — including radical simplification of the tariff structure and removal of formula duties — put forward by the BTI in September last year, while basically sound, tended to reinforce the uncertainty.

"The credibility of any reform effort is undermined if firms are not confident that it will be sustained." In addition, it was unclear whether the new package actually made the

export market any more attractive than sticking with the domestic one.

Trade policy is not the only obstacle to an outward-oriented strategy. Others include the textile producers and, potentially, the powerful SA Clothing and Textile Workers' Union.

To compete successfully at the medium-to-high end of the international market, firms need a highly responsive and cost-competitive source of fabric, often made to precise specifications.

"Unfortunately... SA's large and complex textile industry can hardly be described as flexible, reliable and cost-competitive."

## Vociferous

Textile firms interviewed for the study were "vociferous" in the support for continued high protection and would have to be shaken by "explicit government decisions" from their "inward-focused... culture".

Opponents of necessary change include "the dominant textile firm, the major conglomerates (principal shareholders in seven other large textile firms), influential German and British multinationals, politically volatile cotton farmers in the far Northern Transvaal and perhaps the dominant the union".



# World Bank may give ET 28/10/92 356 money for education

Own Correspondent

**JOHANNESBURG.** — A key World Bank official yesterday said the bank could provide money for education and urban development in South Africa once it was satisfied with the political situation.

The bank's representative in South Africa, Mr Alun Morris, said here yesterday studies — particularly on education and urban issues — would enable the bank to move immediately once

the money was provided. He said money would only be provided at South Africa's request.

Mr Morris said the bank needed to be satisfied "consensus" had been reached politically. Monetary officials speculated the bank may agree to a request for money before an interim government, but after a return to negotiations.

Mr Morris said the bank was also probing the country's trade and industry, and its "complex" tariff structure.



## World Bank funds waiting for talks

GRETA STEYN (356)

A KEY World Bank official yesterday indicated the bank could provide finance for education and urban development in SA once it felt comfortable with the political situation. *BIDAY 28/10/92*

The bank's country officer for SA, Alun Morris, said in an interview in Johannesburg yesterday current studies — particularly on education and urban issues — would enable the bank to move immediately once it could provide finance. He emphasised that the provision of finance would take place only at SA's request.

Morris said the bank needed to be satisfied "consensus" had been reached politically. "We are not defining consensus," he said. Until then, the bank's role was confined to policy advice.

Monetary officials speculated the bank might be able to agree to a request for finance before an interim government was in place, but after a return to the negotiating table and some clarity on SA's future.

Morris is co-ordinating the bank's programme on SA and is in the country to obtain feedback on wide-ranging studies the bank has undertaken. The bank's director of the southern African region, Stephen Denning, was scheduled to arrive in SA next week to discuss current economic developments, Morris said.

He said the bank was intensifying its work on trade and industry and was looking into SA's "complex" tariff structure. The bank was also developing an integra-

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## World Bank *BIDAY 28/10/92 (356)* □ From Page 1

ted quantitative model which would include a number of variables including investment, exports and imports, inflation and employment. *(43) (53) (33) (34)*

The bank also planned workshops on land, agriculture and housing after what Morris described as two highly successful workshops on education.

Morris emphasised the bank was involving South Africans in its work, noting that sectoral studies were being done in a workshop environment. The main political and institutional interests were represented,

including key academics, trade unions and urban non-government organisations. The bank had been impressed by the strength of SA's non-government organisations.

The bank hoped that by the first half of next year all the information would be brought together in a coherent view of the economy, providing a historical perspective and a basis to make projections.

Studies that had already been completed included the macroeconomy, unemployment and manufacturing.



# Clinton 'may delay SA's World Bank, IMF links'

CT 5/10/92  
(356)  
(158)

JOHANNESBURG. — The SA Chamber of Business (Sacob) said incoming US president Bill Clinton could reduce SA's chances of any early return to full membership of the International Monetary Fund and World Bank.

Sacob said the Democratic Party was likely to take a tough stance on the need for political progress by delaying further normalisation of relations between the two countries.

"The election of governor Clinton could also reduce the chances of an early return to full membership of the IMF and World Bank by SA, depending on his political assessment of developments in South Africa," it said in a statement.

Sacob said the remaining US sanctions at state and city level could take longer to be phased out, and the US could insist on their replacement by stringent investment codes for US businesses investing in South Africa.

"In terms of South Africa's re-entry into the US market over the longer term, progress may well be hindered if a Democratic administration should espouse higher levels of protection," it said. — Reuter



IT IS NOT easy to attract or even retain investment in the bus business. Part of the problem is the government's lack of a comprehensive urban transport policy.

This has come under fire from several quarters, including the World Bank.

A recent urban sector mission to South Africa found that while the government's overall thrust is towards privatisation, deregulation and devolution in this sector, this actually compromises public transport efficiency by preventing coordination.

The mission said: "The complete deregulation of combi taxis opened up new opportunities for black businessmen, but in some respects the combi taxis have become victims of their own success with supply outpacing demand in many areas, resulting in 'wars' over routes."

Tight controls over fares by central government were also making the bus business less profitable and there has been a flight of capital out of the industry.

This nearly happened in Cape Town. Golden Arrow came into being as a result of the former City Tramways gaining control of the company in the face of a disinvestment decision by the previous owners, Tollgate Holdings.

Golden Arrow's manager of public affairs, Mr Bob Krause, admits that bus services are not what they should be, or what they used to be. He believes that this is due to a number of factors, all of which boil down to the planning logjam in the

# Govt action is inefficient — World Bank

South 7/11-11/11/92.

The Metropolitan Transportation Advisory Board (MTAB) recognises the priority status of public transport but is trapped into a planning ethos which regards the number of vehicles using the available road space as more important than the number of people that can be transported.

The company has successfully lobbied for a review of this approach, and managed to get the MTAB to give priority consideration to some short-term measures to make it easier to run buses and mini-bus taxis through the worst parts of Cape Town's morning and evening traffic congestion.

But the lack of funding ensures that little concrete is being done to turn these measures into reality.

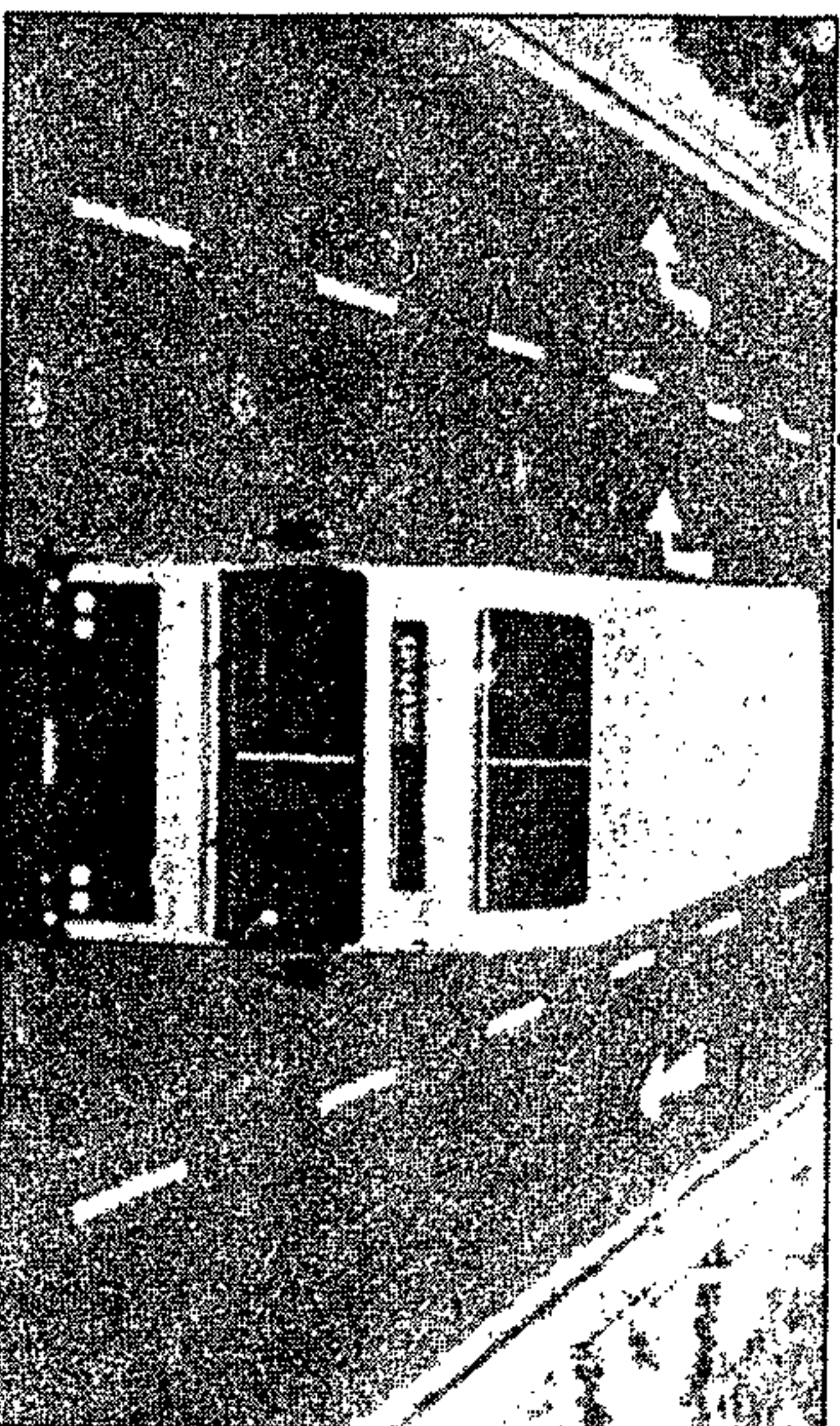
Added to this is the fact that economics has forced the company to review its operations and, as the World Bank study points out, ensure that bus services are driven by demand rather than supply.

Krause says this means that the company can no longer afford to run services that do not pay their way. This has meant cutting back on certain services, though services in high demand areas are being stepped up. Golden Arrow is doing its best to ensure that no area is left completely unserved.

Careful rescheduling and restructuring of duty rosters are being applied in an attempt to ensure that



85 cars with 100 people



A standard 100-seater double decker bus

the transition to less frequent and less regular services is achieved with as little disruption and inconvenience as possible.

"That's not easy to do," says Krause, "especially as we have to

phase in a reduction in the overall number of buses.

"We apologise for any inconvenience caused and would like to thank everyone for their patience and understanding. The new schedules are now being finalised and we will soon be able to provide accurate timetables once again."

Bus travellers can obtain the latest timetable information from Golden Arrow's toll free number (080 1212 111) during business hours.

To provide an adequate public transport system for greater Cape Town, Krause says the different public transport authorities should join forces with local authorities to plan and fund the system.

"We have been pressing for some form of partnership with the local authorities since the late sixties, but there is little evidence of anyone in the Cape Town city council or the Regional Services Council (RSC) being seriously willing to take the decisions needed right now."

"Everyone hides behind the MTAB and the lack of funds, or behind the much vaunted Public Transport Study, phase one of which is already behind schedule."

"What we need is a Metropolitan Transport Authority consisting of representatives of local authorities, commuters, public transport operators and private motorists to take sensible and speedy urban development decisions on transport-related matters," Krause says.



## NEWS IN BRIEF

BIDAY 30/11/92  
**World Bank warns Zimbabwe**

HARARE — The World Bank has warned Zimbabwe's government to do everything possible to improve the economy in 1993, before public confidence in its economic reforms is eroded. (356)

The bank urged Zimbabwe to move rapidly towards deregulating the economy, supporting exporters and improving the efficiency of parastatals. (356)

### 'IRA plotted to kill royal couple'

LONDON — IRA guerrillas planned to kill Prince Charles and Princess Diana with a bomb in a London theatre in 1983 but the bomber was a police informer and aborted the mission, London's Sunday Times said yesterday.

The claim was made by former MI5 security police informer Sean O'Callaghan and was confirmed by senior security sources in Ireland, the paper said.

### Calls for Lamont's resignation

LONDON — British Chancellor of the Exchequer, Norman Lamont faced calls for his resignation on Saturday after the Treasury said it footed £4 000 of a £22 000 legal bill to evict a sex therapist who was a tenant in his London home.

### Fire damages Hofburg palace

VIENNA — Fire swept through a wing of Vienna's elegant Hofburg palace, formerly the Habsburg family's imperial seat, on Saturday and caused damage estimated at £30m.

fixed assets



STAR 30/11/92. (356) ~~(352)~~

## Warning for Zimbabwe

**HARARE** —The World Bank has warned Zimbabwe to do everything possible to improve the economy in the coming year before public confidence in its economic reforms is eroded.

"Public confidence in and support for the programme could dissipate if benefits are not feasible in 1993," the bank said in a report made available at the weekend to the local Ziana news agency.

The bank, which is backing the reform programme, urged the government to move rapidly with the reforms by deregulating the economy, introducing

additional trade policies to support exporters and improve the efficiency of parastatals.

It also says the budget deficit must be reduced by cutting down on government expenditure.

The bank warned that the greatest risk in 1993 was the possibility that some of the policy reforms it recommended might not be implemented in full or on schedule, thereby eroding public confidence in the economic reforms. — Sapa-AFP.



STAR 1/12/92

## IMF, World Bank charged with going too far

TOKYO — International organisations such as the IMF and World Bank were exacting a stiff toll from poor nations in their attempts to spur economic growth, a high-ranking union official

told a trade union symposium yesterday.

Tan San Lim, director of economic and social policy for the International Confederation of Free Trade Unions-Asian and Pacific Organisa-

tion, said policies advocated by the World Bank and IMF sometimes required developing countries to undertake programmes which exacerbated poverty. (182)

Although aid organisations laid down many conditions for granting loans, Lim said pressure to privatise state-run organisations was particularly worrying since it threatened huge job losses, worse working conditions and an erosion of trade union power bases. (356)

"Privatisation is indeed of great concern, especially to workers and trade unions," Lim said.

### Economists

"What these neo-liberal economists in the IMF/WB have forgotten is that market failure still exists in a perfectly competitive world."

He said state-run companies often undertook worthy long-term projects that the private sector tended to avoid.

He questioned the assumption that public firms were usually inefficient and unprofitable.

### Conditions

Quoting the World Labour Report, Lim said 300 000 workers in the Pacific Rim moved each year in search of wealthier nations in which to work. Of that number, half moved illegally.

Lim deplored the conditions under which some of these workers lived and said countries with labour shortages should assist migrant workers in finding jobs. — Sapa-Reuter.



**T**HE pitfalls of aggregation are no more prevalent than in the matter of capital intensity. Broad conclusions have been drawn by many about developments in the SA economy that amount to rising capital-labour ratios, the accepted measure of capital intensity, much intellectual energy has been devoted to plausible explanations of the phenomenon, and even policy decisions, or official explanations given for policy decisions, have been based on this apparently socially undesirable trend.

SA has come under the spotlight of World Bank studies recently and in the past year or so at least three papers have revolved around the rise of capital intensity. International comparisons have been made of SA with other countries with comparable levels of per capita income, and the conclusions have been to the effect that "SA appears to be unusually capital intensive" and that "SA's economy-wide capital:labour ratios are more than double of those of Korea, Brazil, Mexico and Malaysia at comparable levels of per capita income."

Leading industrial economists in SA have also drawn attention to the rise in capital-output ratios for the manufacturing sector.

It has been a short and very obvious logical step to deduce that SA has developed a tendency towards a rising rate of unemployment due to this increasing level of capital intensity and that, given the already alarming rate of unemployment, industrial policy should be fashioned to combat this trend.

We have challenged all this in a paper at a recent conference held under the auspices of the National Productivity Council. Broadly, there has been a rising trend in capital-labour ratios for manufacturing industry since the Second World War, for example in the period 1946-51 of 6.2% a year, in 1951-58 of 2.1%; in 1958-74 of 3.6%, in 1974-81 of 5.3%, and in 1981-89 of 1.3%.

We gave specific attention to the '70s and '80s, noting the tremendous rise during 1974-81, and the subsequent levelling off during 1974-89. The choice of years coincided with the peak years of the business cycles

# High degree of capital intensity not inimical to labour

KEVIN LINGS and EDWARD OSBORN

8/10/89 2/12/92

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in order to minimise distortion to the comparison of the ratios, particularly when it came to the ratios adjusted for levels of capacity utilisation. Much ingenuity has been expended in providing general economic explanations for growing capital intensity.

The explanations include factor price distortions in the form of substantial increases in the cost of labour, accompanied by a relatively low cost of capital caused by periods of negative real interest rates, an overvalued exchange rate, that would tend to favour the import of capital equipment, the availability

of capital-intensive technology particularly from the developed countries; general labour unrest caused by trade union activity, accelerated depreciation allowances in favour of capital equipment; a lack of skills in that labour-intensive machinery requires more skilled labour than capital intensive techniques; and a general policy of import substitution resulting in a high concentration of ownership and a relatively small number of large capital-intensive businesses.

However, in making the growth calculations at the 27 major sub-group level that characterises SA

manufacturing industry, the picture is markedly different. First, there is a vast range of the capital stock in the sector, from as little as R44m in the leather and leather goods industry to R17bn in the broad chemical and chemical products industry.

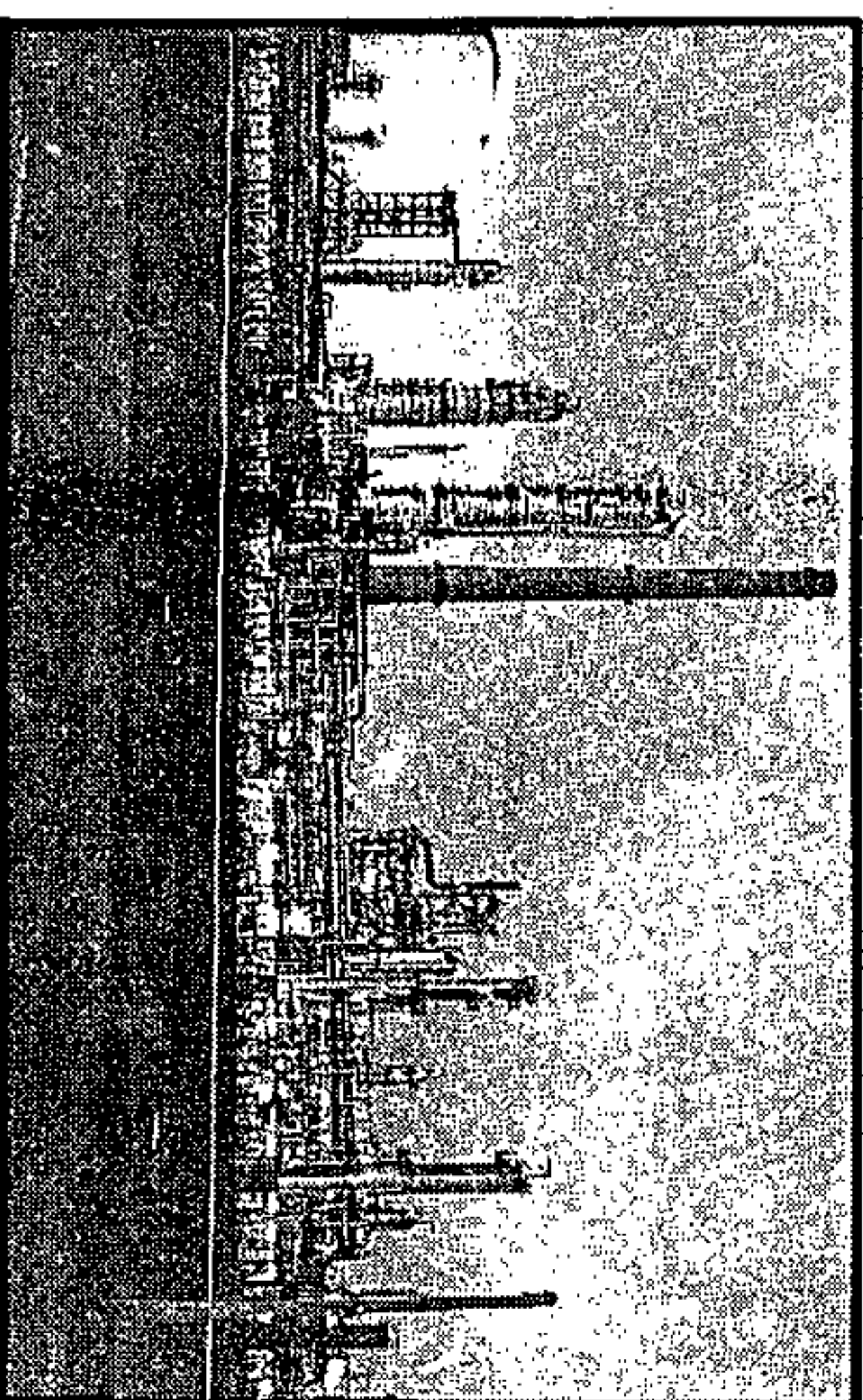
Equally there is a considerable range in capital intensity per employee, varying from R1 511 in the clothing industry to R151 094 in the chemicals industry (at 1989 prices).

There was also quite a spread in experience of growth rates of the capital:labour ratios, varying from a significant decline of 3.4% a year in the clothing industry to a large positive growth of 8.5% for the chemicals industry during 1974-89. But the main fact that emerges from the analysis is that the broad capital intensity developments have simply been due to certain very specific lumpy investments having been made at certain times.

Thus, during 1974-81 when capital intensity seemed to be soaring, as reflected in the average growth rate of the capital:labour ratio of 5.3% a year, the Sasol synthetic fuels development was taking place. The growth rate of capital intensity for the heavy chemical industry in that period was 19.8% a year!

For the whole of manufacturing industry, but excluding the chemicals industry, the growth rate of the capital:labour ratio turns out to be a negligible 0.5% a year.

Similarly, during 1981-89, the major new heavy industry was the



The Sasol project boosted capital intensity in the '80s.

pulp and paper industry — Sappi and Mondi. The growth rate for the pulp and paper industry was 6.5% a year, and if that is excluded from the manufacturing sector as a whole the growth rate adjusts downwards from 2.8% to a mere 1.1% a year.

In short, what has appeared on the surface to be an alarming growth of capital intensity in the manufacturing sector turns out to be the impact of developments in some specific heavy industries — in the early '70s of the iron and steel industry, in the late '70s of the synthetic fuels industry, and in the early '80s of the pulp and paper industry.

This is a very different picture from that conjured up by the overall results at the aggregated level of general capital thickening across all manufacturing industry. The policy implications are equally stark.

For one we must eschew the negative attitude towards capital that seems to intrude official thinking that capital somehow is inimical to the interests of labour as if there is a trade-off for each and every industry. This overlooks the main essence of modern industry: that its production structure is largely technology driven. Many policy prescriptions have been advanced to combat an apparent general rise in capital intensity in order to generate the much needed employment opportunities. Hence the abolition of investment allowances, the levying of differential import tariffs on capital goods, and the maintenance of high positive real interest rates.

**T**he World Bank recommendations which advocate direct controls over the utilisation of technology in favour of labour intensive techniques and the introduction of subsidies linked to a requirement that investment per employee be below a specified ceiling are also suspect.

Industrial policy should give full recognition to all the characteristics of an industry and its market environment and should not be forced into a common mould fashioned on preconceived social and economic objectives. The success of an industrial policy is not guaranteed merely because it identifies measures that are socially desirable within the current circumstances of the SA economy.

□ The authors are Nedbank economists.



# Four ways to fight unemployment

Star 2/12/92

**T**HE World Bank says one of the four ways to fight South Africa's unemployment crisis would be through special state subsidies to encourage companies to create jobs.

Such subsidies, says the bank, could be used as a temporary measure while longer-term solutions are ironed out, but with limits set on how long they run because of high costs.

Observers believe trade union controversy is almost bound to be stirred by a specific warning that two forms of labour market intervention must be avoided at present: aggressive national minimum wage policies and job-security regulations.

The World Bank has turned the spotlight on the scale of the unemployment dilemma amid growing alarm about the outlook for a 1992 total of 440 000 school-leavers now entering the labour market.

SA Chamber of Business manpower expert Gerrie Be-zuidenhou has warned that surveys show that only three in every 100 can expect to find jobs in the formal sector.

The situation has worsened year by year since the 1960s, when four in every five school-leavers were eagerly recruited by employers.

The recession has compounded problems, he adds. As many as 250 000 jobs have already been wiped out. Most manufacturing companies fear they may be forced to

order still more retrenchments in the next 12 months.

The World Bank has voiced its own concern in an analysis of unemployment in South Africa, the latest in a series of informal discussion papers on the economic scenario.

The introduction of special employment subsidies, based on the size of payrolls, has been listed as one of four obvious mechanisms by which more jobs could be created.

It is a notion likely to be viewed as by far the most controversial item in the list.

The other three are already familiar on the agenda of experts seeking solutions — state schemes to launch projects relying on labour forces drawn from the unemployment queues; encouragement of small businesses and informal sector activities; and the improvement of black labour skills.

The World Bank argues that employment subsidies form "a natural choice of policy instrument" when wages stand relatively high compared with the pool of surplus labour.

It notes there are two alternatives in the shape of such subsidies — average and marginal. While average subsidies cover every worker on the payroll, marginal subsidies cover only the number of additional workers taken on after a fixed date.

If employment subsidies were introduced, says the re-

**The grim jobs outlook for 1992 school-leavers has underlined the magnitude of the unemployment crisis. Now the World Bank has analysed the problems and joined the search for possible solutions, reports MICHAEL CHESTER.**

port, it would be more realistic if they were targeted towards sectors with a relatively elastic demand for unskilled labour — normally sectors that were labour intensive and had potential to tackle export markets.

But when such subsidy schemes were evaluated, their impact on employment creation needed to be balanced with the impact of costs.

They should also be regarded as temporary measures — used to ease unemployment problems while plans were laid for more permanent labour-absorbing structures.

In the short-to-medium term, it was likely that new jobs would be generated by the launch of special employment programmes.

It was important, however, that such schemes were located in areas where there were substantial concentrations of surplus labour, "otherwise local wage rates may be bid up to the detriment of employment outside the schemes".

Care had to be taken to en-

sure labour-intensive methods were used and that the burden on public expenditure was eased by keeping wages below normal rates.

The special employment schemes run in South Africa in 1985/86 had paid much lower wages than prevailing rates, yet there had still been a strong demand for jobs.

There were two forms of labour market intervention that should be avoided, given the current circumstances: aggressive national minimum wage policies and job-security regulations.

"While it is true that an aggressive minimum wage policy could redistribute income towards the lower-paid by raising their real wages," says the report, "this could operate only at the expense of an absolute fall in the real incomes of other groups."

"In other words, this is an inefficient method of achieving an income redistribution as it lowers the growth rate of gross domestic product. It is also true that difficulties have

been encountered with this approach in other countries.

"A number of countries have also introduced tight job-security regulations. While the exact format of such regulations differs widely, the common feature is that employers have to obtain government permission before retrenching employees or closing down factories and offices.

"The theory behind job-security regulations is that employment levels would be higher than otherwise, given fewer retrenchments.

"In fact, available empirical evidence suggests that the imposition of job-security regulations actually reduces employment as employers become more reluctant to hire additional workers."

The World Bank adds: "Over the long haul, great priority is likely to be attached to improving the skills of disadvantaged groups. This should prove consistent with the objective of redistributing income. It should not be assumed, however, that this will automatically lead to a major improvement in the employment prospects of such groups, as there is little evidence that unemployment declines sharply by education among black school-leavers below diploma or degree level.

"This doubtless reflects both the inferior quality of the education received by blacks

when compared to that of whites and the persistence of labour-market discrimination.

"In the immediate future, encouraging the acquisition of job-related skills by blacks could be of more immediate benefit, while a closing of inter-racial educational standards would be beneficial over the longer term."

One mistake that should be avoided was any discouragement of the informal sector.

It had been commonplace in southern African countries to discourage such activities through over-zealous application of municipal regulations and by denial of access to public utilities.

"There is clear evidence from studies carried out in South Africa that the informal sector is increasingly providing a sustainable source of income to a substantial proportion of its labour force," says the report. "As even the most optimistic scenario indicates that the formal sector will mop up unemployment quite slowly, informal-sector growth provides the only plausible route to fill the gap for many years to come."

The magnitude of unemployment in South Africa was not only a considerable waste of resources, it was also a major source of current social unrest. The generation of more jobs must remain high on the policy agenda for many years to come. □



# SA is set to join MIGA

S/Times

[8455]

6/12/92

By KEVIN DAVIE

(356)

SOUTH Africa is soon to apply for membership of the Multilateral Investment Guarantee Agency (MIGA), the World Bank's insurance arm.

Finance Minister Derek Keys has said that MIGA membership will be an important building block as part of an overall strategy to attract foreign investment.

The Cabinet has approved the application for membership, which is expected to be formally submitted within the next few weeks.

MIGA provides political risk cover to its 97 member countries. MIGA's Leigh Hollywood says he foresees no ob-

stacles as SA meets MIGA's requirement of World Bank membership. SA is a full member of the bank.

SA is to apply for developing status at MIGA, which means that investments — both by foreigners in SA and by SA companies offshore — will be eligible for cover.

Developed status would only allow insurance to be provided for SA companies making investments in other MIGA member countries.

Mr Hollywood says he understands that the Government is favourably consider-

ing an application at the moment.

A finance source says SA's representative at the International Monetary Fund, Frans le Roux, will sign an application for MIGA membership in the coming weeks.

MIGA provides political risk cover of up to \$50-million per project but has been involved in projects of up to \$600-million, co-insuring with other private and public insurers.

Formed in 1988 with authorised capital of \$1,082-million, MIGA now has 97 paid-up members with 71 more in the process of becoming members.

MIGA's guarantee programme is designed to encourage the flow of investment to less-developed countries by mitigating the political risks.

Its participation in a project typically enhances confidence that the investor's

rights will be respected.

MIGA protects against losses from currency transfers from the investor's inability to convert local currency returns into foreign exchange for repatriation.

It also protects against adverse changes in exchange control laws or regulations, but does not cover currency devaluation.

MIGA provides cover against expropriation, be it outright or creeping, where a series of acts over time may have the effect of expropriation.

Wars and civil disturbances are also covered by MIGA, as are breaches of contract by the host government.

"In keeping with MIGA's objective of promoting economic growth and development, investment projects should be financially, economically and environmentally sound, and should contribute to host country needs, such as job creation, technology transfer and export generation," says MIGA.



# Aid without conditions 'can be expected' for SA

SA COULD expect assistance from international aid and development agencies without any conditions in terms of broad economic policy, according to a UCT economist.

Writing in the HSRC publication Prospects, A M van der Heever said fears that organisations like the IMF would impose restrictive conditions by linking foreign currency loans to macroeconomic measures to restore domestic economic distortions, were largely unfounded.

"Both the external and internal macroeconomic balances of the economy are in good condition, that is, the exchange rate is stable and appropriate, and the inflation rate is far from being out of control.

"Despite a fairly high degree of deficit spending on the part of government, expenditure is not out of control and to date has been financed appropriately."

With access to IMF bridging finance SA could again experience net capital account inflows up to 1,6% to 1,7% of GDP, which would allow extended growth phases without requiring surpluses on the current account of the balance of payments.

Many of SA's socioeconomic concerns could be financed without having to make

use of scarce domestic resources. Such financing would be extensive once the process of transition had been finalised.

"However, it should remain the primary responsibility of SA to identify projects rather than rely exclusively on the expertise of donor organisations."

Expertise available locally far exceeded that of many other countries receiving aid from the World Bank, he said.

"The mismanagement of World Bank aid in other developing countries need not occur here. If it does occur, an opportunity for spreading wealth in SA without distorting either the capital markets or the tax system will have been wasted."

He warned that poor identification of development projects would waste donated funding and create recurrent financial problems.

"On the other hand, if these facilities are utilised within the context of broad macroeconomic plans rather than treated as one-off windfall gains, they could greatly enhance the necessary transition to becoming a manufacturing producer and exporter," he said.

18/12/92 28/12/92  
LLOYD COUTTS



## IMF, World Bank end dismal year

WASHINGTON — The IMF and World Bank are ending what should have been a year of celebration on a sombre note, faced with a stalling world economy and new fissures in Russia's economic reforms.

Charged with guiding the increasingly complex international monetary system, IMF officials said they were particularly concerned about an apparent breakdown during 1992 of a carefully woven system of economic co-operation among the world's largest and richest industrial countries. ~~RSB~~ (356)

That has raised the threat of world recession next year, with policymakers in rich nations going their separate ways rather than doing what is best for the world economy as a whole. *Blom 30/12/92*

For their part, World Bank officials are worried by their continued inability to lift the world's poorest countries — especially those in sub-Saharan Africa — out of the grinding poverty that has gripped them for decades.

IMF officials have been increasingly disturbed about what they view as a virtual collapse of economic co-ordination among the G7 industrialised countries — the US, Japan, Germany, Britain, France, Italy and Canada.

Monetary sources said the lending agency will press for countries to work more closely together so that upheavals in currency markets and other problems can be better avoided in the coming year. — Sapa-Reuter.



percent of purchases and other

season was disappointing, with says.

price advantage than usual.

# Exports of clothing at risk, industry chief warns

By David Canning

DURBAN — National Clothing Federation (NCF) president Aaron Searll has warned of the "early demise" of blossoming clothing exports unless a new system of import permits is introduced urgently.

And, in a look at likely conditions in the industry in 1993, the NCF has cautioned that the recent 20 to 50 percent rise in average import duties on fabrics could result in the loss of thousands of jobs.

Looking at likely business conditions, the NCF's Arnold Werbeloff says in the latest edition of Clothing Industry News that the sector faces a depressed local economy and a stagnant world economy.

The local consumer is not yet in a position to stimulate production volumes, he says.

## Volumes

He says volumes in the clothing industry fell by 7 percent during the period January-July 1992, compared with the same period in 1991, with the index now less than the 1985 average.

Textile production declined over the same period by 14 percent, with the index falling to 77 percent of the 1985 average.

As a result of these poor conditions, producer price inflation in the clothing industry rose 9 percent in the year to August 1992. In the textile industry the rise was just 5 percent.

In his presidential message, Searll says urgent replacement of Structural Adjustment Programme (SAP) permits has become essential.

Outlining the recent history of the permits, he says a formal



Aaron Searll... urgent replacement of permits essential

permit for the clothing pipeline was implemented in April 1989.

"This SAP, which was endorsed by all the participants, granted both industries a higher and fixed level of protection, to be gradually reduced after a period of five years, from April 1994 onwards."

In a sense the SAP had been years ahead of subsequent reports emanating from the IDC, Gatt and Sacob.

One of the major objectives of the SAP was actively to encourage exports by, inter alia, giving the local industries access to inputs at world prices.

This was achieved by issuing permits to exporters, enabling them to import raw materials duty-free.

As an afterthought, exporters also were allowed to use these permits to import finished goods such as clothing, the reason advanced being to supplement existing ranges.

"Latest official statistics for the 12-month period to March 31 1993, unfortunately indicate

that this concession to import finished goods has been somewhat abused."

Of the R344 million worth of permits issued, R160 million was for clothing, whereas only R114 million was for the import of raw fabric and R69 million for the import of raw yarn.

Despite this problem (which could easily be addressed by merely limiting the import of manufactured goods), the SAP was achieving its major objective, Searll says.

Exports of clothing took off from R190 million in 1990 to an estimated R550 million two years later. About 15 000 jobs had been created in the process.

## Provision

It was important to remember that the 1989 SAP made provision not only for permits to import duty-free, but also for a deliberate, tailor-made export incentive package, which later contributed significant features to the General Export Incentive Scheme (Geis).

The "phenomenal" growth of clothing exports had been underpinned by two factors — the duty-free permit provisions and Geis.

"Having recently heard that the above duty-free import permit provisions are to be terminated at the end of March 1993 (12 months early), it becomes critically important that the Government and the industry urgently establish a system to replace these permits, with an alternative of equal value.

"Failure to do so will in all probability herald the early demise of South Africa's blossoming clothing exports," says Searll.

## IMF, World Bank plans go awry

WASHINGTON — The International Monetary Fund (IMF) and World Bank are ending what should have been a year of celebration on a sombre note, faced with a stalling world economy and new fissures in Russia's economic reforms.

Charged with guiding the increasingly complex international monetary system, IMF officials say they are particularly concerned about an apparent breakdown in 1992 of a carefully woven system of economic co-operation among the world's largest and richest industrial countries.

It has raised the threat of world recession next year, with policymakers in rich nations going their separate ways rather than doing what is best for the world economy as a whole.

For their part, World Bank officials are worried by their continued inability to lift the world's poorest countries — especially those in sub-Saharan Africa — out of the grinding poverty that has gripped them for decades.

It wasn't supposed to be like this.

This was, after all, the first full year that both the IMF and World Bank became truly global after Russia and the other former Soviet republics joined the two institutions.

"While not every country agrees with everything the two institutions press for, virtually none feel they can be a part of the international economic system without being members," says an official.

The entry of Russia into the ranks of the IMF and World Bank has proven a mixed blessing.

The IMF particular has been harshly criticised for being too tough on Russia, demanding Moscow carry out painful reforms before it can obtain IMF money. — Sapa-Reuter.