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World Bank set to issue SA loan

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Weekend Argus Foreign Service

LONDON. — The World Bank is likely to issue a loan to South Africa mid year, if substantial progress towards an interim government is made.

Yet South Africa will continue to postpone public issues on the international capital market until an interim government is formed, said Dr Elias Links, Special Financial Representative to Europe for the Department of Finance at a seminar of the South African Foundation.

In the meantime South African foreign loans falling due for redemption this year would be rolled over privately. Foreign banks, mainly Swiss and German, tend to arrange sales of South African issues for their own private clients.

Dr Links did not specify the loans that needed to be rolled over, but said that public issues would be far too expensive.

South African Deutsche mark bonds, for example, are trading above 10 percent, about more than two percent higher than other Sovereign Deutsche mark issues, according to traders.

Private placements, however, are also expensive, say bankers. Clients will only accept South African paper on high yields.

Recent Department of Finance statistics indicated that around $520 million (R1,6 billion) of SA foreign currency denominated capital market issues were due for redemption this year, compared with $320 million (R980 million) in 1992.

Redemptions next year are estimated to be only $80 million (R246 million) and zero in 1995.

In 1996 and 1997, however, about $550 million (R1,7 billion) of foreign bonds are due for repayment. It is thus evident that SA foreign reserves will be under pressure this year, unless the loans are rolled over on favourable terms. So political accord is vital.

South Africa's total foreign debt is around $18 billion, said Dr Links and about $1,5 billion is due to be repaid this year under debt-standstill arrangements. A new agreement with bank creditors must be negotiated by the end of the year, but in the meantime informal talks have already begun.

There are several options, said Dr Links. There could be a fourth agreement on rescheduling or repayment negotiations with individual banks.

SA's foreign debt statistics, however, are now impressive.

In 1985, South Africa's ratio of debt to export earnings was 128 percent and now that ratio is down to only 65 percent.

"As a ratio to gross domestic product, South Africa's foreign debt, of around 17 percent, is only half that of Western hemisphere nations.

"About 70 percent of Nigeria's exports service its foreign debt. Yet the same proportion of SA exports would repay all of our debt, said Dr Links.

Delegates at the seminar said that South Africa's dual exchange rate system was still a disincentive for foreign investment.

Dr Links hoped that the financial rand would be eventually abolished, but indicated that it would take at least 18 months before the authorities could unify the exchange rate. Much would depend on an assessment of capital flows.

Interim govt is key to World Bank loan

STAR 20/1/93.

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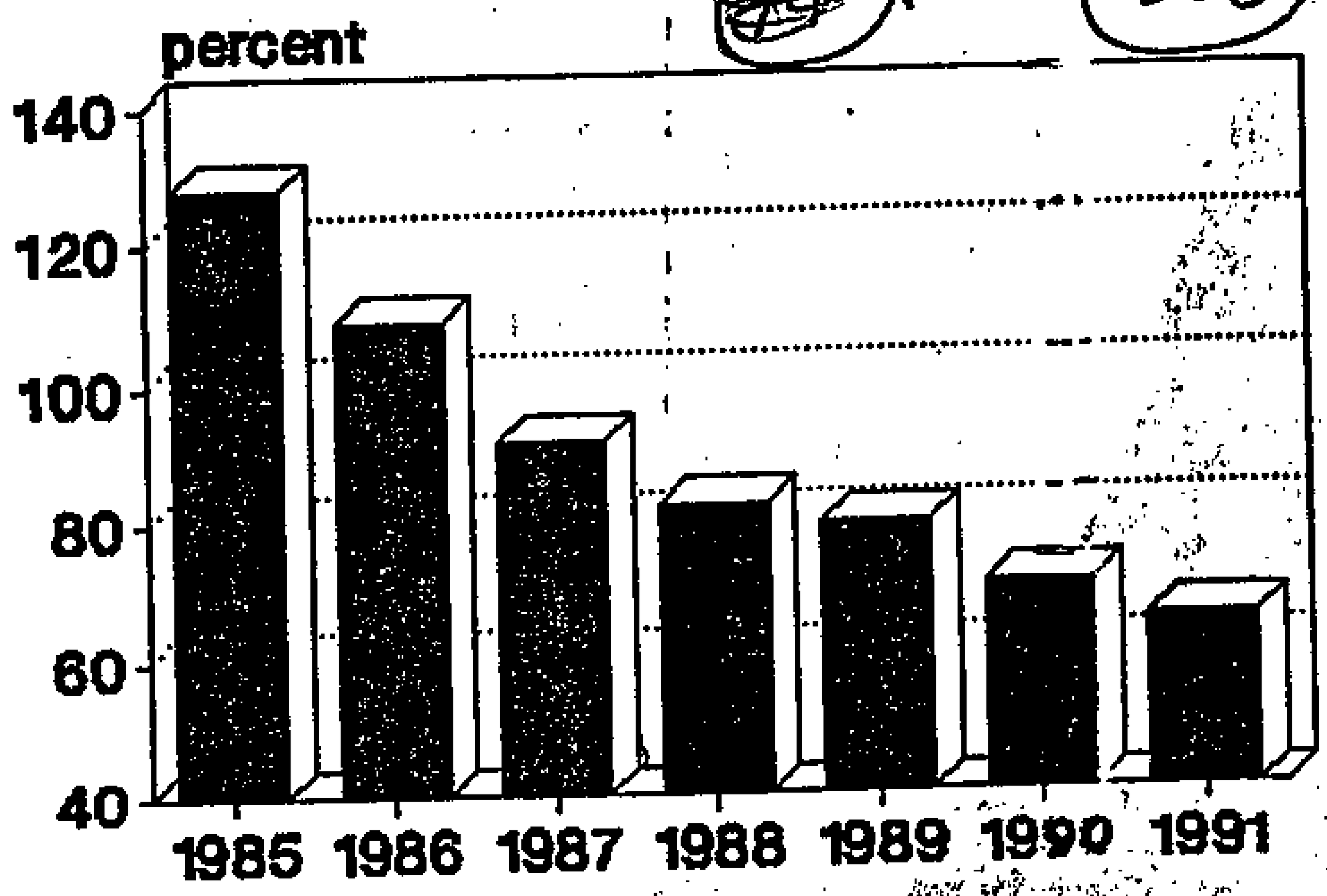
By Neil Behrmann



SA foreign debt as a percentage of exports

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Placing the rural poor of SA on the economic agenda

BDay 25/1/93. 356

GRETA STEYN

POVERTY-stricken families make up a smaller proportion of the rural population than about five years ago, according to a recent study on rural poverty in SA conducted for the World Bank. On the face of it, it seems SA has made some small progress in curbing rural poverty.

The report, based on secondary sources as time was limited, was handed to the World Bank last week. The authors are Simon Bekker and Catherine Cross of the University of Natal's Centre for Social and Development Studies, and Norman Bromberger of the university's economics department.

The study emphasises that numbers of poor have fallen as a percentage of the total rural population. The "very poor" made up 55% of the black rural population in 1990, down from 58% in 1985. The "very poor" are defined as people living in rural households with annual incomes of R2 000 or less (1985 prices). These statistics were derived using an Urban Foundation income distribution model.

It is important to note that absolute numbers did not fall; the growth in the number of poverty-stricken people was slower than the growth in the overall population.

Some academics regard the figures noted in the study as some small progress because of "trickle-down effects". The Urban Foundation income distribution study said "unless economic growth drops to very low levels indeed, further progress against poverty can be expected during the first half of the 1990s".

By contrast, the authors of the World Bank study emphasised that a statement on "across-the-board gains against poverty" was open to question. "It is questionable whether or not the apparent small percentage decrease in the proportion of rural households in poverty represents a significant gain in rural development terms."

Are the trends in rural poverty over 1985-1990 to be viewed as progress or not? Do these trends signal any important conclusions for policy formulation? One needs to examine the economic factors that have affected rural poverty.

The study notes that economic growth in the homelands (including the TBVC states) has been more rapid than the rest of the country, both in aggregate and per capita terms. Gross Geographic Product per capita in the homelands rose at almost 6% per year in the late 1980s, compared with less than 4% in the 1970s and 5% in the early 1980s. (In absolute terms, there is still a very large gap between per capita GDP in SA and the homelands).

"To conclude from this, however, that the average black rural homeland household is better off (and that the poor and very poor rural households have also benefited through trickle-down) is too simplistic," the report says. It emphasises the structure of economic growth in the homelands did little to benefit them.

Economic growth in the homelands reflected two factors — firstly, civil servant remuneration and, secondly, large agricultural projects and farmer-settlement schemes. The agricultural projects made large contributions to homeland economic growth, but often made a loss and were too capital-intensive. The study notes that the redistributive effects of these projects on communities were small. It also questions the extent to which civil service remuneration contributes to the redistribution of wealth beyond the urban and rural bureaucratic elites of the homelands.

If economic growth in rural areas should be discounted as making any contribution to alleviating poverty, to what extent did remittances from urban areas play a role? While the number of migrants rose over the last decade, formal employment did not grow at the same rate. There was real growth in black wages in the non-primary sectors, but there was evidence of moderate real wage declines in less skilled occupations.

The flow of real remittances did not rise, the authors argue, and probably fell in the last few years of declining SA GDP since 1989. (They noted, however, that the Urban Foundation model on which the statistics were based assumed a real increase in remittances between 1985-1990).

The possibility that better conditions in the cities were "trickling down" to rural areas was further scotched by trends in urban poverty. The study notes that in the five years since 1985, poverty in urban areas had risen by 28%. The rapid rise in the numbers of urban poor represented poverty "exported" from rural districts.

A relative decline in rural poverty is partly due to its "export" to the cities

"Exporting" of poverty probably also accounts for the fall in the actual number of rural poor in the provinces (non-homeland rural areas). In commercial farming areas, a preference for skilled labour appears to have combined with the drought and debt crisis to displace significant numbers of unskilled farmworkers and their families.

However, the report states there is no doubt that increased social transfers by the state made a large contribution to cushioning the blow of negative economic factors. Average old-age pensions received by blacks grew by roughly 50% in real terms between 1980 and 1987. The number receiving old age pensions rose by more than 40% over the same period. By 1985, 56% of households were receiving old age pensions.

Rapid growth in the core economy would benefit poverty-stricken households, but the rural poor would probably be the last to gain from economic expansion in SA, the report argues. This implies the need for specific action to deal with poverty, of which direct transfers from the state seem to offer the best results.

But, the authors add: "In the absence of a viable rural economy, providing employment and opportunities for production, transfer payments may be creating a dependent welfare culture." Channelling further direct assistance into rural districts carries a high risk of promoting further dependence.

The authors recommend implementing public works programmes linked to infrastructure and service delivery. They also call for assistance with agriculture, and education and skills training, and emphasise the need for effective rural government. Breaking the isolation of rural communities is important.

While the report is yet another in an endless series of studies on the SA economy, its analysis focuses on the truly destitute. It places the 17-million people defined as "poor" firmly on the economic agenda.

Economic policymakers should take note when they decide on matters such as the zero-rating of VAT, equalisation of pensions, job creation programmes, support for small business, support for capital-intensive export projects, and monetary and fiscal policy.

BUSINESS Aim to develop and retain skilled labour ● Tanzanian academic for Soweto

Educationist warning to Africa

Sowetan 28/1/93.

■ BRAIN DRAIN Exodus of skills from Africa must be stopped at all costs:

28/1/93

356 [redacted]

By Mzimkulu Malunga

WITHOUT economic improvement, Africa will not be able to stop the brain drain, says William Saint, higher education specialist in the human resources division of the World Bank.

Interviewed in a recent issue of a World Bank publication, *World Bank News*, Saint argues that while the continent's economies struggle to lift themselves out of the doldrums, certain interim measures could be applied to halt the flight of skills out of Africa.

Performance incentives, merit rewards, access to computers, opportunities for remunerated research and occasional participation in international scientific meetings are some of the measures African governments could apply to stop massive migration of skilled labour.

Many institutions of higher learning in Africa are experiencing problems in keeping talented academics on campuses.

A sharp decline in funding has eroded salaries, making it hard for universities to produce graduates equipped to compete in national and regional labour markets.

In many countries, a holder of a doctorate degree may earn about the equivalent of R900 a month. Lecturers in certain countries earn as little as R57, which is barely enough to buy food for the week.

Faced with this dilemma many African professionals leave their countries to look for greener pastures elsewhere — mainly in Europe and the Americas.

A factor which compounds the situation is the fact that enrolments keep increasing. The continent's university population grew 61 percent between 1980 and 1990.

On the other hand higher education's share of African governments' budgets dropped from 19,1 percent in the early eighties to 17,6 percent towards the end of the decade.

Stals seeking debt rescheduling

STAR 24/7/93

LONDON — South Africa would seek a new rescheduling agreement with its commercial bank creditors before the current pact expires at the end of 1993, the Governor of the Reserve Bank, Dr Chris Stals, said yesterday.

The current arrangement covers $5,5 billion of SA's total external debt of $18 billion, the rest not being subject to any restrictions over payment.

"Before the end of this year, we will have to come to a new arrangement with the foreign creditors on what's going to happen to that debt," Stals said.

The central bank governor was in London to address the City of London Central Banking Conference organised by Cityforum and sponsored by the World Gold Council.

Stals said that theoretically the $5,5 billion would immediately become payable unless a new agreement was reached.

He said the debt was small in terms of developing country indebtedness worldwide, but was a serious problem for South Africa whose total foreign reserves amounted to $3,5 billion.

Political change

"The major problem is that we have a country that is undergoing major political changes. It's a matter of time before a new kind of government takes over responsibility," said Stals.

This made it very difficult to enter into a new agreement with the country's 230 commercial creditors at this point.

"Ideally, we would like to have not only a longer-term arrangement, but a final arrangement," Stals said.

"South Africa has made substantial repayments on its foreign debt over the last eight or nine years and we will want to continue and repay that total amount but, obviously, it will have to be spread out over a reasonable period of time."

One banker, who was involved in the negotiation of the current rescheduling pact, said SA would have little difficulty in selling such a deal to creditors.

The debt has been subject to three rescheduling arrangements since international banks imposed a freeze on new credits to South Africa in 1985.

Stals said that under the current rescheduling, SA would pay banks three instalments this year. Taken together with its other commitments, the country would pay $1,5 billion this year.

Stals said relations between SA and the multilateral financial institutions were gradually being normalised.

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Studies

He said the World Bank had been carrying out feasibility studies in SA and that the International Monetary Fund (IMF) regularly carried out consultations.

"But so far we have not had to apply to the IMF for any financial assistance and the World Bank has not committed itself to any assistance to SA, pending political developments," Stals added.

"All these things will become much easier when an interim government is in place." — Sapa-Reuter.

Polluting the Niger

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Guardian/W in W/Mail 29/1-4/2/93

DEVELOPING AFRICA can only happen through creation of wealth and employment. Since the basis of our wealth is the "primary" sector, I was thrilled to meet an entrepreneur who wants to build a tannery. What could be better? The Sahel has been for a thousand years the producer of meat and hides for the Coast. Lagos feeds on the cattle from Kano and Sokoto. In Accra and Lome, they consume meat from the regions of the upper Volta rivers. Abidjan feeds off the cattle herds of Mali, at least until the European Common Market started dumping surplus meat along the Coast. (And the Europeans pretend that they are *aiding Africa*?) But even if we cannot sell meat like we used to, we still have lots of cattle, and good tanning adds value to the product.

Mali's national production of hides and skins is around 10,000 per day. My friend Mustapha (not his real name since this is unfortunately a true story) wants to put up a tannery with a maximum capacity of 2,000 per day: and he has a fairly ambitious target to tan 50,000 per month, which is a high percentage of the actual production of skins around the capital city of Bamako. As you would expect, there is already one tannery which doesn't work. The French built it in 1978 in the far west of the country beside Senegal. It has a potential output of 2000 hides per day, far too big for a remote corner of Africa. Now why did the French and Germans fund a tannery, which in the five years 1979-84 worked spasmodically for only 19 months, and then stopped with a cumulative debt of $6 million? According to a UN analyst, the tannery was built to produce "wetblue", partially finished hides: yet there is an enormous pigmentation machine installed for "finishing" hides, which never has and never could function in such a climate. Again why? I wonder whether it has anything to do with backhanders? I do not know the truth; but I sure know that it ain't "development".

By Robert Lacville

Mustapha's tannery needs funding for around $2 million. He can raise up to 20 per cent, and needs a bank loan for the rest. The biggest lending bank around these parts is the World Bank, and naturally Mustapha was excited to be invited to present his project to a delegation from the bank. "The factory will produce 31 jobs", he explained, "and in addition to these there will be extra profit and additional jobs from the byproducts. The horns can be cut up, using a simple circular saw, and different parts can be used to produce bone buttons, bone carvings, knife-handles, and hair combs; and we can utilise even from the soggy base of the horn, which will be ground into organic fertiliser. So I shall be producing a maximum of value from Mali's indigenous production, and making small extra profits from the by-products." Mustapha sat back in his chair exhausted, but still glowing with pleasure at having presented his project, at long last, to a potential backer.

The World Bank team shuffled through Mustapha's papers. There was an American, a Senegalese, a Frenchman, all in suits and ties, all carrying black briefcases with combination locks. It was the Frenchman who spoke first. "Your project does not geeve a verry 'igh reeturn on invested capital." "That it true", replied Mustapha. "But the calculations are relatively conservative, and they do not take account of the by-products which will produce additional jobs and additional wealth." "We are not looking at wealth and jobs," commented the American "we are looking at financial returns!" The Senegalese said nothing.

Mustapha felt a little less confident. "You must understand," he said, "that I have not designed this tannery to make a quick profit. Indeed, the Ministry likes it because it is intended to ensure a long-term regular income; and provide long term employment for the 31 employees. It will help my country to exploit more profitably its natural resources. In September 1991, the French suddenly closed their market to all hides and skins which did not meet new and rigorous standards. There is no tannery in Mali which is equipped for this. So we will not only be making a profit for our tannery, but for the whole of the cattle industry of Mali."

The World Bank delegation did not respond. They studied the papers. The Frenchman spoke again. "The problem ees your water treatment station. It is going to cost you $320,000. It ees also expensive to run the treatment station. Take that out of ze project, and you get a far better rate of reeturn from your tannery."

Mustapha's mouth fell open. "But I cannot possibly take the treatment station out of the project! If I do that, I have to pump untreated effluent into the Niger River." "And your tannery becomes financially worth supporting, " replied the Frenchman. The American nodded. The Senegalese remained silent. Mustapha pulled himself together, and sat forward on his chair. "My treatment station will clean up my effluent, and also produce water which I can drink! It will also allow me to recycle 50 per cent of the chrome, and therefore reduce my chemical imports. If I cut out the treatment station, I shall have to pump untreated animal detritus into the river, together with live chrome and sulphur. After three years, that part of the river will be dead. You must agree that it is out of the question?" The two white men shook their heads at him. The Senegalese looked uncomfortable, avoiding Mustapha's gaze.

Mustapha tried again. "Only a few weeks back, I met a World Bank official who greeted my water treatment station with joy! He was looking at environmental impact, and when he saw the way in which my tannery was set up, he offered me congratulations! Surely you can see that the first 20 per cent of the costs go into protecting the environment, and it is that and that alone which makes the other 80 per cent possible? You shouldn't be *criticising* my plans: you should be offering me an environmental medal!"

"Monsieur Mustapha, I am sorry to tell you that the environment comes under the Agriculture Division, and they have nothing to do with us. We are from the Finance Division, and we have to tell you that your tannery project, while it has many merits, I am sure, does not have the sort of financial returns which the Bank is looking for. I am afraid that we cannot consider financing the project as it stands, with its unprofitable water treatment unit."

"And for you, Monsieur Banque Mondiale, I shall not remove the water treatment station. I shall not destroy the natural resources of my country. Non, monsieur. I intend this project to be a model for environment protection. I intend it to bring real economic profit to Mali, and not just financial profit to the World Bank. I intend it to be a long-term source of income for me and my family and my workers: and I shall not poison their families or my family by pouring toxic waste into the Niger River. So if you do not wish to fund my tannery, then I wish you good day!" Mustapha walked out. The Senegalese hung his head; but he said nothing.

Washington Letter by SIMON BARBER

World Bank won't give SA any fast fixes

CT 9/2/93

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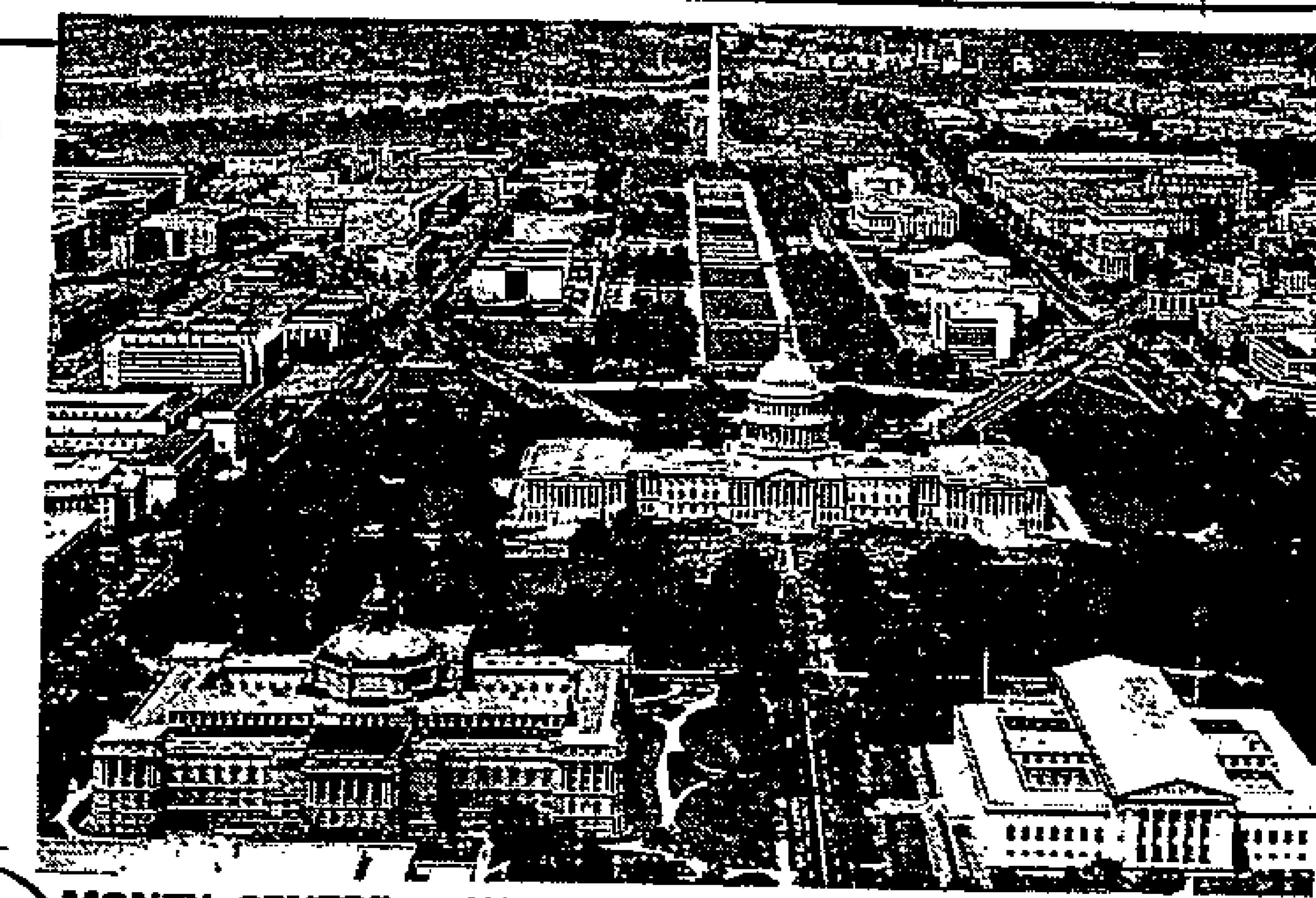

MONEY CENTRE... Washington DC, home of the World Bank which is considered by many who should know better as the ultimate sugar-daddy.

IT IS now common cause between the major parties — and indisputable, to boot — that the longer South Africa takes to get its political and constitutional house in order, the bleaker its economic prospects. The ANC and the government have evidently agreed to let this linkage force the pace of negotiation. In a sense, both sides have acknowledged they are under equal pressure from the sanctions applied by the invisible hand of the marketplace.

In most respects, this is an excellent development. But, as always, there are downsides. One is the temptation to exaggerate the economic consequences of not reaching a settlement in order to impose quick-fix constitutional arrangements from the top down. Another is the overselling of the degree to which aid and investment will start gushing in once a non-racial government has been established.

Third, some of those making this dubious pitch may actually believe it themselves and thus feel less inclined to abandon certain old and cherished ideas, confident that whatever they do will be subsidised by an outside world anxious to assist in building a new South Africa. This is a dangerous delusion.

Foreign donors and lenders may have encouraged it elsewhere in the past. Now, thanks to experience and tight resources, they have been obliged to re-evaluate.

Exuberant abandon

A clear understanding is therefore needed of what will actually happen on that glorious day when the ANC finally decides to declare South Africa open for business. Or at least of what will not happen. In which regard, consider the World Bank, an institution which many who should know better persist in regarding as the ultimate sugar-daddy.

A lot of people seem to have got it into their heads that as soon as some kind of interim government is in place — whether it be the transitional executive that is supposed to take over around mid-year, or the elected assembly pencilled in for early 1994 — the bank will begin shovelling cheap money into the economy with exuberant abandon. John Chettle, former director to the South Africa Foundation's Washington office, has predicted lending on the order of a billion dollars a year.

The same figure appears in promotional literature for the forthcoming "Made in USA" trade expo in Johannesburg, whose organiser, David Altman, says he got the number from banks and other supposedly knowledgeable sources in South Africa.

Such projections betray a basic innocence of what the World Bank is and how it operates — an innocence, it must be said, for which the bank's own public relations machinery is partly responsible.

Two kinds of loans

Last year, I asked Marilou Ingram of the Africa Department's external affairs office for help in preparing a straightforward description of how the standard World Bank loan worked. She gave me a stack of policy speeches by the department's chief, Edward Jaycox. What I needed was the disbursement handbook.

The key concept to haul aboard (and a phrase that did not once pass Ingram's lips) is the project cycle.

The International Bank for Reconstruction and Development — which is the bit of the bank South Africa will chiefly be dealing with since, at this stage anyway, its per capita GNP is too high for it to qualify for the concessional support of the International Development Agency — offers two basic kinds of loans.

One, by far the larger category and accounting for 70% of current lending, is for investment projects. The second is to assist pre-agreed sectoral and structural adjustment programmes.

In each instance, the bank provides the borrowing country with foreign exchange to purchase imports on terms — last year's average rate was around 7,7% — it would not be able to obtain on the open market. About 40% of project loans are confinanced by other governments and commercial lenders.

Projects typically financed by the bank encompass agricultural and industrial development, transport, education, health and nutrition. Borrowers have to work out for themselves what they need, though the bank helps identify priorities.

Water, sewerage

This is what it is doing in South Africa now. It is studying the economy and figuring out how best to advise the borrower when there is one. There isn't one currently because the bank's executive board has decided it will not lend until there is a government that at least pretends to represent the population.

Nonetheless, stage one in the cycle — project identification — can be said to have begun. Areas in which the bank thinks it could make a contribution include health and education (finance for clinic and school construction and training for teachers and medical staff) and urbanisation.

One strategy under consideration is to invest in water and sewerage in areas outside city centres. The idea is to raise land values and mobilise capital for housing development.

At all events, it will be up the the new government to make the final cut on what it wants to do. The process generally takes between one and two years, according to the bank's guidelines. In South Africa's case, allowing for work already done, say a year from the time the government become eligible to borrow.

The next stage is project preparation. The bank needs to see a detailed plan, which must, among other things, take into account whatever happens to be the institution's fixation du jour. Women and the environment top the chart at the moment.

Planning is largely the borrower's responsibility, though the bank is generally willing to advance up to $1 m (about R3 m) per project from its Project Preparation Facility. Help can also be sought from UN agencies, regional development banks and bilateral donors. This phase tends to last between one and three years.

Turning sour

Presently, it would be wise to err on the longer side. A recent review of the bank's project portfolio, the Wapenhans Report, has revealed that the share of projects with "major problems" has been rising steadily, to 20% in 1991, the majority in Africa.

Thirty percent of projects in their fourth or fifth year of implementation were judged to be turning sour, including 43% of those dealing with water supply and sanitation. "This may mean longer preparation time," wrote bank president Lewis Preston in a cover note.

Assuming South Africa is recognised as a borrower by year's end, chances are it won't be ready to present the bank with acceptable plans before 1996. Even then, no funds will begin to be disbursed until stages three and four — appraisal and negotiation — have been completed. These can consume the best part of yet another year. At which point loan proceeds are placed into the "pipeline" to be tapped as work on the agreed projects moves ahead to the bank's satisfaction. The lifespan of the standard project is around six years.

To be sure, there is also the possibility of an adjustment loan not tied to any specific project. But this will not be instantaneous either. The new government will not only have to justify it, but also commit to certain economic policies and convince the bank that they are sustainable. This may be beyond the capacity of an interim government, even an elected one.

Furthermore, such loans do not come in lump sums, but rather in tranches payable as agreed reforms are implemented. Most are to enable the borrower to purchase an agreed list of imports.

Generally, the borrower must prefinance the imports and claim reimbursement later.

None of this is to say the bank won't be helpful. It will be, as a lender, adviser and stimulator of investment by others.

It may even be a useful scapegoat. But it isn't going to provide any fast fixes. No one is going to do that. There are no sugar daddies.

World Bank 'must help'

(356)

Own Correspondent

LONDON. — The time is ripe for the World Bank and other global donors to support peace initiatives and to redress the legacy of apartheid, the Financial Times of London said on Monday.

An editorial said the power-sharing proposals agreed by President F W de Klerk and ANC president Mr Nelson Mandela were a victory for pragmatism.

But it was imperative for the proposals to encompass Chief Mangosuthu Buthelezi, whose denunciation of the agreement over the weekend "augers ill".

The paper said the government and ANC should now "invite the World Bank and other donors to support health, education and housing programmes to help redress the apartheid legacy.

(355A) CT 17/2/93

"The sooner efforts get under way to meet the aspirations of black South Africans, the better prospects for a new administration."

THE WORLD LAST NIGHT

SA missile technology could hit IMF loans

St Times 21/2/93.

From Simon Barber in Washington

SOUTH AFRICA's multi-billion rand commercial space launch programme could prove a serious impediment to World Bank and IMF loans if a new government decides to continue subsidising it, assistant-secretary of State for Africa Herman Cohen warned in a farewell interview.

"The new government is going to have to decide whether this is something they want to spend money on ... the IMF and World Bank may have trouble giving South Africa cash and having it flow into this sort of project."

Armscor-successor Denel and its subsidiaries, Houwteq, Somchem, Kentron and Eloptro, plan to launch a low-orbit imaging satellite developed with a UK firm, Surrey Satellite Technology, from the De Hoop range in 1995.

If sufficient foreign investment can be found, the Denel group hopes to become a major competitor in the currently glutted and stagnant commercial launch business.

The US, the largest World Bank and IMF shareholder, already takes a dim view of the programme, and fears it may contribute to the spread of "weapons of mass destruction".

Despite assurances from President FW de Klerk that the intention is purely civilian and peaceful, Washington believes the booster Denel is developing could easily be converted into a long-range ballistic missile.

In 1991, the Bush administration was obliged by Congress to slap a total embargo on Armscor after determining that it had received booster components from Israel — on whose Shavit-class launcher the SA programme is based.

The administration was not well disposed towards Armscor at the time. The company and several subsidiaries were, and remain, under indictment for a massive arms smuggling operation.

The sanctions now apply to Denel and its subsidiaries.

Mr Cohen, who is to be replaced in mid-March, appeared to be sympathetic to the South African position, stressing that the sanctions — which have also been applied to firms in Russia and India — were the idea of Congress, not the administration.

"Anti-proliferation in the psyche of Congress is like anti-communism was in the 50s. You must by all means prevent every government that does not have missile technology from getting it. We don't care whether they're friends or enemies, we must prevent it."

South Africa has made various proposals to obtain a waiver from the sanctions, including a promise not to export its technology.

There has been an offer to open facilities for inspection, and Pretoria has asked to join the Missile Technology Control Regime, a club of nations which have the technology and have pledged to restrict transfers to non-members.

The problem, said Mr Cohen, was that "our experts tell us that you take a space launcher and turn it 45 degrees and then you've got a missile launcher. Therefore we can't consider South Africa to be free of the proliferation threat."

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Armscor tells Arabs it will end Israeli ties

MANAMA, Bahrain: South Africa's arms industry has turned its back on Israel as it continues to woo the Arab world.

A senior official of Armscor this week told a Gulf state newspaper that the company intends to cease military co-operation with the Hebrew state.

The close military co-operation which linked South Africa to Israel was the result of its "needs" and with the end of those needs South Africa "is moving to end that co-operation," said Tielman de Waal, executive general manager of Armscor.

Mr de Waal was reported in the daily Al-Hayat as saying that although "there are still a number of contracts being executed with Israel, these will not be renewed".

He made these remarks at the four-day IDEX 93 arms show that ended this week in neighbouring Abu Dhabi.

South Africa and Israel have had military links for years, mostly involving hi-tech weapons such as fighter aircraft and missile systems.

Speaking from Abu Dhabi, where 10 of Denel's divisions exhibited more than 90 products, Mr Johan Alberts, managing director of Denel, said the company was going all-out to position itself as a global player. The drive is aimed at the South African and international markets and concentrates on armaments sales as well as industrial and commercial products, Mr Alberts said.

— *Foreign Desk*

Policy vacuum

■ World Bank likely to 'wait and see': (356)

By Mzimkulu Malunga

ONCE South Africa has access to international finance, relations with the World Bank will be more symbolic than real, says the Standard Bank's economic division.

According to an analysis on possible future relations between South Africa and the World Bank, that institution is likely to adopt a wait-and-see attitude towards this country. Sowetan 11/3/93.

Quoting sources within the World Bank, Standard's economists report that officials of the World Bank say they will not lend money into what they term a policy vacuum, meaning South Africa has to clarify its economic policy. Even then, the World Bank's response will depend on its acceptance of such a programme.

World Bank helps in study on massive park

MARIANNE MERTEN

A FEASIBILITY study for the world's largest game reserve, which would cross at least three international borders, is under way in Mozambique with the aid of World Bank finance. BIDAY 8/3/93

The Transfrontier National Park, as the area would be known, would link areas south of Maputo Game Reserve with the Kruger National Park and extend to Swaziland's Llembombos and Malualua reserves. Eventually the conservation area could include Zimbabwe's Gonarezhou National Park.

When the scheme was first discussed in mid 1992, the World Bank agreed to pay \$24m in two instalments. The Global Environmental Facility also supported the project.

"The area was identified as a unique and complementary ecosystem, although artificial boundaries exist," said Mozambican Department of Forestry and Wildlife director Batolomeu Soto.

Ancient east-west wildlife migration patterns will be re-established if the Transfrontier National Park is set up. Mozambique's tourism potential would also increase.

The department was looking into the possibility of ecotourism and hunting safaris to attract overseas tourists and foreign currency, said a department adviser.

The study, which involves Mozambican and international experts, will look at security issues and how an international border running through the conservation area would be managed.

Said Soto: "We are going through a delicate political phase in which Renamo is playing an important role. Our project must go harmoniously with this process."

Poaching in Mozambique's game parks is rife and has decimated wildlife, although no statistics are available because of the 16-year war.

It is estimated that the pre-war elephant population of about 300 in Reserva Maputo has declined to 50. Only 5 000 of Reserva Marromeu's 55 000 strong buffalo herds had survivied, said the Forestry and Wildlife Department's adviser.

Both Renamo and government financed the war through illicit ivory and rhino horn trade, and rural communities killed game for food.

The Transfrontier park would link Mozambique's Banhine and Zinave National Parks. Areas between them would be allocated as multiple utilisation resource areas, where local people would be involved in the management and land utilisation.

Managers selling training skills

JOHN DLUDLU

THE recession and retrenchment of senior managers has led to the mushrooming of one-man training consultancies, sources in the industry said. BIDAY 8/3/93

They complained that there was little control of these consultancies, no regulatory authority and no sign that government planned to intervene.

First National Bank small business unit manager Willie Holl said there had been an increase in consultancies as companies retrenched senior management staff to reduce costs.

It was difficult to find employment at senior levels, and retrenched managers usually resorted to starting up consultancies. Most common were in the communications and management fields.

Business Skills Consulting Group's Peter van Ryneveld said initial costs of starting one-man consultancies were not that high.

Companies were using a number of them since it was cost-efficient to employ a training consultancy rather than maintain a massive training department.

Van Ryneveld believed chances of government regulation were slim in the foreseeable future.

'Spread of doctors is too uneven'

ADRIAN HADLAND

BIDAY 8/3/93

PRETORIA — There was an uneven distribution of medical practitioners in SA resulting in critical shortages of medical manpower in rural areas, Health Minister Rina Venter said.

Speaking at the Polish embassy at the weekend, Venter said the health status of SA compared favourably with other developing countries, but government was "aware of the inaccessibility to health care by the major part of our population".

The shortage of doctors in rural areas and the inaccessibility of a quality health care service was being addressed in the planning of health care strategies, she said.

Rapidly increasing urbanisation had also had a profound influence on the health status of communities in informal housing settlements on the outskirts of towns and cities.

"It is therefore understandable that we have given a high priority to primary health care services as it is of vital importance."

SA's population growth of 2,6% a year, together with the fact that about 38% of the population was under 14 years old, had added to the difficulties of providing health services of a high standard, Venter said.

The World Health Organisation target for the year 2000 was at least 5% of a developing country's GDP being devoted to health care. SA's total budget allocation for health was around 11,2%, she said.

Venter paid tribute to the "significant achievements" of Polish medical practitioners practising in SA's urban and rural areas. The work of many Polish doctors as well as their contributions to medical research had been invaluable, Venter said.

More than 7 000 Polish-born people were resident in SA, while 503 Poles immigrated to SA last year.

World Bank could grant SA $150m in loans

8/10/71 11/3/93

TIM MARSLAND

SA can expect to receive about $150m in assistance from the World Bank, according to a Standard Bank report.

It said indications were that the World Bank had classified SA in the same grouping as Mexico and Brazil.

"If one looks at the total amount of official development assistance extended to both of those countries in 1990, then as a proxy for the sort of amounts which SA might have expected to receive, these amounted to $140m in the case of Mexico and $164m in the case of Brazil."

It said discussions with the World Bank indicated most assistance would be in loans from the bank's International Bank for Reconstruction and Development (IBRD).

Conditions for the repayment of the loans would probably include a four-year repayment moratorium, 15-year maturities and an interest rate of 7%-8%.

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SA's level of per capita income rendered it largely ineligible for many of the bank's initiatives which had been developed specifically for structural adjustment in Africa.

Although it had been suggested that SA could hope to benefit from as much as R1bn in bank assistance once relations were normalised, there was, in theory, no upper limit.

World Bank aid unlikely to flood in

WkMail 12/3-18/3/93. (356)

Weekly Mail Reporter

THE billions in World Bank aid money which many believe will flow into post-apartheid South Africa are unlikely to materialise in the near future, according to recent research by the Economics Division of Standard Bank. The country's per capita income is too high and its economic policy climate too uncertain.

World Bank lending to sub-Saharan Africa has increased steadily, from an average \$2-billion in the period 1983 to 1987 to \$3,8-billion between 1990 and 1992. The normal facilities offered by the World Bank group have been supplemented by specific initiatives aimed at structural adjustment in Africa.

But South Africa is not poor enough to qualify for the \$7,4-billion Special Program of Assistance for Sub-Saharan Africa, launched in 1990. And its per capita income (\$3 194 in 1990) would make it ineligible for "soft" loans under the Social Dimensions of Adjustment Programme (SDA), launched in 1987 as a joint initiative by the World Bank, African Development Bank and United Nations Development Programme. The SDA aims to help African governments incorporate social concerns into their economic reform programmes and long term development plans. About 30 African countries are benefiting from the project.

Standard Bank's economists note, however, that the World Bank seems to have classified South Africa in the category of other middle income countries like Mexico and Brazil, rather than in the same grouping as other African countries. Mexico received \$140-million in official development assistance in 1990 and Brazil received \$164-million.

South Africa might expect similar amounts, most of which would probably be in the form of loans from the World Bank's International Bank for Reconstruction and Development (IBRD). Conditions would probably include a four-year repayment moratorium, 15-year maturities and an interest rate of seven to eight percent.

But South Africa's relationship with the Bank might initially be more symbolic than real, say Standard's economists, because of the current "policy vacuum". World Bank financial assistance is conditional on structural adjustment policies, which will take time to develop here.

JOB MARKET

(356)

Advice to bank on

21/3/93.

S/Times (BUSS)

By KEVIN DAVIE

DESPITE present difficulties, there could be bright prospects for SA in the future, says a draft World Bank paper.

"But no miraculous solution or way out should be expected from either the total removal of the apartheid system or some extraordinary windfall coming from a favourable terms of trade shock (such as a sudden rise in the price of gold)," bank staffers say in a discussion document.

The paper is likely to become the formal bank position on SA once responses have been solicited from key parties locally.

The document has garnered some support from the ANC. Economics head Trevor Manuel told a press conference on government's Normative Economic Model that he preferred the bank's approach to that of government's.

The World Bank paper says a virtuous cycle of economic effects can be launched in SA if the relation between economics and politics can find a co-operative mode of expression.

It identifies a three-point strategy to reform the SA economy:

- Restructuring the budget to raise public investment in areas of infrastructure and publicly provided services. This should be targeted towards the poor and underprivileged. The authors want to restrict the growth of recurrent expenditure in the budget.
- Upgrading the skills of existing workers by improving skills in the short-term and investing in human capital in the longer-term.
- Creating a stable and export-orientated business environment by encouraging a shift in the orientation of the manufacturing sector towards exports in the short-term while providing a longer-term commitment to a stable export-orientated environment.

Impediment

Serious upgrading of skills can only come about through the efforts of the private sector: "One viable solution could come through a pact between major employers and trade unions through the provision of training in widely applicable skills.

"The trade unions would play their part by agreeing to limits on strikes and other activities which disturb industrial peace."

A central point is that industrial relations problems have become a major impediment to industrial development, and a pact should therefore have the effect of encouraging a revival in private sector investment, the paper says.

The authors see two rays of light. If a political settlement is reached and social and political instability diminishes, this should ease SA's capital constraint.

"Although conditions in world markets are not at their most encouraging, a political settlement would have the effect of opening access to financial support from both bilaterals and the major financial multilaterals (including the World Bank)."

The second ray of light is that SA has the rare distinction among upper-middle income countries of possessing a low external debt-to-GDP ratio.

"Given foreign finance, a path of growth and redistribution will be less vulnerable to external constraints during its transition."

Provision for both education and training has been inadequate on distributional grounds and in terms of future growth needs, the authors say.

"The position on training seems to be a dire one." Only about 9 000 apprentices were identured during 1990, of whom 6 700 were whites, while the number of apprentices has not increased during the 80s.

The paper says that while 280 000 individuals were trained on various public and private training courses during 1990, much of this training was provided on a very short-term duration — one week or less.

Barriers

It says it may be possible to encourage more rapid employment creation through the expansion of small-to-medium scale production activities and through the provision of subsidies on additional jobs created by enterprises with relatively elastic demand for labour.

"The evidence so far indicates that regulatory obstacles are not a major constraint upon the entry of small-scale entrepreneurs. It would seem that other barriers to entry, such as capital-market imperfections and entry-forestalling pricing policies of big firms, may need further investigation."

A key strategy will be to reduce the anti-export bias in the economy as it is now structured. The paper identifies this as an urgent task.

The authors say a Sacob study found that two-thirds of the disadvantage that South African exporters suffer relative to foreign competitors derives from the higher prices that they have to pay for manufactured inputs.

Complicated

"Ideally, trade policies should eliminate this disadvantage and place exporters in a position of indifference between selling at home or abroad."

The paper says all exporters must have free access to imported inputs. It says that problems in SA's tariff or import duty structure should be addressed quickly. These problems include unevenness in the duty schedule, complicated tariffs and highly unstable tariffs.

Access to government support should be related to export performance. "The Korean government conditioned its allocations of short- and long-term capital to export performance. Tax incentives were also conditional on exports.

"Countries which attempted to follow a more classic infant-industry approach — i.e., produce first under lax standards of the protected domestic market, and then move on to export promotion — were much less successful."

No problems expected with payment of goods for Kenya

B\DAY 26/3/93

KELVIN BROWN

MOST SA exporters to Kenya would not have a problem being paid after the recent reimposition of strict foreign exchange controls in Kenya, Safto African divison senior manager Paul Runge said yesterday.

Kenyan President Daniel Arap Moi has announced the scrapping of an IMF and World Bank reform plan introduced 31 days ago.

The government has taken control of all foreign currency to enable the country to pay for imports of essential goods.

Kenya is SA's 14th largest trading partner in Africa, exports to Kenya in the first six months of last year rising to R69m, up by 25% on the first six months of 1991.

Runge said most of the business was with multinationals or with companies who had issued letters of credit. Multinationals in Kenya usually paid suppliers from overseas accounts.

The Kenyan government has announced that it would honour letters of credit if importers could provide documentary proof that letters of credit had been issued.

However, Runge said there would probably be an administrative delay of some months before the foreign currency was released.

The government would want to stall payment as long as possible to enable forex reserves to build up.

Exporters who had entered into transactions to supply a Kenyan company without letters of credit would "battle" to receive payment. Priority had been given to Kenyan importers who had issued letters of credit.

Credit Guarantee was still insuring companies trading with Kenya, the company's assistant GM Gernot Kruger said.

Credit Guarantee was one of the major insurers against payment not been received from foreign buyers of SA goods. About 30 companies with supply contracts to Kenya, totalling R25m, were currently insured by Credit Guarantee.

Kruger expected Kenya would not maintain the present situation for long.

"The World Bank and IMF would not look too kindly on Moi's decision to go back on the liberalisation plan."

Kenya had a large foreign debt which would not be rescheduled unless a positive report was received from the IMF, he said.

● Comment: Page 10

US threat: No loans unless missiles go

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By EDDIE KOCH

W/Mail 26/3-1/4/93.

THE World Bank and International Monetary Fund (IMF) — acting under pressure from the United States administration — are likely to refuse international loans to South Africa if the government presses ahead with its missile programme, according to government officials in Washington.

A row between Washington and Pretoria over South Africa's long-range missile programme will form the next round in an ongoing dispute between the two countries over arms proliferation issues, now that President FW de Klerk has come clean about his government's nuclear bombs.

South Africa's armaments manufacturer, Denel, says it plans to convert its long-range ballistic missile technology into rockets capable of carrying satellites into space for commercial purposes.

South Africa now wants to join the Missile Control Technology Regime which tries to prevent non-member countries from obtaining rockets capable of carrying nuclear and other warheads.

This is unlikely to satisfy the US which is deeply concerned about missile technology being made available to Third World and Arab countries and is likely to push Pretoria into abandoning its long-range ballistic programme. The US administration's fears have been heightened by concern that an African National Congress-led government might in future provide the technology to old allies, such as Libya.

De Klerk said this week that his government would resist these pressures as the programme had now been converted to peaceful purposes and South Africa was willing to abide by the terms of the missile control regime.

The US government issued a statement urging South Africa to cancel the programme.

"We have explained our missile concerns to the South African government and have urged them to reconsider the programme," it said.

The World Bank and IMF, which are dominated by the US, have recently begun linking loans for Third World countries to defence cuts and are likely to insert clauses relating specifically to expenditure on missile development to finance for South Africa.

A spokesman for the Department of Foreign Affairs says South Africa has not yet applied to join the missile regime but has indicated it is keen to participate.

The reason for this is that membership means Denel will gain access to the latest in missile research and technology which will help to iron out some of the problems it is experiencing in developing its booster rocket, says Abdul Minty from the World Campaign Against Military and Nuclear Collaboration with South Africa.

He said the US was unlikely to allow the South Africans to gain these technological advantages, given the strong concerns about proliferation and the potential for commercial missiles to be turned to military uses.

Roger Jardine, the ANC's policy co-ordinator for science and technology, said a new government of national unity would "reconsider all apartheid white elephants" and was less likely to pursue a missile programme.

BIDAY 29/3/93.

World Bank contracts

THE SA Institute of Civil Engineers has invited two World Bank representatives to SA to advise local companies on how to go about competing for World Bank contracts in Africa.

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Executive director Dawie Botha says the representatives will speak at a conference in Sandton on May 6 and 7.

BUSINESS

Can townships support CBDs?

WMail 8/4 - 15/4/93. 356

A report from the World Bank paints a rosy picture of Soweto's business prospects. But some local analysts dispute the findings,

reports **BARBARA LUDMAN**

HAS Soweto the potential to develop its own central business district? World Bank economist Kyu Sik Lee seems to think so.

In an aide-memoire on urbanisation, he points to land prices, a cluster of shops and stalls around the Kliptown station and the continuing departure of firms from the Johannesburg CBD as indications that the pattern emerging from greater Johannesburg is one of "multi-centre development" and includes the townships. Soweto, he writes, is not only a bedroom community but a city.

The price of land of most of the developed areas in Soweto is R100 to R200 a square metre, he notes — the same as that of most parts of Roodepoort and a large portion of Randburg and Sandton.

He concedes that high land values in Soweto are partly due to "the crowding of the black community into a limited area" under apartheid but adds that "the dynamics of ... economic activities in Soweto suggest that the prices are now reflecting an economic demand for land in the area".

He identifies Soweto, Mitchell's Plain and Khayelitsha as townships that have potential to develop as economically feasible urban centres.

"Although private investment has been slow in these townships because of the poor access to commercial financing and the wrong perception of the risks involved," he adds, "it is remarkable to find the extent of the economic base established through the informal sector activities.

"These townships are at a juncture to begin developing with marginal investment and support from outside."

Among the moves he recommends the government and/or the private sector initiate to create "positive externalities" for the emerging market forces in the townships are:

- Improved transport links with manufacturing and commercial centres
- The establishment of "African style" markets to create agglomeration economies — lacking in the sprawling townships — as well as "hives" for small new businesses; both would perform an "incubator function"
- The establishment of a low-cost CBD at transport centres such as railway stations
- The provision of technical and managerial training
- The creation of an economic development bureau by the local authority
- Revision of zoning regulations to allow mixed land use, encouraging small manufacturing and commercial activities in residential areas.

Some of Lee's suggestions have attracted no criticism: the provision of technical and managerial training, for example, or the revision of zoning regulations.

Other suggestions have not fared so well. In a critique of World Bank reports in this month's *Work in Progress*, Planact's Mark Swilling and Patrick Bond take issue with Lee's interpretation of the price of land in Soweto, a major premise of his theory that Soweto is ripe for commerical development.

Quoting Lee's assertion that high prices reflect an economic demand for land in the area, they note that "at the precise time Lee wrote those words, the South African National Civic Organisation was battling the Association of Mortgage Lenders to address the township 'negative equity' crisis (bond repayment obligations are higher than the house market value).

"How a redlined housing market rife with developer fraud — including nortorious land speculation — can accurately reflect the 'economic demand for land' is beyond comprehension."

They also look critically at Lee's rosy view of small businesses and the informal sector in the township. "Lee praises Soweto because it maintains some informal sector vitality and thus offers hope for retrenched workers," they write. "But no mention is made of black small business crises (eg, in the taxi industry and the Federation of African Business and Consumer Services). And by ignoring township income levels and corporate retailing power ... Lee offers only meagre reforms (eg, 'African-style market places') for township small businesses."

A town planner working at a development agency agrees that Lee's plan does not appear to be economically viable. "Johannesburg is Soweto's CBD," she says, "notwithstanding the informal sector in the township and some shops in Dube.

"All the transport links up to Johannesburg. People work in town and will buy where they work. And shopping in Johannesburg is a lot cheaper than in the township. The big stores are in town, and people can buy in bulk.

"One would have to change all these factors to change the situation. If one gave tax incentives for development, perhaps Soweto could be changed, but only marginally."

The World Bank has sent a number of teams into South Africa to look at urbanisation, housing, education and other areas; the aides-memoire that follow each trip are a kind of progress report.

Mortgage reallocation proposed for SA housing

BIDAM 11|5|93

CAPE TOWN — A modest reallocation of mortgage portfolios to the black community could have a substantial impact on the distorted housing conditions created by apartheid, World Bank executive Stephen Mayo said yesterday.

Opening the 21st World Housing Congress, he presented research statistics identifying policy shifts needed to achieve a well-functioning, fair and self-sustaining SA housing sector.

Mayo, of the World Bank's Urban Development Division, used figures reflecting trends in 1990 in the PWV area, compared to a sample of 52 cities across the world.

These figures showed stark contrasts in the performance of SA's housing sector with housing conditions far worse than should be expected for its level of economic development, and far worse for the black population.

Housing investment was extremely low relative to GNP because effective demand was low. In the white population this was because incomes and population growth were static. Among the black population, apartheid policies had squeezed household budgets, and created insecurities and expenses that cut motivation to spend on housing improvements.

"Thus the housing sector is serving neither the interests of the black population nor the economy as a whole," he said.

"Against these impressions of an underperforming housing sector are other impressions of a high degree of institutional development and considerable resources which, if reallocated toward the black community, could do much to stimulate demand for housing, increase the quantity and quality of their housing, and contribute importantly toward economic growth."

The level of outstanding mortgage credit and the annual new volume of credit created were striking for a country at SA's level of economic development.

"Only a modest reallocation of mortgage portfolios toward the black community could have a substantial and immediate impact on housing conditions," Mayo said.

At the same time, some of the considerable resources currently being spent on residential infrastructure in white areas could be diverted to servicing existing and new black townships. This would improve service quality and provide incentives for residents to undertake complementary improvements to their dwellings.

Finding ways to energise a powerful latent demand for better housing represented one of the most important challenges for housing policy in SA.

"This will require policy changes on both the demand and supply sides of the market, but, in particular, a profound commitment to changing the framework of property rights and the spatial distortion of the apartheid city." — Sapa.

De Beer pins hopes on De Loor report

CAPE TOWN — The apartheid pattern of urban development was not going to go away quickly or easily, DP leader Zach de Beer said yesterday.

Speaking at the World Housing Congress in Cape Town, De Beer pinned future hopes for the housing industry on the publication of the De Loor report, and the launching of the national housing forum. BIDAM 11|5|93

"For the first time in half a century there is an approach to housing which is united, including both authorities and communities together, recommending sensitive and understanding approaches."

The report, which recommended a single nonracial national housing department with jurisdiction over the entire country, was a breath of fresh air blowing away the "cobwebs of apartheid".

Only the emergence of a new social contract, involving the state, financial institutions, building industry and political leadership in the townships, could mobilise the existing vast resources necessary to meet the housing shortage. — Sapa.

Star 12/4/93

World Bank aid waiting on go-ahead from ANC

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By Bruce Cameron

CAPE TOWN — The World Bank is standing by to pump millions of dollars into development aid, education, health care, electrification and the alleviation of poverty in South Africa.

But the bank will only initiate the aid when the ANC gives the green light, says Harry Schwarz, South African Ambassador to the United States.

At a function organised by stockbrokers, Davis, Borkum, Hare in Cape Town, Scwharz said remaining US sanctions would stay in place and access to International Monetary Fund (IMF) stand-by facilities would be blocked until the ANC gave the signal.

The World Bank development aid would be followed by significant aid from the US, he said, but warned that American private sector investment would not come until there was stability and political certainty.

Schwarz said President Bill Clinton's administration was showing sympathetic support for South Africa in the move away from apartheid and could prove to be the salvation of South African minority groups because of commitment in foreign policy to a liberal democracy and human rights.

The administration also favoured a federal system, similar to that in the United States, for South Africa.

Schwarz said two scenarios were being painted for South Africa.

South Africans should be under no illusion that the remaining sanctions would be lifted before there was what was termed "internal consensus" — meaning until there was ANC agreement.

The World Bank had gone ahead with various studies on various aspects of the South African economy and was poised for the next step.

The bank realised that unless some expectations could be satisfied in the short term, South Africa's democracy would be very fragile.

Its next step would be to plan strategies to deal with poverty alleviation, electrification, education and health care.

Schwarz said it was now urgent that the ANC give the go-head for the project-planning stage.

Even if the go-ahead was given now for the planning, nothing would come to fruition until after the first elections.

Schwarz said a major impetus would come from the World Bank, but that it would also be boosted by increased US aid.

US aid would be given because it was felt there would be a moral obligation to make good the damage caused by sanctions and because there would be a better return in South Africa than anywhere else because of the infrastructure.

The US would also seek to ensure the survival of democracy in South Africa in an attempt to spread democracy through the rest of Africa, he said.

World Bank signposts SA's road ahead

BIDAY 16/4/93 (356)

SIMON BARBER

WASHINGTON — To get unemployment under control within the next decade, SA would need a 5% annual growth rate and up to $4bn in foreign loans and investment, World Bank staff members said this week.

They were addressing a closed door meeting of US policymakers and businessmen hosted by the Centre for Strategic and International Studies' SA working group.

They said the bank was ready to establish a mission in SA and start formal discussions on lending as soon as there was "consensus" among the bank's members.

A representative of Chase Manhattan bank pressed them to be more specific, but they declined, participants reported.

A key feature of the SA economy was the 20-year decline in the productivity of capital, which they attributed in part to large state projects and import-substitution.

They were also highly critical of SA's tariff structures, which they described as among the "most Byzantine" in the world and which they said inhibited the growth of medium-sized manufacturing companies.

They noted that large corporations had enormous lobbying power which put smaller businesses — those that offered the best potential for employment gains — at a major disadvantage.

Major structural changes were needed to put the economy on an export-led growth path.

It was also essential, they said, for government to reduce current expenditures on salaries, pensions and the like, and to increase long-term capital investment.

While agreeing on the need to cut spending, several participants were concerned that the bank might encourage the state to expand the public sector in the name of increasing capital investment, thus repeating the mistakes of the past.

The staff members, all of whom have been intimately involved in the bank's preliminary studies of the SA economy, also cited research on work force motivation.

One key finding was that because of apartheid, the average commute for SA workers — 37km — was far higher than in other countries.

This was one reason the average SA worker paid more for transportation than for housing — a unique phenomenon.

$7,5m study for a huge game park

S Times (Buss. Times)

18/4/93 (356)

By KEVIN DAVIE

THE World Bank and the Mozambican Government have approved a $7,5-million study which could lead to the creation of one of the largest protected ecological areas — incorporating the Kruger National Park — in the world.

The study will be funded by a grant from the Global Environment Facility, a World Bank-administered fund to prevent global warming, promote biological diversity and prevent depletion of the ozone layer.

Mozambique will put the project out to tender. SA ecological consultants are expected to apply.

Terms

The study intends identifying the possible conservation use of a tract of land — larger than the Kruger Park — stretching along the SA border from Swaziland to Zimbabwe.

A key aspect of the study will be the needs of people who live in the area, including those who have been displaced by war in Mozambique.

The area under study is said to be sparsely habitated, mostly in a pristine condition although largely denuded of wildlife.

The developments hold the prospect that in time fences on the Kruger Park border will be removed to allow the free movement of animals on an ecological rather than political basis.

"We're finalising the terms of reference and will call for tenders for the study," says Milagre Cezerilo, director for Forestry and Wildlife in Mozambique.

The intention is that wildlife management should pay for itself, so tourism proposals will form an important part of the study. Private companies, it is envisaged, will operate tourism facilities.

Miss Cezerilo says Mozambique is keen to use SA expertise in the rehabilitation of these areas.

"We have been in touch with SA officials who are showing interest in working with Mozambique," she says, adding that technical assistance from SA will be welcome in certain areas.

Part of the area to be studied is now a hunting area.

Salomon Joubert, executive director of Kruger National Park, says the project holds the prospect of being "one of the most exciting wildlife developments in the world".

He says meetings three or four years ago identified the possibility of such a project with Mozambique, but the war prevented progress.

Now — with peace holding since October — studies can begin in earnest.

Core

Dr Joubert says Kruger Park officials are likely to provide input for the feasibility studies, but stresses that much ground work including surveying still has to be done.

"The core conservation area in Mozambique could be larger than Kruger Park," says Dr Joubert.

"Somewhere along the way it might be possible to cut the fences, but we would want assurances," says Dr Joubert.

The Global Environmental Facility is a $1,3-billion fund which intends assisting developing countries to protect the environment. Countries with a per capita income of less than $4 000 and a United Nations development programme in place are eligible for GEF funds up to $10-million a project.

There's only one way to go

WMail 23/4-29/4/93.

It may be grasping at straws, but a recent World Bank report offers some hope for the South African economy. After all, it can't get much worse.

By **REG RUMNEY**

(356)

WHEN it comes to the economy, South Africans don't have much to rejoice about. So they are likely to grasp the small comfort offered by World Bank economists in a recent informal discussion paper.

The paper, by several World Bank economists, remarks that the task of reviving economic growth and enabling substantial and continuing wealth redistribution is clearly formidable.

The authorities, say the economists, face severe problems:

- Declining growth in both living standards and, a key measure of economic well-being, per-capita gross domestic product (GDP)
- Rapidly growing unemployment, particularly among blacks
- Extreme inequality in income distribution
- Extreme inequality in provision of publicly provided services and facilities.

The task ahead is made harder by political uncertainties, violence and social unrest.

Peter Fallon, Ataman Aksoy, Yvonne Tsikata, Pedro Belli, and Luiz A Pereira da Silva note, however, three auspicious features of the economy:

- Years of recession give a low base off which growth can surge during a new administration. The economists estimate GDP could be raised by as much as five percent with a level of investment only just sufficient to maintain existing levels of the capital stock.
- A hangover of past overspending on public sector capital projects means we don't have to spend any more money on things like electricity generation and big parts of the transport and communications systems for a while.
- Financial sanctions have saved us from mortgaging the country to the hilt, as has happened in South America and eastern Europe. So, the bank's economists reckon, if foreign finance can be secured a faster growth path can be financed by external sources.

The economists then go on to mention what they see as some difficult growth-inhibiting features, such as a tendency towards capital intensity, an inward-looking industrial structure with a oligopolistic and sometimes monopolistic structure; an undertrained and undereducated labour force; an urban structure inhibiting productivity of unskilled labour and militating against the informal sector; and an industrial relations crisis.

Not a few of the above opinions have been called in to doubt by various commentators.

So the paper, a review of World Bank economists' thinking, and a distillation of some papers which have been put out from time to time by the bank, is likely to be hotly debated. The paper isn't bank policy, but it does illustrate typical bank thinking on the way South Africa should go.

Much of the rest is the familiar. The stress placed by bank economists on exports as an engine of growth is not new. And the anti-export bias the bank perceives in the economy has been reported by *The Weekly Mail*.

The bank also outlines a basic strategy to achieve both higher growth and continuing redistribution. This seems less controversial. As well as shifting manufacturing orientation towards exports it proposes:

- Government spending be reshaped to raise public investment in areas of infrastructure and publicly provided services, targeting this at the poor; and at the same time limiting growth of recurrent spending to meet budgetary targets.
- Rapid growth be encouraged in skilled labour, particularly by upgrading the skills of existing semi-skilled and unskilled workers.

Govt and ANC learn a lesson

BILLY PADDOCK

GOVERNMENT and ANC negotiators said the lesson they learned from Monday's negotiations was to be better prepared and to focus on substance and content. B/DAY

Government chief negotiator Roelf Meyer and ANC negotiator Mac Maharaj forecast that Friday's talks would make better progress.

Maharaj predicted that the planning committees' proposals that six technical committees be set up to deal with the Codesa reports on issues such as a transitional executive council, independent media commission and armed formations would be accepted by all the parties.

He pointed out that all the parties had accepted the resolution of the negotiating forum on April 1 that technical committees would enhance the process. 28/4/93

Meyer denied claims by Inkatha and the Concerned South Africans Group that it and the ANC were trying to steamroller the process, stating that the timeframes and the way forward had been discussed with these parties in bilateral talks.

He admitted that this was the fundamental difference between parties as Inkatha and its allies rejected the need for interim structures. However, he was still hopeful that government and the ANC could sell their plan to the objecting parties.

He said negotiating parties should not allow themselves to be distracted by side issues, but should focus on moving forward speedily.

Mangope digs in on independence

B/DAY 28/4/93.

BILLY PADDOCK

BOPHUTHATSWANA President Lucas Mangope yesterday dug in his heels on the issue of reincorporation, saying there was no question of the territory giving up its independence.

He told the opening of the territory's National Assembly: "There is no question whatsoever, I repeat no question whatsoever, of Bophuthatswana giving up her independence."

He said his government was surrendering nothing, and least of all would it consider relinquishing control over its security forces. "That is our bottom line. That is where we stand at present. We merely want self-rule . . . no more . . . no less."

However, Mangope said: "Let me hasten to add that Bophuthatswana is not inflexible or intransigent."

President F W de Klerk said last week that progress with leaders of the TBVC states on reincorporation was good and that if there was no intransigence by any parties on the issue, it could be resolved by June.

Mangope said because Bophuthatswana had enjoyed "such remarkable success we will be ignored by any future central government in SA while the former independent and self-governing states which ran themselves into the ground through maladministration, mismanagement and corruption will bleed the system in order to catch up with the rest of us". As a result Bophuthatswana would stand still for years and its resources would be redirected to other lesser developed areas.

This was one of the main reasons his government demanded that the boundaries, powers and functions of regional states in a new dispensation had to be determined at the multiparty forum and not be left to "the whims and prejudices" of an elected interim administration.

"In other words the form of state for the new SA must be finalised before anything else at the present negotiations," Mangope said.

Principles of a new constitution needed to be finalised at negotiations and approved in a referendum before elections were held.

This would obviate the need for a transitional government and a transitional executive council. It would also allay the fears of many who suspected the course being charted would lead to the same sort of benign dictatorship of the old SA.

He warned against government and the ANC proceeding with the reform process and excluding parties which were not co-operating with them and said it would be a mistake to underestimate the importance of Bophuthatswana in the negotiations

'Generous assistance' awaits SA

CAPE TOWN — The UN, the US and the World Bank have promised generous, nonpartisan assistance for the political transition in SA, says Goldstone commission chairman Judge Richard Goldstone.

Addressing a news conference yesterday after returning from the US, he said the offers of assistance were nonprescriptive and reflected the international community's wish to ensure the success of SA's first democratic government.

Foreign experts could be called in to assist the commission's inquiry into the prevention of violence and intimidation during elections.

While in the US Goldstone met members of the UN Security Council and the UN Special Committee on Apartheid as well as US state department and World Bank senior officials, and legislators.

"My strong impression is that there are many good and positive benefits waiting for SA as soon as a representative and legitimate transitional executive council is in place, and even more so when we have a government of national unity," he said.

The US anti-apartheid lobby had substantially transformed itself into a strong pro-democratic SA campaign which supported all South Africans working for a peaceful and democratic country.

Financial assistance from the World Bank and IMF was virtually assured provided SA moved rapidly towards a political settlement.

Members of the US House of Representatives and the Senate foreign relations committee appreciated the need to begin amending or repealing the 150 statutes which prohibited assistance to SA. — Sapa.

M 28/4/93

Big aid offers for reformed SA, says judge

(356)

Goldstone brings message of hope:

Sowetan 28/4/93

THE United Nations, the United States Government and the World Bank have promised generous and non-partisan aid for the political transition in South Africa, Goldstone Commission chairman Mr Justice Richard Goldstone said yesterday.

Addressing a Press conference in Cape Town following his visit to the United States, he said the offers of help were non-prescriptive and reflected the international community's wish to ensure the success of South Africa's first democratic government.

Goldstone said foreign experts could be called in to help the commission's inquiry into the prevention of violence and intimidation during South Africa's first nonracial elections.

During his two-week trip, the judge met members of the UN Security Council, the UN Special Committee on Apartheid as well as senior officials in the US State Department and World Bank, and legislators in the US Senate and House of Representatives.

"My strong impression is that there are many good and positive benefits waiting for South Africa as soon as a representative and legitimate transitional executive council is in place, and even more so when we have a government of national unity."

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INTERNATIONAL ECONOMIC RELATIONS CONFERENCE

Foreign guests review SA's international economic relations in the 1990s with local economic policy decision-makers at an Idasa conference at Mabula Game Lodge in the eastern Transvaal. Finance director-general Gerhard Croeser, top left, gets cosy over tea with the ANC's Trevor Manuel, while Reserve Bank Governor Chris Stals talks to World Bank adviser Isaac Sam, top right. Sheila Page of the UK-based Overseas Development Institute, bottom left, and Harvard economist Robert Lawrence, bottom right, addressed the gathering.

Pictures: ROBERT BOTHA

World Bank aid 'should support redistribution'

THE most important role the World Bank could play in SA was to assist in reviving economic growth along a path that permitted a substantial degree of redistribution, a senior bank economist said. (356)

Peter Fallon of the World Bank's southern African department said the bank — which suspended loans to SA in 1967 — was examining what policies it would adopt if a future multiracial government sought its support.

Speaking at a conference organised by Idasa, he noted the bank would have a "catalytic effect" upon the willingness of other foreign sources to lend to SA.

Among the several policies the bank was likely to suggest, it was likely to support the restructuring of government expenditure within the limits of a sustainable fiscal deficit. Massive investments were needed in black urban areas, particularly in education and health.

But it was unlikely the bank would recommend major investment in electricity generation and transport in the short to medium future. B/DAY 29/4/93

The bank was likely to give considerable emphasis to human capital formation, considering that the largely unskilled and uneducated labour force was a potential impediment to reviving economic growth.

The bank would also probably advise that the economy become more export-oriented, perhaps with a systematic overhaul of SA's system of trade protection which discouraged exports by ensuring that production for the home market was more profitable.

Finally, the bank was likely to emphasise policies which would increase the rate of job creation in agriculture, which accounts for 6%of GDP. The bank might also support measures to encourage small- to medium-scale industries. — Reuter.

World Bank official warns there'll be no soft loans for SA

Star 29/4/93

(356)

WARMBATHS — South Africa should not expect a windfall in loan aid or greatly favourable lending conditions from the World Bank, according to the Bank's southern African department senior economist Peter Fallon.

Speaking at the Idasa conference near Warmbaths yesterday, he said World Bank lending to the country would only resume once there was broad-based consensus domestically and internationally for it.

However, "Bank finance will be only mildly concessional, future governments should be sure that projects are worthwhile".

Per capita income

He said, in a paper to the conference, South Africa would definitely be treated as a country eligible only for loans from one of the Bank's agencies, the International Bank for Reconstruction and Development.

This was due to the country's higher per capita income of around $2500 a year, compared with loans from the International Development Agency for countries with per capita income figures of $765 or less.

IRBD loans were on "harder terms" than IDA loans which were interest free and paid back over a longer period of time with a period of grace.

"However, it must be remembered that, bilateral aid apart, IRBD loans are a significantly cheaper source of foreign finance than that available from commercial sources," Fallon said.

Another advantage from Bank financial support would be its catalytic effect "upon the willingness of other external financial sources to lend to South Africa".

Mr Fallon also stressed the importance of World Bank support for South Africa outside of lending agreements, through economic analysis and policy advice.

He said the Bank was likely to recommend as one of its main policy directions that the South African economy move more onto an export-oriented growth path.

"This could be encouraged by a systematic overhaul of South Africa's system of trade protection.

"This would entail: the introduction of new policy devices such as a transparent and easily managed duty drawback scheme; a widespread simplification of the protection system; and a gradual phase-down of tariff levels."

Fallon said the Bank would recommend that South Africa restructure government expenditure within the limits of a sustainable deficit.

Furthermore, state expenditure should be redirected to focus on capital spending as a redistributive measure and to engender social stability.

"Massive investments are needed in those urban areas in which much of the disadvantaged majority of the population live, while increased capital expenditure is also badly needed in education and health," Fallon said.

The Bank was also likely to give considerable emphasis to human capital formation in its policy advice.

Labour force

"The South African labour force is relatively unskilled for a country at this stage of economic development. This is both a potential impediment to a growth revival in the economy and .. a major source of inequality," he said.

The Bank would probably support policies aimed at increasing the rate of job creation, in areas like agriculture and small business development.

Fallon however stressed that the Bank would encourage a future South African government to choose its own approach to restructuring the economy, and then to maintain consistency and transparency in its implementation.

"This will be essential to ensure that hoped-for responses emerge from economic agents and that a level playing field emerges," he said.— Sapa.

'Develop manufactured exports'

As South Africa re-entered world trade, the country would stand to gain more by developing its manufactured exports, an international trade expert said at the Idasa conference.

Harvard University professor Robert Lawrence said South Africa had to take account of the trends in the world economy. World trade had become increasingly integrated, characterised by the expansion of direct foreign investment and growth in manufactured goods to achieve global success.

In addition, there was an "adoption of outward oriented policies by most developing countries and an emphasis on regional policies".

Prof Lawrence illustrated that South Africa's exports as a share of its gross domestic product had virtually remained stagnant over the last three decades.

World Bank chief keen to resume SA lending

(356) B/DAY 29/4/93.

SIMON BARBER

WASHINGTON — World Bank president Lewis Preston yesterday endorsed a speedy resumption of lending to SA, but indicated that immediate inflows of capital could not be expected.

"It would be a wonderful day for the bank if we resumed lending," he said at the IMF/World Bank spring meetings.

However, he suggested that this view was not yet fully shared by the bank's shareholders — including, most importantly, the US whose representative is still required to oppose SA loans under the 1983 Gramm Amendment — who would have to make the final decision.

He did not predict when this decision would be taken, although it is widely assumed that the timing is in the hands of the ANC.

Initially, he said, lending would be sectoral rather than in support of structural reforms and would likely focus on housing and education projects.

Although bank staff have been laying the groundwork for such projects, they will officially have to be designed and requested by a new government.

The approval process can be lengthy, and disbursement of loans generally occurs over six years.

Asked how important an economically viable SA was for the rest of the continent, Preston said he was "struck by the lack of intraregional trade" in the continent.

A successful SA transition held out an "exciting possibility" of reversing this.

Preston rejected charges that the bank's structural adjustment policies had exacerbated poverty in Africa, saying bluntly, "If you've got cancer, you've got to go through chemotherapy, and it's no damn fun."

Bank vice-president for human resources development Armeane Choksi said: "The reality is that those countries in sub-Saharan Africa that are in adjustment are growing at twice the rate of those that are not."

Unions want more say in IMF reforms

W/Mail 30/4–6/5/93

By ANDREW MELDRUM: Harare

CAN Africa's trade unions help pull the continent out of its severe economic decline? A resounding "Yes" to that question was given in Harare last month where 150 union leaders from 40 African countries met European union leaders, the World Bank and the International Monetary Fund (IMF).

The free market structural adjustment programmes designed by the World Bank and the IMF have been embraced by 29 African countries and the challenge facing unions is to make sure they are at the cutting edge of economic reform.

South Africa is already negotiating with those powerful multilateral financial institutions and a local programme cannot be far off.

Somewhat surprisingly, unionists at the Harare meeting did not reject structural adjustment outright. Kenya, which recently suspended its structural adjustment programme, was not held up as a hero or a model for other African countries.

"I think most African unionists realise that (president Daniel arap) Moi pulled out of structural adjustment because it threatened his vested interests," said an African economist. "Most realise that it is a mistake that will cause more harm to the Kenyan working people."

Rather than debating the need for structural adjustment, the African labour leaders in Harare made suggetions as to how the economic programmes could be improved. They called for more direct involvement in the design and implementation of the painful economic measures.

"It's unfortunate that Ghana's structural adjustment programme does not have any trade union input. We would advise the government to slow down the pace of adjustment," said Ghana Trades Union Congress secreatary general Christian Ageyi.

Ghana's structural adjustment began in 1983 and is held up by many as one of the more successful in Africa. "It is true that Ghana has achieved economic growth, but the working people are worse off," said Ageyi. "Public spending was reduced and many people, particularly in the civil service, were retrenched. A massive devaluation was carried out, reducing the cedi from two to the US dollar to 662 to the US dollar. This caused inflation and has made our cost of living very high. Poverty has increased."

The IMF-World Bank remedy has been a bit of a bitter pill to swallow. "There are few signs that structural adjustment programmes are bringing economic recovery in African countries where they are being implemented," concluded a comprehensive report by the International Confederation of Free Trade Unions (ICFTU).

The report warns that continuing economic hardship may undermine Africa's fledgling democracies and result in a return of more authoritarian regimes.

High priests and IMF gnomes

WMail 30/4-6/5/93.

An economic 'Council of Trent' gathered in the bushveld this week to discuss South Africa's financial future. **REG RUMNEY** *looked in on the earnest discussions*

THE assorted rare birds of the bushveld near Warmbaths were greeted by a strange sight this week: delegates to South Africa's most high-powered economics conference this year ambling lopsidedly around Mabula Game Lodge.

The reason for their strange gait were the many conference papers weighing down each delegate to the South Africa's International Economic Relations in the 1990s Conference, arranged by the Institute for a Democratic Alternative for South Africa and the Aspen Institute.

Each set of papers seemed to have occasioned the felling of at least one small tree, and contained enough economic jargon and detail to numb the average mind.

The delegates comprised a veritable gathering of who's who in the economics world: bankers, both local and international, influential academic and private-sector economists, a businessman or two, and representatives of the economic policy departments of the African National Congress and the Pan Africanist Congress.

The strategic economic bosberaad was opened on Tuesday night by the ANC's department of economic planning head, Trevor Manuel, who read the speech which was to be delivered by ANC president Nelson Mandela, who had to pull out at the last minute.

The conference itself focused on issues such as the role of the World Bank and the International Monetary Fund (IMF) in post-apartheid South Africa and trade policy.

Not only are such issues unlikely to fire public imagination, but it was apparent from the conference that their complexity is as awesome as the probable ill-effects of unwise decisions in these areas by the policy-makers.

Listening, for instance, to the delegates discussing the ins and outs of the role of the World Bank and the IMF in one of the working groups was reminiscent of nothing so much as the debates of the monks in Umberto Eco's *The Name of the Rose*.

Clearly, something important is at stake here. It could lead, if not to economic excommunication for heresy, at least to a sort of shunning by the world economic community.

It was remarked that what the Bank and the IMF think carries clout with foreign lenders and investors. Their stamp of approval is as important as their loans. But between the World Bank and IMF representatives and those free-market-endorsing supporters in one camp, and in the other camp the rather more unworldy, mostly academic critics of the Bank's economics and the way it operates there appeared to be a big conceptual gulf.

The two camps engaged in a carefully phrased and extremely polite verbal battle midweek about what the two institutions did, how and why. And they respectfully disagreed on just about everything.

Only one thing is absolutely certain: South Africa is eligible, despite its high per capita income, for World Bank loans — but not now.

The World Bank's Peter Fallon and the IMF's Leslie Lipschitz painted a picture of the two institutions as waiting patiently in the wings to be asked by a democratic government to assist in the economy. The Bank and the IMF did not prescribe but simply suggested policy, was their line.

The Institute for African Alternatives' Ben Turok expressed concern about the Bank's dismal record in Africa, the bad effect of its loans in the developing world, and the conditions both institutions attach to lending for structural adjustment. The non-transparent way both institutions operated bypassed democratic processes, he suggested.

Again, both Fallon and Lipschitz denied they were prescriptive and insisted they only provided solutions which governments would anyway have to come up with.

It was left to Institute for International Economics senior fellow John Williamson to suggest that South Africa should not count on foreign capital inflows from either the World Bank or international capital markets. Few countries have financed their growth exclusively from foreign capital inflows, he remarked.

That seems sensible enough. However, like the monks' tortuous arguments about whether Jesus owned his clothes, the debates about the policies that the Bank and the IMF "suggest" will continue to attract controversy and earnest discussion, especially at conferences.

Star 6/5/93

ANC rejects call to borrow

By Paul Bell (356)

The ANC will not be party to any applications to borrow from the World Bank or International Monetary Fund (IMF) any time soon — despite being urged by the United States government to do so immediately.

The organisation, looking to elections within a year, remains concerned that premature applications for funding by South Africa could see borrowings from the Bretton Woods institutions (as the World Bank and the IMF are collectively known) undermining a future ANC government's freedom of economic decision-making, as well as being wasted by what it regards as the inefficiencies of the country's present economic management.

ANC economics chief Trevor Manuel said this yesterday in response to advice last week from US ambassador Princeton Lyman that South Africa should immediately invite the World Bank to develop a portfolio of project proposals.

Lyman, obliquely addressing the ANC, said it would take the bank between 18 months and two years to move from proposals to implementation. "That means that unless the bank begins now, a newly elected government will be faced with as much as two years' wait before being able to utilise this assistance for the pressing needs of the population," he said.

But Manuel said the ANC was not prepared to consider any binding arrangements with the Bretton Woods institutions before the introduction of democratic government in South Africa.

"The integrity of domestic policy formulation must be supreme in a democratic dispensation," he said. "There are civil servants who might consider it in their short-term interests to borrow from the World Bank."

Time for devising a development agenda is slipping away

BDay 10/5/93.

WITNEY SCHNEIDMAN

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SOUTH Africa will have a unique opportunity to attract foreign capital following the establishment of the transitional executive council. Contrary to the preferences of many South Africans, however, this capital will be in the form of donor assistance for the upliftment of the black majority, and the nation will have to have its own set of development priorities to take full advantage of this opportunity.

Since the end of the Cold War, donors have been sympathetic to African nations at critical points in their transition to democratic rule. Bilateral and multilateral donors pledged nearly $1bn in aid and debt rescheduling to Mozambique in December 1992, for example, two months after a peace treaty was signed ending 16 years of civil war.

Similar support most likely will be offered to SA once a transitional government is in place and a date for the country's first non-racial elections has been set. Western donors are deliberating on convening a consultative group meeting — a gathering of donors customarily chaired by the World Bank — shortly after the transitional executive committee is established. Such a meeting could conceivably generate pledges of $1bn in development assistance alone. US State Department officials have indicated that SA's development needs will be mentioned prominently in the communiqué that is to be issued following the July economic summit in Tokyo of the Group of Seven industrial nations.

South Africa's ability to take advantage of what inevitably will be a narrow window of opportunity will depend in large measure on whether the government, leading political organisations from across the spectrum, and major non-governmental organisations can formulate a national agenda for social and economic development in a post-apartheid era. To date, there has been apparent reluctance to move ahead in this most critical area.

Given the extraordinary energies that have been devoted to constitutional negotiations and, more recently, a new macroeconomic framework, it is understandable that little attention has been given to prioritising the country's development needs. It is also a reality that foreign aid generates little enthusiasm in SA.

There are those in the private sector as well as government who reject the notion that SA is a developing nation in need of foreign aid. These individuals contend that SA is capable of handling its own development problems.

Others, including officials in the ANC, oppose development aid because it will add to the country's debt burden. They also regard development assistance from the World Bank as the first step on the slippery slope towards a World Bank-IMF structural adjustment programme. And there are South Africans across the political spectrum who harbour suspicions of many Western institutions, especially aid agencies, and view external assistance as a sugar-coated form of foreign interference into the country's internal affairs.

In fact, SA has very real development needs in virtually every sector. It will be impossible for any one agency — domestic or external — to redress the inequities and shortcomings in education, health, land, urban infrastructure and skills training. A new democratic government will be under pressure to initiate a policy of redistribution and to improve quickly the standard of living of black South Africans. It is unlikely that a new majority-led government will have the financial or technical capacity to respond immediately on its own to pent up expectations in the townships and rural areas.

SA's debt problems are with commercial banks, not donor agencies or multilateral institutions. The costs of development assistance will be minimal and most of the bilateral support is likely to be extended on a grant or concessional basis.

Furthermore, loans from the multilateral institutions such as the World Bank will be paid for by the government from tax revenues generated from corporations, businesses, and individual taxpayers who have prospered over the last 45 years. The beneficiaries of the assistance, if propertly administered, will be those who have been marginalised the most by apartheid.

Donor assistance will not make a World Bank-sponsored structural adjustment programme inevitable. As the ANC's economic policy guidelines and the government's normative economic model make clear, there has to be far-reaching fiscal, monetary, industrial and tariff adjustments in the country's macroeconomic framework to revive growth and to achieve sustainable and equitable development. The question is whether a new government will have the discipline and determination to accomplish the restructuring on its own, or whether it will be compelled to rely on an international agency such as the World Bank or the IMF.

A genuine concern is that the World Bank's development objectives will become SA's, thus denying a new government autonomy in setting its own agenda. This will not happen if the post-apartheid government develops its own comprehensive programme for national development. A new government with its own set of priorities will have a firm basis from which to negotiate as an equal party on the terms of all development assistance with the World Bank, the consultative group and every other donor.

South Africans have to provide guidance to international donors if the impact of the external assistance that will be available for social and economic development is to be maximised. This will be difficult to do without a blueprint based on a national consensus.

Given the size of SA's economy, a very generous aid package will make up only a small portion of the country's GDP. If such a programme is designed properly, external assistance could provide partnership opportunities for private investors, creating a catalyst for foreign and domestic investment. In the short term, a coherent response by South Africans to the donor community will send an encouraging signal to potential foreign investors.

A persistent problem with donor assistance is the length of time that often transpires between the design of an aid programme and its implementation. While donor agencies are often paralysed by bureaucratic bottlenecks, a lack of "absorptive capacity" in recipient countries also contributes significantly to delays in the disbursement of funds and the implementation of programmes. Much of the $24bn that was promised to Russia last year by the G-7, for example, was never disbursed because of the political and bureaucratic disarray in that country. A national agenda for development would help focus donors on SA's most pressing needs and accelerate the delivery of promised assistance.

Indications are that the international community is prepared to make a major effort to support the transition to a post-apartheid government. SA, nevertheless, will be competing with a growing number of claimants for a relatively fixed — if not shrinking — number of aid dollars. In order to decide which recipients to support, donors are likely to make assistance increasingly conditional. Criteria such as poverty reduction, environmental protection, reduced military spending, and efficient economic management, not to mention respect for human rights and democratic government will determine which countries receive support.

The first consultative group meeting on SA is likely to mobilise the greatest amount of financial assistance with the fewest conditions. This window of opportunity could close prematurely unless steps are taken to engage the donor community.

☐ **Schneidman, a former consultant to the World Bank on SA, is vice-president of Samuels International Associates, an international consulting firm based in Washington.**

SA gets $71m in World Bank work

S Times (Buss) 16/5/93

By ZILLA EFRAT

SOUTH African suppliers were paid $71-million for World Bank (WB) projects in the year to June 1992.

This amounted to only 0,8% of the $9-billion in disbursements by the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA).

The WB figures were given at a conference in Sandton.

SA does not qualify for WB funding, but companies can take part in World Bank-International Finance Corporation projects.

Zias International managing director Pieter Louw says WB-funded projects have become a target for SA contractors.

But Ove Arup chairman Cliff McMillan warns that the problems South Africans face include limited international experience and connections because of sanctions, an extremely competitive market and reduced opportunities in Africa because of economic decline.

There are also some hurdles associated with WB involvement. Credit Guarantee managing director Chris Leisewitz says it takes a long time to evaluate and approve a project. (356)

Contractors and capital goods exporters do not get early notice of WB-supported projects.

Another drawback is the drawdown mechanisms under WB loans and resulting risks to which contractors can be exposed.

Group Five executive chairman Peter Clogg says WB financing generally has a long cycle. It is usually three to four years.

Reserves

Mr Clogg mentions possible problems with the Reserve Bank, which could refuse to allow transmission of funds for tender deposits, bid bonds or working capital.

Because of extreme pressure on the reserves, the bank tends to refuse all requests.

Mr Clogg says central banks in other countries can also cause problems. For example, taking out currency from Malawi will depend on when it becomes available even though approval to do so has been given.

The WB mostly uses an international competitive bidding (ICB) process. Under it contracts are awarded to the lowest qualified bidder.

Safto Africa manager Paul Runge says Europeans have an advantage because of co-financing and special funding by their own bilateral agencies.

SA may be able to share in a WB programme in the next 18 months.

Wage pact approved to end German labour battle

BDM 17/5/93

FRANKFURT — The board of the metalworkers' union on Saturday approved a wage pact designed to end a strike and prevent an all-out labour battle that could have further damaged Germany's recession-battered economy.

The compromise deal provides for pay raises for workers in eastern Germany that will bring their salaries to par with wages in the west in 1996, two years later than set in a previous plan.

Rank-and-file union members will vote on the deal today and tomorrow, and if 25% of them approve the pact, metalworkers and steelworkers in eastern Germany will return to their jobs on Wednesday.

Economics Minister Guenter Rexroth welcomed the pact, saying it would give an impulse to the recovery in the east. He said the wage agreement came relatively quickly, limiting the damage caused by the strike.

Otto Lambsdorff, chairman of the Free Democratic Party, the junior partner in the government coalition, said the pact carried economic risks.

Lambsdorff said no one could predict if the economy would pick up enough by 1996 to be able to afford the pay raises.

He said productivity in the east would also have to increase. More than 40 000 workers in eastern Germany have been on strike in the 12-day-old walkout. An additional 80 000 had been set to join them today.

The compromise deal was reached Friday after an all-night bargaining session in Dresden between employers and IG Metall, the nation's biggest union.

IG Metall's wage commission endorsed the pact on Friday evening.

The agreement pledges to raise the eastern workers' pay to the levels of western Germany by July 1996, rather than next year as promised during the euphoria over German reunification. A six-month delay would be possible, if companies showed they were in deep financial trouble.

Under the old agreement, east German metalworkers received about DM1 950 a month in base pay before taxes, or 71% of their western colleagues' salary. The agreement would boost the worker to DM2 144 a month by December, or 82% of the western wage, the union said. Further increments would take effect until parity was reached in three years. — Sapa-AP.

NEWS IN BRIEF

Uruguay Round advances

TORONTO — Ministers representing the world's four major trade powers said on Friday they had paved the way for a successful outcome this year of the protracted world trade liberalisation talks known as the Uruguay Round. Japanese Trade Minister Yoshiro Mori, US Trade Representative Mickey Kantor, EC Trade Commissioner Sir Leon Brittan and Canadian International Trade Minister Michael Wilson would meet again on June 2 in Paris.

Red Cross blood infected

BERN — The Swiss Red Cross had sent 83 bags of blood products contaminated with the AIDS virus to the US, Saudi Arabia and Greece from 1982 to 1985, spokesman Markus Haechler said on Friday.

However, he said it was possible the tainted blood had not been given to anyone because blood had to be used within a month of being donated.

187 burned to death

BANGKOK — The official death toll in what is believed to be the world's deadliest factory fire — at a doll factory outside Bangkok last week — stood at 187, with at least 80 still listed as missing, the interior ministry said after a weeklong search was called off at the weekend.

UK to probe CD prices

LONDON — Britain's Monopolies and Mergers Commission is to investigate the "rip-off" prices retailers and the record industry are charging for CDs.

REPORTS: Sapa-AFP-AP, Own Correspondent.

Kenya in new deal with Bank, IMF

NAIROBI — President Daniel arap Moi said at the weekend his cash-strapped government had reached agreement with the IMF and World Bank on reforms aimed at revitalising the Kenyan economy.

Moi told a goodwill delegation visiting Nairobi that the IMF and Bank had agreed to go on with reform efforts.

"We have made a commitment to be strict in the management of the economy after reaching this agreement," Moi's media unit quoted him as saying.

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Kenya on Friday strengthened its case for the resumption of Western aid by reintroducing economic reforms abolished only two months before.

The government said it had reopened retention accounts, which allow exporters to keep hard currency earnings instead of remitting them to the central bank, and ended all controls on imports except prohibited goods.

BDM 17/5/93.

Moi said the government wanted to raise the living standards of all Kenyans and would not let radical reforms hurt them.

When retention accounts were scrapped on March 22, Moi denounced as "suicidal and dictatorial" conditions set by the IMF and the World Bank for reinstatement of key quick disbursing aid of about $40m a month suspended in 1991 to press for economic and political reforms.

But faced with shortages of fuel and food and reeling from a cash squeeze, it was clear that Kenya was abandoning the fight against the Western agencies.

Moi said he would ensure that farmers, who contributed 85% of Kenya's economic life, earned a good profit from their input and pledged quick service from state companies that often delayed in paying for delivered produce. — Sapa-Reuter.

Billions will flow in — if violence stops

W/Mail 14/5 - 20/5/93. 356

The United States plans to mobilise about R9-billion a year for South Africa once certain conditions are met. By **ARTHUR GAVSHON and EDDIE KOCH**

PRESIDENT Bill Clinton's administration in the United States is clearing the way for a huge international programme of investment and development aid to bolster a non-racial government in South Africa.

But it is clear that the package, which could bring in up to R9-billion every year to reconstruct the country's battered economy, would only be set in motion after a transitional government has been created and the African National Congress drops its call for international sanctions.

It is also clear that many components of the reconstruction programme, described as an initiative similar to the international community's effort to build democracy in the former Soviet Union and Eastern Europe, would depend on a reduction in political violence in South Africa.

A senior state department official in Washington said in a telephone interview that Democrats have reached informal agreement with their Republican counterparts in Congress to repeal anti-apartheid laws that bar certain types of trade and financial deals between US institutions and South Africa.

The official said the aid package would only be set in motion after a Transitional Executive Council has been set up. This was confirmed by the US ambassador to South Africa, Princeton Lyman, who told the 702 Breakfast Club last month that his administration was trying to "mobilise support for economic development in the South Africa" and it was possible "to anticipate some $2- to $3-billion (About R6- to R9-billion) annually".

Lyman noted that the World Bank was likely to be a major source of multilateral finance, but stressed it could take up to two years for capital to arrive in the country once the Bank had made a decision to grant loans.

"That means that unless the Bank begins now, a newly elected government a year from now will be faced with as much as two years before being able to utilise this assistance for the pressing needs of the population."

He urged those involved in efforts to create a non-racial government to begin the preparatory work for World Bank assistance immediately.

The ambassador welcomed the ANC's decision to drop all demands for international sanctions once a TEC has been set up rather than after the holding of non-racial elections. "Once this call is made, we will work with states and local governments in the US to repeal these restrictions."

The state department official in Washington said the package would be made up of:

- US allocations will continue in the areas of education, health and other social services.
- The World Bank and International Monetary Fund will galvanise a multi-donor package of development aid and would expect to have a say in how the money is used.
- Some $5-billion (about R15-billion) could be rescheduled with extended redemption terms and easier interest rates.
- Clinton's officials will encourage the disinvestment movement to be dismantled with US state and civic bodies being urged to switch their funds into development aid instead. This would depend on the violence subsiding.
- The possibility of US pension funds being used to invest in housing, transportation and black business in South Africa was being investigated. This would be a way of easing pressure on America's national deficit.

"These are our intentions," said the state department official. "But neither the US government nor the international community would find it easy to do so if there is to be a serious upsurge of civil violence threatening a Yugoslav-style situation of insurrection."

Intervention has a role to play as trade is liberalised

BDAY 24/5/93

RASHAD CASSIM and ALAN HIRSCH 356

IT IS now part of the conventional wisdom that import liberalisation is a key mechanism for enhancing firms' efficiency and export capacity. In SA, where several inefficient industries are among those most heavily protected, some see liberalisation as a quick fix.

This is a simplistic view. However, there is less disagreement on the view that protected economies are likely to benefit from *some* import liberalisation, than there is over the extent, the sequencing and the pace of such a process.

The main issues are whether import liberalisation precedes or succeeds export success, whether such a process should be swift or gradual, and whether it should occur at a time of macroeconomic stabilisation.

The classical argument in favour of protection is the infant industry which allows domestic industries to be established and grow until they become efficient. But it often leads to inefficiency with a wide disparity between domestic and international prices. Protectionism can protect jobs by preventing a flood of imports, but it can be a burden to consumers and it can direct investment to inappropriate industries.

The World Bank distinguishes import liberalisation from trade liberalisation. Trade liberalisation includes devaluation and direct export promotion measures in addition to import liberalisation.

The liberalisation orthodoxy of the '80s advocated the earliest and fullest possible import liberalisation, beginning with the replacement of quantitative restrictions by tariffs. The second step was to move rapidly towards a more uniform tariff structure, and the final step was to lower the remaining uniform tariffs towards complete free trade. Trade liberalisation was part of overall economic liberalisation.

The orthodox view suffered from various inadequacies. Firstly, it advocated wholesale liberalisation and precluded selective policies, for example, tariff liberalisation of one sector in conjunction with continued protection for others. Secondly, it saw little scope for reformed interventionist policies to, for example, enhance the provision of strategic inputs. For the orthodoxy, the less state intervention, the more successful the liberalisation programme.

Most importantly, the orthodoxy saw no distinction between trade policy and industrial policy. Industrial policies — for example assistance for restructuring industrial sectors which evolved under import substitution, help for export promotion through selective liberalisation of imported inputs, or protecting a domestic market as a reward for exporting — were not given much consideration.

Evidence suggests that liberalising output, employment and the balance of payments is often negative in times of macroeconomic instability, especially in developing countries.

The argument that import liberalisation leads to export promotion is particularly weak. Recent studies have shown virtually no evidence of a direct link between import liberalisation and manufactured export performance.

Successful attempts to reduce the anti-export bias in the '70s and '80s in countries such as India, Turkey and Mexico were based on export promotion measures rather than on the liberalisation of imports. Import liberalisation usually came after manufactured export success.

The transition to manufacturing for exports has taken a variety of forms. In Colombia, Mexico and Turkey, for example, exports grew from protected and import-substituting industries. Previously import-substituting production provided the base of experience and learning that eventually made exporting possible.

Recent studies of the exporting success of Korea and Taiwan show trade liberalisation was a very gradual process. In certain sectors it was implemented in conjunction with selective import controls and protection of other sectors.

The substantial role of government institutions in Korea and Taiwan in designing industrial and trade policy is no longer disputed.

In Chile, which is considered a classic prototype of full and speedy liberalisation, the results are mixed. Even there, liberalisation took five years. The reforms' success also had to be questioned since they led to increasing imports and unemployment, and a relative weakening of the manufacturing sector.

In Australia, tariff liberalisation did not have the anticipated effects. In 1975 the government implemented a 25% across-the-board tariff cut which had a severe impact on labour intensive industries such as textiles, clothing and footwear.

The Australian experience holds important lessons. Firstly, a loss in supply capacity where imports undermine the market share of companies with high fixed capital requirements is hard to reverse. Secondly, tariff liberalisation as a strategy to restructure industry is risky and assumes that export markets are open to new entrants — a bold assumption. Thirdly, the removal of tariff protection has not resulted in a substantial growth in manufactured exports.

The performance of SA's manufactured exports, with the decline of traditional exports, has given urgency to the debate on the role of trade liberalisation. SA's relatively poor performance is attributable to inappropriate trade and macroeconomic policies which resulted in an anti-export bias, leaving few incentives for manufactured firms to export.

On this basis, a 1990 IDC report commissioned by government recommended a fairly radical programme of import liberalisation, culminating, after five years, in maximum tariffs of 15% for capital and intermediate goods, and 30% for consumer goods. This recommendation apparently formed the basis of SA's offer to the Uruguay Round of GATT which, we understand, is being reconsidered.

According to a recent World Bank study the real problem with SA's trade regime is not so much overprotection, which is moderate by middle-income developing-country standards, but the complexity and fluidity of protection.

Also, SA still suffers from an anti-export bias which expresses itself in two ways. Firstly, profit margins in the domestic markets are higher than in external markets. Secondly, input costs are above world prices.

The World Bank paper agrees, implicitly, with critics of the "SA orthodoxy" that the immediate reduction of tariffs would have adverse effects on an already stagnating economy. The paper suggests alternative ways in which the anti-export bias could be addressed. Immediate attention should be given to input costs by creating a free trade regime for exporters, possibly through improving the duty rebate system for inputs into exports. In addition, the tariff system should be rationalised. Gradual liberalisation should follow improvements in exports.

While the World Bank paper provides valuable support for a more considered trade reform strategy, it says little about industrial policies that might strengthen potential export sectors. Our policy investigations aim at combining trade policy reform with industrial strategies designed to improve competitiveness.

□ **The authors are attached to the Trade Policy Monitoring Project at UCT which is sponsored by the ANC-linked Macroeconomic Research Group. This is an edited version of an article in the latest edition of Trade Monitor.**

out for the day leaving all the doors

World Bank's plan for SA panned

By Sven Lünsche

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Star 25/5/93.

The Department of Finance has criticised key aspects of a World Bank model for SA's economic restructuring.

The model is one of three being debated by the National Economic Forum (NEF) in an attempt to find a consensus among business, government and labour on a future economic strategy.

The other models are the Government's National Economic Model and a programme put forward by the ANC and Cosatu-aligned Merg group.

While the World Bank report has not yet been made public, the Department of Finance's special adviser, Dr Japie Jacobs, yesterday released selected details at a function of the Johannesburg Afrikaanse Sakekamer.

Jacobs said the World Bank promoted state spending in socio-economic areas, namely education, housing, health and infrastructure to spur a recovery.

He said the World Bank called for total public sector investment spending to be raised by nine percent of gross domestic product (GDP) over five years, while state capital expenditure should be boosted from the present 3,4 percent to 8,8 percent of GDP.

For example, the World Bank called for an annual R6 billion to R8 billion to be devoted to spending on water, sanitation and electricity projects over the next five years.

Jacobs was critical of the programme, which he described as a bottoms-up approach because it took little cognisance of the spending constraints on the fiscus.

"The World Bank says that five percent economic growth could be achieved over a five-year period through a two percent rise in productivity — this is unlikely if investment is focused on socio-economic projects," he said.

Jacobs also rejected the idea of a public works programmes to alleviate the unemployment problem, as it would only provide short-term relief.

He felt, however, that consensus was emerging in the NEF on a number of issues, including the need to maintain a tight anti-inflationary monetary policy.

Bank ready with $1-bn

Star 25/5/93

(366)

LONDON — The World Bank is ready to allocate a billion dollars (about R3,2 billion) in loans to South Africa once power is handed over to a representative government.

"The prospects are excellent," the bank's regional vice-president for Africa, Edward Jaycox, told a news briefing in London yesterday, on his way to South Africa for a week-long visit.

Such loans would be the bank's first to South Africa in more than three decades.

Jaycox said a government acceptable to the black majority must be in place before the bank could make the loans, for projects including housing, health and telecommunications.

"We can't lend to South Africa unless there's a representative government, but in my view that doesn't have to be an elected government. I expect this to happen just as soon as we get a transitional government."

Jaycox said the bank could not subsidise the white minority in redressing imbalances and there was absolutely no way the loans could be concessional.

The World Bank estimates the wealth of South Africa, the world's biggest gold exporter, averages around R7 500 per person per year compared with R240 in neighbouring Mozambique.

Jaycox said the bank had started preparing the projects with both the ANC and PAC. "When they tell us, we're ready to go," he said of two of the major black nationalist groups.

He added that development projects had to tackle the needs of black South Africans who were forcibly resettled under apartheid in remote tribal "homelands" or made to live in townships some distance from the economic centres of "white" towns and cities.

"These are political areas," he said. "We've got to get people living closer to where work is ... land reform is involved as well."

But with many black youths impatient for radical redistribution of wealth, Jaycox warned: "If the African majority think they're all going to have ranch-style houses and two-car garages, then we're in trouble." — Sapa-Reuter.

Jacobs slams World Bank plan for SA

(119) 356

CT 25/5/93

From GRETA STEYN

JOHANNESBURG. — The World Bank's economic framework for SA came under fire from Finance ~~special adviser~~ Japie Jacobs yesterday, who argued the Bank's projections could not be realised because of the wrong approach to economic restructuring in SA.

Jacobs told a meeting of the Johannesburg Afrikaanse Sakekamer he questioned the Bank's apparent view that socio-economic restructuring should be the engine for economic growth.

The Bank's framework emphasised the demand-side, which was a fundamental difference to government's supply-side approach. While many in government agreed with the sentiments expressed in its latest analysis (still unpublished), it was not made clear how spending suggestions on housing, education, health and agriculture would be financed.

Jacobs objected to the view that a government deficit of 6% of GDP was acceptable and the Bank's statement that exchange rate policy had been aimed at protecting the mining houses.

The Bank's projection of 5% average growth for SA appeared impossible to attain because the Bank's approach was based on a major push for investment in socio-economic infrastructure.

In arriving at a growth rate, the Bank had assumed a productivity rise of 2% which, Jacobs argued, was unlikely if the major investment push was in the socio-economic arena.

Jacobs placed the World Bank's framework in the same category as the ANC-aligned macroeconomic research group's model, and rejected both for their over-emphasis on the demand-side. He was emphatic that public works programmes could not be countenanced as they would only provide a once off boost for the economy.

● The World Bank said yesterday it was ready to allocate $1bn in loans to SA once power is handed over to a representative government.

World Bank model 'faulty'

(356)

GRETA STEYN

BDM 25/5/93

THE World Bank's economic framework for SA came under fire from Finance special adviser Japie Jacobs yesterday, who argued the bank's projections could not be realised because of the wrong approach to economic restructuring in SA.

Jacobs told a Johannesburg Afrikaanse Sakekamer meeting that he questioned the bank's apparent view that socioeconomic restructuring should be the engine for economic growth. The bank's framework emphasised the demand side, which was a fundamental difference to government's supply-side approach. While many in government agreed with the sentiments expressed in its latest analysis (still unpublished), it was not clear how spending suggestions on housing, education, health, agriculture and other infrastructure would be financed.

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In arriving at a growth rate, the bank had assumed a productivity rise of 2% which, Jacobs argued, was unlikely if the major investment push was in the socioeconomic arena. Productivity of social investment was unlikely to raise overall productivity growth by 2% and hence lift the growth rate to 5%, Jacobs said.

He described the bank's approach as "working from the bottom upwards" and said the macroeconomic viewpoint had been neglected. As an example, he quoted

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World Bank

BDM 25/5/93.

☐ From Page 1

the bank's view that R6bn-R10bn would be needed for investment in social infrastructure (excluding housing) — but it was not made clear how this would be financed.

Jacobs placed the World Bank's framework in the same category as the ANC-aligned macroeconomic research group's model, and rejected both for their overemphasis on the demand side. He was emphatic that public works programmes could not be countenanced as they would provide only a once off boost for the economy. While government accepted the need for wealth redistribution, the main aim should be to achieve this through small business and training.

The economic debate was at present focused on three key areas, of which the most important was the labour market.

The other areas were the role of government and competition policy.

WORLD BANK FM 28/5/93.

(356)

The fruits of progress

Behind the sound and fury of political violence and ethnic division that have dominated the headlines for the past seven weeks, SA is moving steadily towards a negotiated settlement. Progress was confirmed by World Bank vice-president for Africa Edward Jaycox who this week announced his expectation that a US$1bn loan from the Bank would soon be available to SA.

Reuters reports that he told a press conference in London: "We can't lend to SA unless there's a representative government. In my view, that doesn't have to be an elected government. I expect this to happen as soon as we get a transitional government." Jaycox was en route to the World Economic Forum in Cape Town this week.

This potentially advances the date at which SA can expect approval of an aid package, from about April next year, to later this year.

The process will require internal consensus among negotiators. There has been a strong lobby against development aid, which will come with structural adjustment strings attached.

But the Bank has done considerable groundwork, liaising with the main political groupings, and the tone of Jaycox's comment implies consensus can be achieved.

If this is the case, external consensus should not be a problem.

The main stumbling block until now has been the US, whose representative on the Bank's board has been required by the Gramm Amendment to oppose a loan to SA. Once the groups which now constitute an internationally recognised extra-parliamentary opposition are absorbed into government and have approved the arrangement, the Bank's shareholders will agree to a loan.

It will not be possible to assess the impact of a $1bn loan on the economy until the Bank reveals how the funding will be made available, what the cost of servicing it will be and what conditions will be attached, as well as the term to maturity.

Though the Bank does lend funds to assist adjustment programmes, it is primarily involved in investment lending for projects and specific sectoral activities. First applications from SA are expected to relate to specific projects.

Though World Bank representatives have visited SA regularly since 1990, they have confined their investigations to the macro-economy and have not considered specific projects.

This means projects identified still have to be studied. And, once the loan is signed and sealed, disbursement procedures are complicated and lengthy. The process is likely to take at least 18 months from the time the loan application is approved in principle.

One way to speed up the process is initially to identify simple projects in health or education that require only a small amount of funding.

The main benefit of this will be a change in SA's standing in the financial community and an increase in domestic confidence about future prospects. Consumers and investors will feel more comfortable when they know there is money in the pipeline to cushion reserves against balance of payment problems.

Loan capital

But World Bank blessing will not necessarily unlock private loan capital. The World Bank provides semi-concessional funds for development purposes, whereas commercial sources would evaluate the risk-reward factors. They would not be prepared to lend until SA has a cohesive economic policy.

Despite efforts to get SA reclassified as developing, the country is still considered First World by the Bank. With annual per capita income of $2 500, SA far exceeds the $1 235 cut-off point for loans from the Bank's International Development Agency to developing countries. Eligible countries pay no interest, only a yearly 0,75% service charge on disbursed balances, over 35-40 years. Benefits include a 10-year period of grace when no principal or finance charges have to be repaid.

SA will have access only to the International Bank for Reconstruction & Development which lends to countries with per capita incomes of $1 235-$4 465 a year. Concessions relate to the term over which the organisation provides finance — 15-20 years with a three-to-five-year grace period. Interest charged by the Bank — at present an annual 7,6% — is not concessional. ■

World Bank slams choice of Rupert

CT 28/5/93

(356)

Business Staff

A NEW World Bank report to be issued shortly "concludes that the net effect of investing in tobacco on global welfare is emphatically negative," Derek Yach, group executive, essential health research, at the Medical Research Council, said yesterday.

Commenting on a report that Johann Rupert, executive chairman of the Rembrandt group, would be honoured by the World Economic Forum as a business leader of the future, Yach said: "The World Economic Forum clearly values short-term profit makers above the health of populations.

"The health of untold generations is at risk as Rembrandt targets the poorest sector of societies worldwide for tobacco sales."

Help Promised to South Africa

Guardian/W in W/mail 28/5 – 3/6/93.

By John M. Goshko

WASHINGTON — The United States offered last Friday to help South Africa regain its former importance in world economic affairs as soon as the black majority and the white minority government set the stage for multi-racial elections.

"South Africa's successful transition is important for Africa, the United States and the world," Secretary of State Warren Christopher said in a speech outlining President Clinton's Africa policy. Christopher emphasized the importance the administration intends to place on promoting democracy and respect for human rights on the continent.

South Africa, with its vast mineral wealth and industrial base, has the most advanced economy in Africa. But in recent years, the tensions and uncertainties caused by its racial divisions subjected the country to sanctions, boycotts and flight of foreign investment that forced it out of the mainstream of world trade and financial activity.

"The United States will help — and we expect other industrial democracies to help as well," Christopher said in describing the administration's plans for working with South Africa after President Frederik W. de Klerk's government and leaders of the major black groups agree on terms for a changeover to majority rule.

"Once a Transitional Executive Council has been put in place — and a date for elections has been set — we will work with our partners (in the group of seven leading industrialized democracies) to help South Africa reenter the global economy," he said.

Addressing the African-American Institute, an organization of scholars and specialists in African affairs, Christopher said the end of the U.S.-Soviet rivalry allows the United States now to pursue "a productive new relationship" with Africa. He said that Clinton intends to jettison the Cold War considerations of the past and make promotion of democracy and human rights the foundations of his policy.

"During the long Cold War period, policies were often determined not by how they affected Africa, but by what advantage they brought to Washington or Moscow," Christopher said. "Thankfully, we have moved beyond the point of adopting policies based on how they might affect the shipping lanes next to Africa rather than the people in Africa."

As an example of this new approach, he cited Clinton's announcement last Wednesday reversing 17 years of U.S. policy by recognizing the Angola government.

Christopher, who criticised Jonas Savimbi of UNITA for seeking a military solution in Angola, also had harsh words for another long-time U.S. ally, Zaire's President Sese Seko Mobutu. For almost three decades, the United States courted Mobutu and overlooked the corruption and oppression endemic to his rule. However, in recent months, as Zaire has tottered on the brink of anarchy and bankruptcy, the United States has reversed course and called for Mobutu to step aside.

"The people of Africa know where their future lies: not with corrupt dictators like Mobutu, but with courageous democrats in every part of the continent," Christopher said.

As a sign of Clinton's intention to give Africa more attention, Christopher noted that the administration is seeking to increase country-to-country aid to sub-Saharan Africa from the present level of about \$667 million to \$800 million next year. However, that sum must be split among 47 countries. By comparison, aid to Israel — the country that gets the largest share of U.S. aid — has been running at \$3 billion a year.

- The World Bank's top policymaker for Africa has announced sweeping changes in the institution's approach to the continent's economic problems, *writes Tami Hultman.*

In a speech to the annual conference of the African-American Institute, Edward Jaycox, vice-president for the Africa region, said the bank would no longer dictate development plans.

Acknowledging that the World Bank had failed to devise solutions to Africa's economic problems, Mr Jaycox said in future the bank would help fund African governments to write their own development plans and would use most of a \$20 million economic research fund to support studies commissioned by Africans themselves rather than bank economists.

People to decide on monetary pain — Manuel

ARG 29/5/93

BRUCE CAMERON
Business Staff

THE International Monetary Fund and World Bank could "forget about imposing conditions" on South Africa in assisting it under an African National Congress government.

Mr Trevor Manuel, head of the ANC department of economics, said the people of South Africa, not a bank in Washington, would decide what pain to inflict on themselves.

And earlier in the week a meeting of sub-Saharan bankers, including nine central bankers, warned of the dangers of accepting aid in the form of soft loans, which were often tied to importing goods from a donor country.

Mr Manuel said there was agreement within South Africa the economy needed to be restructured — the disagreement was over how and what should be done.

Mr Manuel was speaking at a media conference during a World Economic Forum meeting on Southern Africa in Cape Town at which the World Bank back-pedalled on the issue, and on a recent report proposing structural change in South Africa.

World Bank vice-president Mr Edward Jaycox said earlier the World Bank's recommendations to revive the economy, which had come under fire from Mr Japie Jacobs, special adviser to Finance Minister Mr Derek Keys, as unworkable, was a "balanced approach".

The bank, which is standing in the wings with about R3 billion for development projects for South Africa, was not wedded to the model, he said.

"We will be very happy if it contributes to the economic debate."

He warned though that a change in the political environment would not result in growth.

"The economy will continue to go down if all the resources of the country are not used properly. There will still be things standing in the way."

He said if a future government under pressure from labour unions maintained the existing protectionism and trade barriers, "there will be a cosy little arrangement, high profits, high wages and low employment".

Mr Jaycox said the World Bank never dictated conditions, but looked for a straightening out of public finances and sought to bring a country's assets to full productivity. This did not necessarily mean privatisation.

"We ask governments to exercise options. We do not insist on any one formula."

Mr Manuel said South Africans had struggled for many years to achieve sovereignity over their own affairs. As they gained this sovereignity, they would not surrender it again to a bank in Washington.

He said South Africa had the acumen and the skills, as well as a strong sense of national independence, to restructure its economy.

"There is agreement that there has to be restructuring. If this restructuring (by ourselves) brings pain, it is ours. It is the process that is important."

He said structural adjustments being forced on Zimbabwe were resulting in gains made in the first 10 years of independence in education and health "being rolled back."

The result was the World Bank was now perceived to be the enemy.

The World Bank also admitted that 40 percent of its projects in Africa had failed.

Industry 'losing out on millions'

SOUTH AFRICA is losing out on millions of rands of World Bank procurement spending within half-an-hour's flight of Johannesburg because its industries are not competitive enough. (358)

World Bank vice-president Mr Edward Jaycox, on his second visit to South Africa, said it was untrue that South Africa was off-limits for World Bank spending. ARG 29/5/93

This was an excuse for the poor competitiveness of South African industry.

He said more than R1,5 billion was being spent on procurement within half-an-hour's flight of Johannesburg.

"South African companies are not getting the contracts because of the lack of competitiveness," he said.

ST Times (Buss) 30/5/93

World Bank positive on SA loan

By JEREMY WOODS

(356)

THE World Bank has an "open-ended lending policy towards SA" governed only by the creditworthiness of the country, says World Bank vice-president Edward Jaycox.

Asked how creditworthy SA was, he replied: "It is difficult to say. It depends on how much money SA has borrowed from other countries."

But the country was changing fast and moving in the right direction.

"That's why we are here. We want to have a good look at what's happening and see how we can help."

He says the World Bank has been preparing to invest in projects in SA for two years and the value of these investments total $1-billion.

"People always get carried away with the amount of the big figures. Aid is a very poor springboard for development and people's expectations get too high when it comes to loans.

"No amount of aid supplements the flow of savings and cash flows that are generated in a properly structured economy."

Mr Jaycox says the important aspect of his trip was that the World Bank was making commitments in SA and "encouraging others to do the same".

His trip, the second to SA, was primarily to take part in the World Economic Forum, held at the Mount Nelson hotel and attended by heads of state and ministers from across Southern Africa.

Further optimism for SA's acceptance on the international loan markets was given by Mr Adewale Sangowawa, vice-president of the African Development Bank.

"Our lending to SA is dependent on it becoming a member of the African Development Bank. This could happen once a transitional government is in place and I believe SA could join our other member countries by the yearend."

Asked if he thought SA would be the engine that drives Africa, Mr Sangowawa said: "We see the SA economy being part of a regional economy.

"We don't see it in a dominant role. The needs of SA are enormous and we think it will be some time before the country comes to terms with this."

He said SA's "needs" included political stability, peace and equality, as well as a more competitive industry.

"Tariffs and import duties protect inefficient industries and these will have to be phased out, so that the country can be competitive in the international business arena."

THE JSE WEEK

By JULIE WALKER

GOLD moved up and down like a yo-yo and kept dealers on their toes all week. From $378 an ounce on Monday it fell below $375 on Wednesday, then was fixed at $381 on Friday morning, only to retreat to $377,45 at the close.

On aggregate, golds followed the trend, but caution crept in on the underlying knowledge that prices had been pushed too far ahead of the gold price and that the market was grossly overbought. The All-Gold index moved up to above 1 900, but retreated to close at 1 846 points on Friday.

The notion of value for money returned; dividend yields have thinned in past weeks. Mining exploration shares also retreated.

Platinums were mixed after the metal's price caught up with the precious share rush. In New York, July platinum futures contracts reached $403/oz — the highest in ages — on

week ago and looks destined to be sold out of the food-dominated Del Monte Royal group. Six years ago the group listed as Lovasz Chemicals. Chemserv is a possible buyer; it too warned of negotiations on the same day.

Suncrush put on 500c to 40 500c ahead of announcing board approval for a 50-for-one share split.

The property trust sector started to attract the interest of institutions such as Board of Executors, whose June newsletter recommends accumulation of quality companies in the sector.

Higate and Histone both lifted earnings this week but unit prices were unchanged on the JSE.

ployers on the council.

NICISEMI says the Supreme Court rejected the opposing applications on all counts.

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World Bank's plan for SA's revival

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By KEVIN DAVIE

THE World Bank, which will make $1-billion a year in loans available to SA once power has been transferred to a transitional government, has tabled a four-point plan to revitalise this country's moribund economy.

The bank says in its first official publication on SA for several decades, that for higher growth the country must revive the private sector while maximising employment growth and narrowing income differentials between blacks and whites.

"It must also redress massive inequalities in access to public services and facilities, as well as land distribution."

The four points are:

- Restructuring government expenditure by raising investment in infrastructure and public services and restricting the growth of recurrent spending.
- Encouraging rapid growth in skilled labour by upgrading semi-skilled and unskilled workers.
- Stressing job creation in small business and agriculture.
- Encouraging a reorientation of manufacturing in favour of exports.

The bank says the resources needed to redistribute public services adequately are considerable.

"It will cost around R8-billion to provide sufficient extra classrooms for those children currently enrolled and those out of school.

"The cost of urban renewal will be even greater. In the Witwatersrand area alone, the total cost of providing additional water, sanitation and electricity could be R6-billion to R10-billion. Nationally, the cost would be much higher."

The bank says new investment should not repeat the mistakes of the past — "that is, concentrate on inefficient and highly capital-intensive major parastatals".

Where possible, preference should be given to labour-intensive public works programmes.

"Where the public sector is the contractor, wages of unskilled workers should be paid at about one-half of formal sector rates."

The bank says that feasible growth in government investment could result in impressive redistribution.

"If GDP growth of around 5% a year could be attained, then a fiscal deficit as high as 6% of GDP may be sustainable."

Control of recurrent expenditure to about 2% in real terms could lead to an increase in capital spending from the present 3,4% to 3,8% of GDP in five years.

"In 1991 prices this translates into an average R11-billion additional per capita spending of roughly R325 a year for the black population."

SA's most urgent task in international trade is to deal with the anti-export bias inherent in its policies.

"Two-thirds of the disadvantages that SA exporters suffer relative to foreign competitors stem from the higher prices they pay for manufactured inputs."

It is possible to have export neutrality while maintaining protection. Exporters must be given free access to imported inputs. Incentives to export must be brought more in line with those to produce for the domestic market.

"SA needs a streamlined, automatic, duty-drawback (or rebate) scheme — one which is explicitly independent of any suggestion that exporters should first shop for local inputs before importing."

There is no reason why, given the right economic environment and policy framework, the economy should not be able to re-establish positive per capita GDP growth fairly quickly.

"The sustainability of this will require, however, a commitment by all of the major players in the country to agree (to) and then implement a coherent and redistributive economic strategy."

World Bank has 'open' for SA

S Times (CC Metro) 30/5/93

By JEREMY WOODS

THE World Bank has an "open-ended lending policy towards South Africa" governed only by the country's creditworthiness, World Bank Vice-President Mr Edward Jaycock said in Cape Town on Friday.

Asked how creditworthy South Africa was, he replied: "It is difficult to say. It depends how much money South Africa has borrowed from other countries." But he said, the country was changing fast and moving in the right direction. (256)

"That's why we are here. We want to have a good look at what's happening and see how we can help."

He said the World Bank had been preparing to invest in projects here for two years and the value of these investments totalled $1-billion.

"Aid is a very poor springboard for development and people's expectations get too high when it comes to loans. No amount of aid supplements the flow of savings and cash flows generated in a properly structured economy." (74A)

Further optimism for SA's acceptance on the international loan markets was given by Mr Adewale Sangowawa, vice-president of the African Development Bank.

"Our lending to South Africa is dependent on it becoming a member of the African Development Bank. This could happen once a transitional government is in place and I believe South Africa could join by the end of this year."

SA firms missing the boat

By Bruce Cameron Star 31/5/93

CAPE TOWN — South Africa is losing out on millions of rands of World Bank procurement spending within half an hour's flight from Johannesburg because of the lack of competitiveness of industry.

(356)

World Bank vice-president Edward Jaycox, who is on his second visit to South Africa, said in a weekend interview it was untrue that SA was off limits for World Bank spending.

This was an excuse for the poor competitiveness of SA industry, he said.

He said SA companies were already receiving procurement contracts for development projects in neighbouring countries of up to R90 million a year, but this was a fraction of the R1,5 billion being spent on procurement within half an hour's flight from Johannesburg.

"SA companies are not getting the contracts because of the lack of competitiveness."

World Bank upbeat on post-apartheid outlook

Star 31/5/93

CAPE TOWN — South Africa, mired in its longest recession on record, could enjoy rapid growth in the early years of a post-apartheid government, although benefits must be shared fairly to sustain this, says the World Bank.

The bank, in a report released at the weekend by its Southern Africa department, says most of the country's economic, as well as political, problems are rooted in apartheid.

No economic programme, however well designed, can succeed without increased social stability, says the report, presented to a two-day meeting of the World Economic Forum in Cape Town.

"If gains from growth are not perceived as being distributed equitably by the community at large, social unrest will re-emerge, and political and economic stability will be undermined," it says.

The bank says the report was distilled from informal discussion papers prepared by its staff and a wide range of South Africans, and is not an official bank document.

The report says South Africa's income per capita of $2 500 a year puts it among upper, middle-income developing countries.

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Disparities

But per capita income for whites is almost 10 times higher than for blacks, and 4,5 times higher than for coloureds, it notes.

Wide disparities range from access to services, including water, sanitation, electricity, education and health to social welfare in areas such as infant mortality and life expectancy at birth.

The extremes, it says, "tend to confirm that there are really two South Africas — a First World society for whites and a Third World society for blacks".

Key problems which have to be addressed range from high unemployment — one-quarter of the black labour force is without work — to declines in investment and productivity, while the trade regime is biased towards production for the home market rather than internationally competitive exports.

Also, private sector confidence has been badly shaken by growing political uncertainty and rising violence.

"To stimulate growth, the single most important ingredient is investor confidence," it says, adding that this will only emerge if, unlike in the past, policy-making is transparent, with no chopping and changing.

It is difficult for the authorities to stimulate the economy now in the face of a number of constraints, including the balance of payments, the fiscal deficit, and a need to keep inflation under control.

Advantages include spare capacity and excellent infrastructure.

Investment

Little new investment will be needed in coming years in much of the transport and communication systems, and electricity generation.

Foreign debt, estimated at $18 billion, is low, with the ratio of debt to gross domestic product unusually low.

"South Africa is not in the foreign-debt trap faced, for example, by some countries in Latin America and Eastern Europe." — Sapa-Reuter.

'Money not words' sought for free SA

Star 8/6/93

(356)

By Peter Fabricius
Star Bureau

WASHINGTON — South Africa expects the World Bank to provide aid of up to R3,15 billion a year to bolster the imminent transitional government.

And it also expects the G7 countries to provide an economic package — "and not just encouraging words" — at its forthcoming summit.

South Africa's ambassador to the United States, Harry Schwarz, spelt out the country's needs when addressing the National Press Club here yesterday.

He appeared with Constitutional Development Minister Roelf Meyer, who said that now that the negotiating parties had set a date for the country's first democratic elections, there was no reason why sanctions could not be lifted immediately.

Schwarz said that when all South Africans could vote, they would ask: "Are we better off than before?

"There has to be a degree of immediate gratification to meet expectations and here the World Bank can play a very important role.

"They will have a series of projects that can work up, within a relatively short time, to about one billion dollars a year," he said.

"At the forthcoming G7 summit, we want South Africa raised as an economic issue. We believe the US administration will do so. We don't believe it's enough to have encouraging words from them. We would like to see an economic package from them, the same as that for the Russian Federation."

Move to marshal US investment

WASHINGTON — Mobilising investment in SA's post-apartheid reconstruction by US pension funds and university endowments is the goal of a conference to be held in the US capital next October, after the annual meetings of the IMF and World Bank.

SIMON BARBER

A key aim, said organiser Herman Nickel, a former US ambassador to SA, was to "concentrate SA minds" on developing attractive investment instruments for US institutional investors.

SA corporations had been asked to help underwrite the conference, which would bring together leading players in the SA financial community.

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These included the Community Growth Fund and the Independent Development Trust.

Representatives of the International Finance Corporation, the World Bank's private investment arm, were expected to attend.

The initiative had strong support from the Clinton administration, which was looking for ways to stimulate pension fund investment in SA once the ANC gave the go-ahead.

Although investing in post-apartheid SA might fit the social objectives of many of the big US funds, Nickel stressed that managers had a fiduciary obligation to concentrate on the bottom line.

Meg Vorhees, of the Washington-based Investor Responsibility Research Service, whose clients include university endowments and institutional investors, said she had seen little evidence that funds were "champing at the bit" to invest in SA. Many were still "wrestling" with their restrictions on SA-related investments — and were likely to continue to do so for some time after the ANC gave the all clear.

IMF, World Bank set to resume loans

AEG 24/6/93

WASHINGTON. — The International Monetary Fund and the World Bank are ready to resume loans for South Africa as soon as sanctions are lifted, but the country's black leaders must first give the go-ahead.

Negotiators are to meet tomorrow in South Africa to finalise the date of the country's first non-apartheid elections, expected to be held on April 27, and to set up a commission to oversee transition to democracy.

African National Congress president Nelson Mandela said recently that his organisation would call for an end to the international embargo once the commission was set up.

In principle, such a move would pave the way for the resumption of IMF loans — suspended since 1982 — as long as the institution's financial requirements are met.

"The IMF is available when they want," said an international monetary source.

It is believed the financial institutions would be ready to deal with the South African government and the transition committee and that there were two principal ways to extend assistance — a standby credit aimed at improving the country's balance of payments deficit, or a special credit facility to cope with problems such as a severe drop in exports combined with a rise in imports. — Sapa-AFP.

(155) (266)

JOBS

Council faces R2,5m claim from a prize-winning firm

(346)

By CIARAN RYAN

WINNER of the 1992 Entrepreneur of the Year award, Annie's Creations of East London, plans to sue an industrial council for R2,5-million in lost profits, claiming unlawful harassment.

The managing director of the baby-clothing manufacturer, Tom Cawood, says he was forced to lay off 160 workers after the Port Elizabeth Industrial Council for the Clothing Industry (Eastern Province) extended its jurisdiction to East London. He says it sent fictitious applications by East London factories to the Industrial Registrar.

"I am one of the lucky ones," says Mr Cawood. "I survived. Two other budding entrepreneurs in the East London area, employing more than 1 000, were forced into liquidation because of the industrial council. Our three factories supported 15 000 dependants."

Industrial councils, in terms of the Labour Relations Act, regulate conditions of employment, minimum wages and other employee benefits and provide for the resolution of disputes. They are private organisations made up of employer and trade union representatives. Membership is voluntary, but agreements are binding on non-members.

The industrial-council system was given a shot in the arm two weeks ago when the Cape Supreme Court confirmed that agreements are binding on non-members. Twelve employers contested the right of the National Industrial Council for the Iron, Steel and Metallurgical Industries to extend its agreements to non-members. They were ordered to comply with the council's agreements.

Enough

Mr Cawood moved Annie's Creations from Rustenburg to East London because the Cape city had no industrial council for the clothing industry and wage rates were lower. But last year the council extended its jurisdiction to East London. It sent a representative to Mr Cawood's offices last August.

"In a very abrupt manner he demanded to see my books, so I threw him out. He returned with the police. We were treated like criminals. I was told that I was underpaying my staff and we had a criminal case pending against us.

"We considered closing our business. I have had to delay buying more equipment because of the uncertainty about my business."

Mr Cawood alleges that Port Elizabeth-based clothing firms, jealous of his lower labour costs, instituted the action. Of the six employer representatives on the council, two are related and two are from the same company, says Mr Cawood.

Applications to the Industrial Registrar and former Manpower Minister Eli Louw for exemption from the industrial council agreements failed.

The council's records show its members are in the minority and therefore not representative of the industry, says Mr Cawood. In spite of publication of a notice in the Government Gazette by the Industrial Registrar that the council was no longer sufficiently representative, its agreements are still imposed on non-members.

Mr Cawood says: "I decided enough was enough. I decided to go to war with the industrial council. I should have employed 800 people by now to fulfil the orders that were coming in, but I am down to 100. I know what it must have been like to own your own business in Russia.

"Now we are instituting legal action against the council."

Brian Topic, who runs a car valet service on the East Rand, says an industrial council official arrived at his premises to inspect the wage book. He was told some of his workers were underpaid.

"The official called all staff members into my office and told them that they would receive pay increases of 18%. Later, another inspector told me my original pay rates were correct."

Mr Topic says he may be forced to close his business after being summonsed to the industrial court for refusing to reinstate a driver found drunk at work.

Unfair

"Two months after firing this driver he turned up at my premises with a union official, claiming unfair dismissal because he was not given 24 hours' notice of the hearing. I was told to reinstate him as a driver, even though he was frequently drunk and a risk to life and property. I refused and must appear in court, placing my business and 33 jobs at risk."

Several employer federations blame industrial councils for strangling job creation because agreements are binding on non-members, regardless of their ability to meet the cost of compliance. The number of industrial councils declined from 104 in 1981 to 91 in 1990. The number of employees covered by industrial council agreements fell from 1,27-million in 1981 to 800 000 in 1990.

"The system is blatantly undemocratic and immoral," says Hein van der Walt, director of the Confederation of Employers of Southern Africa, which has 120 000 members employing 2,4-million workers.

"The industrial council system has a total disregard for the trade freedom of employers and the right to work."

TOM and ANNIE CAWOOD: Enough's enough, we're going to war to save our business

R10bn spending estimate

B/Day 7/7/93

GRETA STEYN

THE total cost of providing water, sanitation and electricity needed in the Witwatersrand area alone was estimated at R6bn-R10bn, the World Bank said in an Economic Perspective on SA.

Johannesburg management committee chairman Ian Davidson declined to put a figure to infrastructure spending needs at the release of the Johannesburg budget about a month ago. The Metropolitan Chamber is doing its own study into the spending needs and fiscal resources in the Witwatersrand area.

The World Bank publication, which is a synthesis of a number of informal discussion papers prepared by the World Bank, said it would cost about R8bn to provide enough extra classrooms for pupils enrolled at present and those out of school.

"The resources needed to redistribute public services adequately are considerable.... Feasible growth in government investment could result in impressive redistribution," the report said. The priority was to revive government investment as a percentage of GDP to the levels of the 1970s and to control growth in current spending.

The bank, in a break from the traditional deficit rule of 3% of GDP, said a fiscal deficit of 6% of GDP could be sustained if a GDP growth rate of about 5% a year could be attained. Control of recurrent spending to 2% a year in real terms would be consistent with an increase in capital spending from 3,4% to 8,8% of GDP over five years. In 1991 prices, this translated into an average increase of R11bn additional per capita spending of about R325 a year for the

☐ To Page 2

World Bank

B/Day 7/7/93

☐ From Page 1

(356)

black population.

New public investment should not repeat past mistakes, when money was spent on inefficient and highly capital intensive major parastatals. Nor should it be directed to infrastructure in white areas. Where possible, preference should be given to labour-intensive public works projects. The public sector, as contractor, should pay unskilled workers wages of about half formal sector rates.

In another break with conventional wisdom, the bank said SA's average import duty was not high by developing country standards. While a lower average rate would make industry more internationally competitive, the present high unemployment and stagnating economy made such a course undesirable. Rather, SA needed to make protection transparent and rationalise the import duty schedule.

World Bank lending up

WASHINGTON. — The World Bank's new lending commitments totalled a record $23,7 billion for the year ended on June 30, compared with lending commitments of $21,7 billion a year earlier. ARG 7/7/93

A spokesman said yesterday the multilateral lending agency's commitments amounted to $16,9 billion for about 122 projects. The remainder was taken up by 123 projects sponsored by the International Development Association, which made loans with below-market rates to the poorest countries.

The spokesman noted new lending to Africa totalled $2,8 billion, $1,2 billion less than the year before owing in part to administrative delays resulting from political transitions. — Sapa-Reuter.

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World Bank 'softens' rule on deficit

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9/7/93

THE World Bank, in a break from the traditional deficit rule of 3% of GDP, said a fiscal deficit of 6% of GDP could be sustained if a GDP growth rate of about 5% a year could be attained.

In an Economic Perspective on SA report, the bank said control of recurrent spending to 2% a year in real terms would be consistent with an increase in capital spending from 3,4% to 8,8% of GDP over five years. In 1991 prices, this translated into an average increase of R11bn additional per capita spending of about R325 a year for the black population.

New public investment should centre on labour-intensive public works projects.

In another break with conventional wisdom, the bank said SA's average import duty was not high by developing country standards. SA needed to make protection transparent and rationalise the import duty schedule.

● The bank said it would cost about R8bn to provide enough extra classrooms for pupils enrolled at present and those out of school.

R10-bn needed to save

Star 8/7/93 Township

By Jo-Anne Collinge

It would take more than R10 billion over the next five years to wipe out service deficiencies in existing townships and to provide full services to new settlements on the Witwatersrand, the World Bank calculates.

If a "minimum" service level were accepted, the bill could be reduced to R6 billion.

And, the bank warns, if the Reef were carved into separate metropolitan areas, this could leave the West Rand unable to finance any meaningful development of services.

(356)

If, on the other hand, the eastern, central and western areas of the Reef were combined into a "single metropolitan entity, fairly ambitious investments could be undertaken".

The findings emerge from research conducted last year by an urban sector reconnaissance team of the bank.

The report takes a look at what would happen to regional service council levies and property rates in white areas if these sources of finance were the only means of securing loans to upgrade the townships over the next five years.

It assumes that standards of service in the present white local authority areas should not be allowed to fall.

If the Reef formed one metropolitan entity:

- By the fifth year an increase of 18 percent on current RSC levies and local authority rates would be needed to upgrade townships, provide services to new sites and develop bulk infrastructure to a "full service level" — that is, supplying electricity, internal piped water, tarred and drained roads, conventional sewerage and refuse removal.
- If an "intermediate service level" were accepted — that is, stand pipes in yards, other forms of sewage disposal, only main roads tarred and drained, no house to house refuse collection and limited electricity supplies — an increase of only 4 percent in total revenues would be needed by the fifth year.

The World Bank is careful to point out that its figures are in some respects a "worst case" scenario.

Good Morning Grandma . . . Soweto police greet the elderly with hot soup at the Tladi, Soweto,

Boumat man denies fraud and forgery

Staff Reporters

Dr Adam Klein, chief executive officer of Sandton engineering company Boumat, accused of, among other things, fraud and forgery last night denied he had done anything illegal.

In a statement Klein said: "I utterly repudiate all the allegations that I perpetrated any fraud of theft or forgery to the prejudice of Boumat, Saficon (the parent company) or anyone else.

"I intend to defend myself to the hilt and to show, as I indicated at the bail application, that my actions were with the consent and the approval of the company's chairman and not calculated to prejudice the company," he said.

Klein, released on R30 000 bail, was arrested at Jan Smuts Airport on Tuesday when he arrived home with his wife, Lindsay, from a US business trip.

Yesterday he appeared in the Johannesburg Magistrate's Court in connection with charges including forgery, theft and fraud totalling $540 000 (about R1,6 million). He was not asked to plead and the case was postponed to October 5.

In a statement yesterday, Boumat said Klein had been suspended from his position as chief executive officer, a position he has held since joining the company last year. The company will hold a disciplinary hearing.

The statement said Boumat would be unlikely to suffer any financial loss.

"The matter is in the hands of the Attorney-General and, accordingly, sub judice," the statement said.

JSE-listed Boumat controls a portfolio of businesses supplying building and civil engineering materials.

Dismay over arrest — Page 22

SAP shows it has a warm heart

By Happy Nkhoma

Attempts by police to improve their image in the townships is often viewed with scepticism, but their joint feeding venture with a major chain store yesterday was accepted warmly by pensioners in Tladi, Soweto.

Hot soup and bread after hours in the cold came as a welcome relief to Josephine Diketle (70), of Naledi, and many others.

"I got here at six in the morning and I wouldn't have had a meal until I got home at lunchtime," she said.

Timothy Masisi (31), disabled in a train accident, brought his unemployed cousin for protection.

"The police here are different. The food was our first for the day after leaving home at five," Masisi beamed.

Pol reo

Police are against ... reopened in anti-gamb... ing to Wit... spokesman Andy Pieke.

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Star 8/7/93.

Private sector seen as Africa's saviour

By Michael Chester

The whole of Africa was urged in Johannesburg yesterday to start a massive re-think about the role of government and leave more room for the private sector to take the lead in economic affairs.

The advice was delivered by the International Finance Corporation (IFC), the affiliate of the World Bank that is showing mounting concern over the downward slide of economies in sub-Saharan Africa.

IFC small business development manager Richard Parry said global experience proved the private sector was far better equipped than government to generate expansion and job creation.

Parry was opening a special two-day conference called by the SA Foreign Trade Organisation to review the various business opportunities offered by political and economic transition across the continent.

He said it was dangerous to follow out-moded notions that the private sector was a predator and should be under state control.

Richard Parry . . . new investments not enough to arrest and reverse the trend

For far too long, much of Africa had toiled under governments that had not concentrated on their basic role — such as provision of sound education and health services — and failed to release the energies and entrepreneurial talents of the private sector.

In turn, average per capita incomes in sub-Saharan Africa had shrunk by no less than 25 percent since 1970. Africa's share of world export trade had been halved.

"One does not need to look far to find examples of countries where school children have no books, hospitals have no supplies and shops have no goods on the shelves," he said.

New investments in Africa were still not enough to arrest and reverse the downward trend.

The World Bank estimated that Africa needed new investments to equal no less than 25 percent of gross domestic product every year to show improvement in unemployment and incomes among its growing populations. (356)

In fact, investment rates over the past five years had lagged behind at only 17 percent.

In dramatic contrast, the investment rate in the dynamic economies of East Asian countries had been running at 34 percent.

Parry advised Africa to consider the results.

"Just over 30 years ago," he said, "per capita income in Ghana was higher than in both South Korea and Malaysia — and many people thought Ghana's development prospects were considerably brighter.

"Yet it has been East Asian countries that have managed to lift millions out of poverty in less than one generation. Africa should be aiming at the same goal."

Official overseas aid to sub-Saharan governments in the 1980s amounted to R340 billion and was still running at more than R60 billion a year.

"One cannot avoid serious questions about the effectiveness of much of this public investment," he said.

The critical challenge in Africa was to attract direct private investment — from domestic as well as overseas sources. One option was privatisation of various state services.

"If Africa is to break out of the cycle of dependence on foreign aid, combined with slow economic growth and living standards that are static or falling," said Parry, "it needs to develop a vibrant private sector.

"If other countries in other parts of the world can do it, so can Africa."

Wage gap between races slowly closing

Star 8/7/93

By Claire Gebhardt

There are really two South Africas - a First World society for whites and a Third-World society for blacks, according to a World Bank report.

"In its white cities, South Africa ranks among the top four or five countries in the world in per-capita spending on infrastruture.

"Yet urban areas have worse facilities on average than other developing countries with similar per capita income.

Figures published in the World Bank report *An Economic Perspective on South Africa* indicate that apartheid intensified inequality in South Africa beyond that expected in a country at its level of development.

With the bulk of South Africa's national income going to the white minority, whites have personal incomes per capita of about 9,5 times those of Africans, 4,5 times those of coloureds and 3 times those of Asians. (728)

But there is evidence that the wage gap between whites and other racial groups is narrowing, says the World Bank.

"Since 1970, the share of personal income accruing to whites has declined substantially, while the share for Africans increased from 22,3 percent to 31 percent in 1987, partly due to above-average wage increases for Africans from the early 1970s onwards." (356)

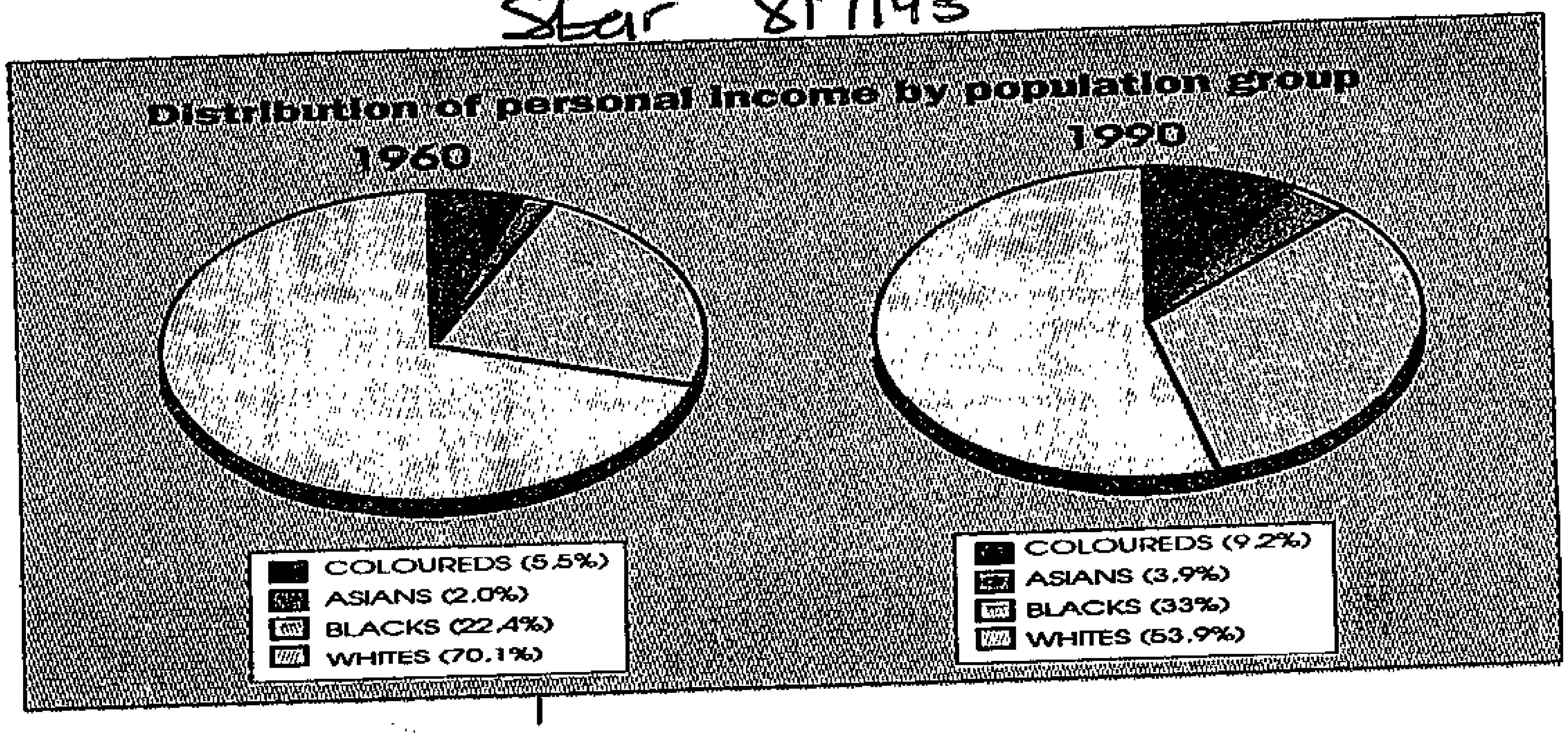
Government spending under apartheid also discriminated heavily in favour of whites, giving rise to wide disparaties in access to a whole range of public services.

BUS

World Bank's recipe for growth

Star 8/7/93

By Claire Gebhardt



South Africa, now in a deep recession, has much in its favour, says the World Bank in an Economic Perspective on South Africa.

It notes that the country is rich in natural resources, its economy is well-managed and its income per capita of $2 500 a year puts it in the upper middle-income bracket for developing countries.

The World Bank says the current recession, the longest in South Africa's history, is partly due to the demand shock that followed a nose-dive in investment by parastatals in 1985 and a lack of consumer and business confidence.

But the problems run much deeper as is evidenced by a declining GDP growth over 30 years and dramatically increased unemployment, says the publication.

Inequality between blacks and whites in employment, income, education and access to other public services is almost as wide as ever.

Problems

"Many of South Africa's economic, as well as political, problems are rooted in apartheid especially through distortions in labour and capital.

"One central problems is not just low output but low factor productivity (investing a big slice of national income and receiving very little in economic returns).

"Another is high unemployment, especially among blacks.

"At the same time, inequalities are very wide with the bulk of national income going to whites.

The publication notes that white incomes per capital are almost ten times those of Africans and 4,5 times those of Coloureds."

The World Bank says two of the most important influences on GDP growth have been lower investment and declining productivity, compounded by sectoral inefficiencies. (356)

"On top of this, negative demand shocks in recent years have pushed the economy below its production capacity."

So what are the solutions?

The World Bank's recipe for growth is a revival of the private sector, increased employment growth and the narrowing of income and other inequalities between blacks and whites.

It says this can be achieved by restructuring government spending and increasing spending on infrastructure and public services, especially for the poor.

"At the same time, growth of total spending must be restricted to meet budgetary targets.

"Rapid growth in skilled labour, especially by upgrading the semi-skilled and unskilled needs to be encouraged.

"So to does establishing a transparent and credible incentive environment alongside the reorientation of manufacturing towards exports."

BUSINESS

World Bank offers some fresh ideas

W/Mail 9/7-15/7/93. (356)

The World Bank has issued a document on South Africa in which many of its usual economic pronouncements seem markedly toned down. **REG RUMNEY** *reports*

SCRUTINISE the following statements and see if you agree. The World Bank would like to see a new South African government:

●Maintain a strict monetary policy to crush inflation completely and lower the Budget deficit (the gap between revenue and spending) to around three percent of gross domestic product.

●Drive down wages to increase employment and lower the country's capital intensity.

●Liberalise the economy for the sake of efficiency and export-led growth by cutting all trade protection immediately.

If you thought the above true, you would be wrong on all counts.

The World Bank's latest policy document, *An Economic Perspective on South Africa*, breaks with past doctrinaire thinking on a number of points in suggesting paths out of South Africa's economic mire.

Take inflation. Yes, the World Bank advocates prudent fiscal and monetary policy, and warns against a return to the negative real (adjusted for inflation) interest rates the Reserve Bank allowed between 1973 and 1983.

Crucially, the Bank also warns: "Equally, the authorities need to consider the consequences for the real economy of quickly reducing inflation much below its present level."

On the deficit, the World Bank notes: "If GDP growth of around five percent a year could be attained, then a fiscal deficit of as high as six percent of GDP may be sustainable."

In the context of productivity, the Bank does repeat an oft-stated assertion that sectors of the South African economy, particularly manufacturing, are too capital intensive, and that this has contributed to slower growth.

As Nedcor chief economist Edward Osborn and, lately, Old Mutual economist Terence Moll, have pointed out, the reasons for the rising capital:labour ratio are not as simple as popularly supposed.

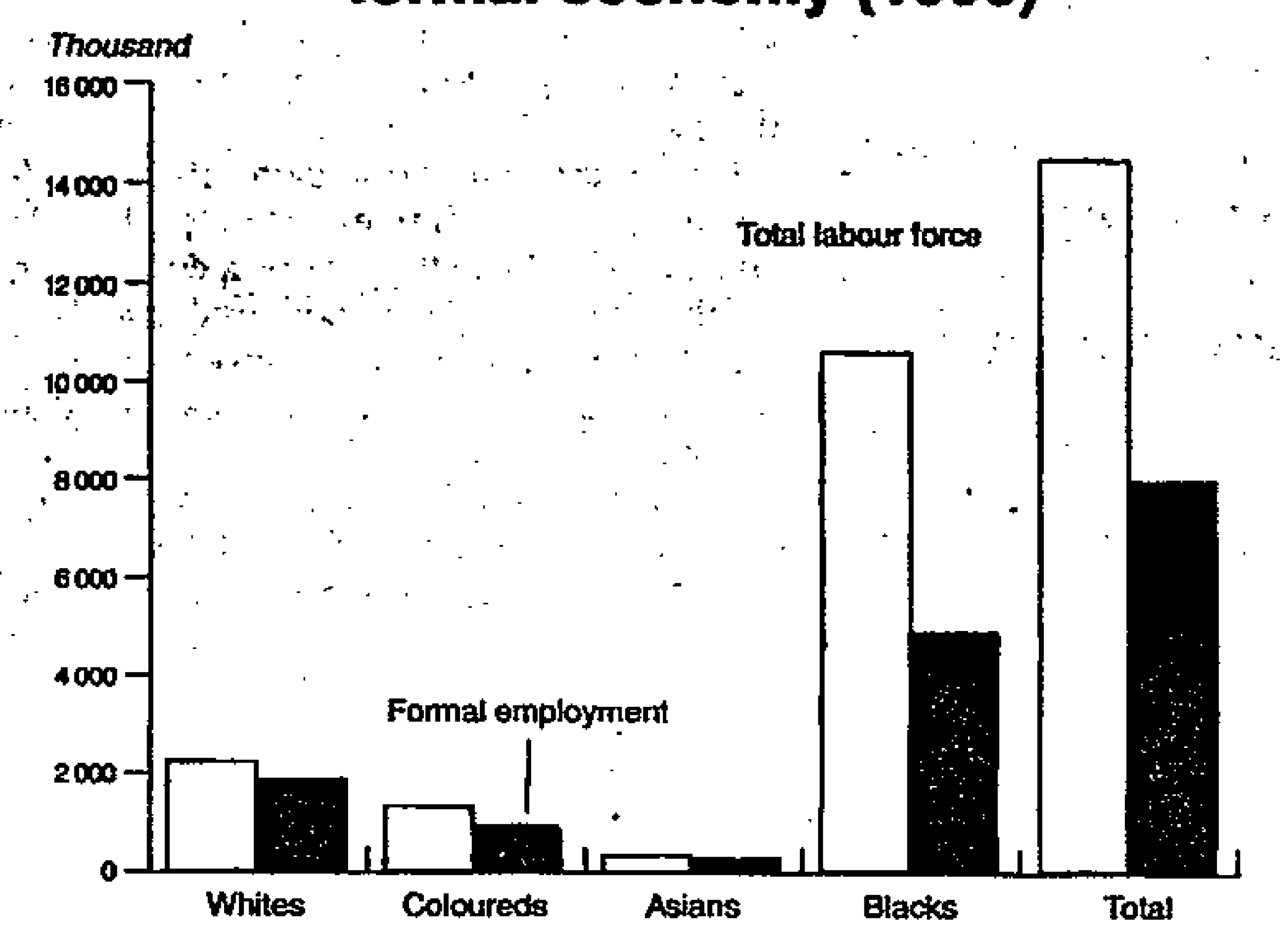
The Bank does mention the effect of large "strategic" investments in chemicals, and does not attribute the phenomenon entirely to negative interest rates or high wages.

It does point to increases in black wages as a constraint to employment and growth. "Earlier work indicates that movements in real black wages have contributed significantly to the slowdown in growth and employment in 1970-1985. In the absence of such changes, employment of blacks and real GDP would have been, respectively, about 14 percent and 3 percent a year higher in 1985.

"The change in relative factor prices would thus seem to go some way towards explaining the decline in employment growth, and a little way towards accounting for the decline in GDP growth."

It does not risk trade union wrath by advocating a simple lowering of black wages. Indeed, the Bank has moved closer to the union position, as enunciated at the National Economic Forum, of insisting on more training.

Labour demand and supply in the formal economy (1990)



The unemployment problem writ large ... The World Bank views training as a key solution **Source: ABSA**

"On the supply side, expansion of skilled labour is needed to ease the upward pressure on wages as the economy moves back to full capacity. This will have positive effects on both GDP and employment growth. It is likely to increase capital productivity by removing the major constraints that effectively linked skill accumulation to growth in white labour supply.

"That should also encourage rapid growth in the employment of unskilled labour, as the returns are higher when complemented by greater skills of other workers. This will also counteract inflationary pressure from growing white wages and, perhaps, reduce black wage growth as pressure for catching up is reduced."

The Bank goes on to say the process will also increase income equality.

Education and training will take time to be effective, the Bank acknowledges, and so the skills of the labour force should be upgraded quickly through training.

Again, the union movement would agree with the approach advocated by the Bank, of a pact between major employers and trade unions on training. Will they agree on the specifics?

"Employers would agree to upgrade workers through training and the unions would agree to limit strikes and other industrial action," urges the report.

On the Bank's welcome acknowledgement of the urgency of job creation, there is room for disagreement too. It advocates public works schemes, as well as encouraging the growth of small-to-medium-sized firms and a shift to more labour-intensive agriculture. But, while labour and employer bodies in engineering have agreed on task-based payment, the Bank recommends: "Where the public sector is the contractor, wages of unskilled workers should be paid at about one half of formal sector rates."

The bank, not unexpectedly, pins our hopes on export-led growth, noting it would promote efficiency and increase demand for the goods we produce.

It says South Africa's most urgent task is to put right our anti-export bias. Though export neutrality is linked in the minds of many with import liberalisation, the Bank notes they are not synonymous. Indeed, it cautions against sweeping and immediate lowering of tariff protection. Instead, it opts for free trade zones, bonded warehouses, duty exemption and drawback schemes.

"South Africa's average import duty is not high by developing country standards. While a lower average rate would make industry more internationally competitive, the present high unemployment and stagnating economy make such a course undesirable."

Rather, says the Bank, tariffs need streamlining and continuous changes to the tariff schedule must end.

More farm jobs a solution

S[Times (Buss)

By CHERILYN IRETON

ABOUT a quarter of the black labour force is without work, says the World Bank.

As a solution it calls for a shift to labour-intensive agriculture.

Its paper on the South African economy — prepared from informal studies — suggests a programme to transfer land to small-scale black farming.

It also recommends a fundamental change in agricultural policies to eliminate distortions, such as subsidies on credit in the commercial-farm sector that are biased against small farmers.

Public works schemes would help job creation. So would encouraging the growth of small to medium-size firms. (193)

The bank estimates that less than half of the black labour force holds a job in the formal sector. (356)

Although subsistence agriculture in the homelands and the informal sector provide employment, about 25% of the labour force has no work.

The bank says informal-sector growth has only partly filled the widening gap between black labour supply and employment. 11/7/93

"Unemployment has thus grown rapidly among blacks. In contrast, there was full employment among whites up to 1985, but since then white unemployment has grown significantly."

High investment between 1965 and 1991 failed to generate more jobs because of the corresponding increase in the economy's capital intensity.

The work input among the unskilled has declined. Long travel distances of black workers is a possible reason for the decline. Another is the increase in mandays lost through strikes and industrial action.

World Bank official to address Nafcoc

(35b) Bus Day 12/7/93

THEO RAWANA

A TOP World Bank official will be the main speaker at the annual conference of the National African Federated Chambers of Commerce (Nafcoc) later this month — the first time an executive of the bank will address a SA black business organisation.

Nafcoc vice-president Gab Mokgoko said the chief of the World Bank Southern Africa infrastructure operation division, Isaac Sam, would give the keynote address at the four-day conference.

The theme of the conference, which begins at Sun City on July 25, is Finance, Skills and Technology.

Nafcoc president Archie Nkonyeni, who will give his inaugural speech, said the conference was significant in that it took place at the time of "a major political and economic impasse" in SA.

He added: "Impatience, anxiety and expectations are high as a result of the many months of unending negotiations to construct a new SA. The theme of the conference touches the very foundation of any national reconstruction programme."

Mokgoko said an important feature of the conference would be an in-depth progress report on Nafcoc's programme for black economic empowerment.

The programme sets the turn of the century as the target date by which 30% of seats on boards of companies quoted on the JSE should be occupied by blacks, 40% of equity should be held by blacks, 50% of inputs should be sourced from black enterprises and 60% of managerial posts should be held by blacks.

P.T.O.

World Bank shifts its focus

B/Day 14/7/93

WASHINGTON — The World Bank, criticised for not paying close attention to projects after loans were made, unveiled new steps on Monday that would change the way it measured its success in helping countries.

The new measures, which emphasise greater efforts to make loans do the work for which they were designed, follow a review of existing projects that show an increasing pattern of failed efforts.

The bank assists member countries in reforming their economies so they work better and in an array of projects, including building roads and schools.

Central to the plan, the bank said, was the commitment to make the management of existing projects as important as granting new loans.

"Only sound, on-the-ground results — the development of projects — are true measures of the bank's contribution to sustainable development," World Bank acting president Ernest Stern said.

The bank said it would manage its portfolio of loans on an overall country level, rather than looking at them on a project-by-project basis.

It said that for each borrowing country, the entire portfolio of bank-financed projects would now become the measure of assessing effectiveness.

The bank made it clear that responsibility for making projects work would remain at the local level, arguing it would be a mistake for it to manage them on a continuing basis. (35b)

However, the performance of the projects would be reviewed more regularly to catch problems at an early stage, before they became fatal.

"The bank's efforts to improve the development impact of its work, ultimately, can only be as successful as the efforts by our borrowers to help themselves," he said.

A study completed last November by former World Bank vice-president Willi Wapenhans found that among operations in progress, about 20% were experiencing "major problems" compared with 11% a decade earlier.

The bank has almost 2 000 projects and programmes representing nearly $400bn in total investment. — Sapa-Reuter.

Star 15/7/93

SA's health record 'worst'

South Africa's health status relative to income was one of the worst in the world, the World Bank said in its latest development report.

According to the report, 53 percent of South African children aged between two and five in the 1980s suffered from stunting as a result of malnutrition.

This compared with an average of 39 percent in the rest of Africa.

The annual incidence of tuberculosis in South Africa of 250 cases per 100 000 was nearly 15 percent above the African average and more than 10 times the rate of developed countries.

In 1990-91, 63 percent of children in South Africa younger than one received immunisation against diptheria, whooping cough and tetanus.

This compared with 89 percent of Zimbabwean children and 79 percent of Zambian children receiving the required shots.

Reacting to the report, Medical Research Council executive Dr Derek Yach said that while R22 billion was spent on health care in South Africa, of which about half was spent on private health care, the World Bank report suggested that this was not buying the level of health care the average person could expect. — Sapa.

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*The World Bank and the International Monetary Fund are standing by to lend much-needed money to South Africa. It is up to the Republic to say how much, reports **Peter Fabricius** in Washington*

Star 8/9/93

Money for the taking, and it's urgent

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After some 27 years in the cold, South Africa will soon be able to borrow money from the IMF and World Bank again.

The question now, say sources within the two institutions, is no longer how much will South Africa get but how much it should ask for. An embarrassment of riches, it seems, for South Africa, which is struggling a little to answer the question.

The IMF has offered for starters a hefty one-off special $850 million (R2 864 million) loan — mainly to compensate for the loss of foreign exchange caused by the drought — which could be in South Africa's pocket before the end of the year.

But the South African parties have been battling behind the scenes for months to decide whether they want the loan, known in IMF jargon as a "compensatory and contingency financing facility", or CCFF.

There is some urgency. The offer expires on December 31.

International finance sources warn that if South Africa does not get the loan it will look either incompetent in the eyes of international financiers or at odds with the IMF, both bad news for further investment.

The CCFF would not come with many strings attached. The conditions would probably be rather broad — a general commitment to hold down Government spending and not impose crippling taxes.

The World Bank is also waiting a little anxiously for South Africa to say what it wants. It has already done a vast amount itself.

It has sent in several fact-finding missions to assess development needs, has written several reports, helped launch the country's biggest poverty assessment survey, with 16 universities participating, is supporting a three-year programme to help South African universities run courses in development management and sponsors six South Africans to come to its Washington headquarters every six months to gain on-the-job development experience.

But, until very recently, the bank was fretting that South Africans had done very little themselves to get development policy in place or begin the laborious engineering and technical work which is required for large scale investment.

Now, at last, the Development Bank's Wiseman Nkuhlu has put together a task force to do this, raising a sigh of relief in the bank.

Somewhere between euphoria about billion-dollar bonanzas and sober contemplation of the conditions attached, South Africa seems bemused by its first re-encounter with the IMF and the World Bank.

What, indeed, should it ask for?

"We should not be viewed as the cavalry coming over the hill to save the day," cautions Alun Morris, co-ordinator of the 20-person South Africa team at the World Bank.

His views largely echo those of sources in the fund.

"The South African economy with its large private sector has tremendous potential if civil stability and investor confidence can be restored, and the main players can agree on fiscally-sustainable development programmes.

"The World Bank should be viewed as a useful adjunct to that process.

"The new government will have to assess to what extent it can finance its own needs and for what it needs loans.

"The World Bank and others will be interested in assessing South Africa's capacity for helping itself. The bank is doing a lot of predictions of growth and so on to figure out what the Government and private sector can sustain, and what it needs from the external financing community."

He notes that very few countries entering the development sector have the sophisticted private sector, financial institutions and infrastructure, such as railways, ports and cheap electricity, that South Africa does.

Balancing that are tremendous problems, especially the lack of expertise at bringing the masses into the economy, an expertise which the bank is well-qualifed to provide.

"South Africa is decades behind some Latin and Asian countries in the art of both getting growth and also getting that growth to the masses of people.

Overall, Morris sees the bank getting involved slightly at first and then more deeply as mutual trust develops.

At the IMF, South Africa would qualify for the IMF's standby loans which provide foreign exchange to deal with balance of pay ments problems.

From the World Bank it would also qualify for broader adjustment credit.

These adjustment loans are the ones which give the IMF and the World Bank the image of hard-hearted loan sharks.

Many regard the conditions as the economic equivalent of medieval bloodletting; remedies which are more perilous than the maladies they are intended to cure.

Some South Africans are ready for a CCFF or bank project finance, but are wary about taking the next step.

Forces on the Left fear the tough disciplinary measures will hit the poor hardest and sow political disruption.

On the Right — and that includes elements within the Government — there is the traditional conservative resistance to anything perceived as foreign meddling and some suspicion of what is regarded as a redistributive tendency in the World Bank.

And there is also concern that asking for IMF and World Bank help will brand the country as a basket case.

There is also a more sophisticated fear in parts of the Government and the private sector — and in the bank and fund — that South Africa should avoid going further into hock in the future.

There are those who feel South Africa should have access to the bank and fund facilities to inspire confidence in private investors, but not use them.

But there are others, both inside the Government and out, who advise that South Africa should seek a greater involvement with the IMF and World Bank, and do it quickly.

No cash without clear economic policy

Star 15/9/93

Foreign loans issue clouded

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OBSERVERS say a lack of consensus could be a stumbling block to unlocking the coffers of the IMF and World Bank

BY CLAIRE GEBHARDT

Time may be running out for SA to get its act together.

Economists believe there is little hope of substantial loans emerging from the 48th annual meeting of the International Monetary Fund (IMF) and World Bank in Washington later this month unless there is clarity on future policy.

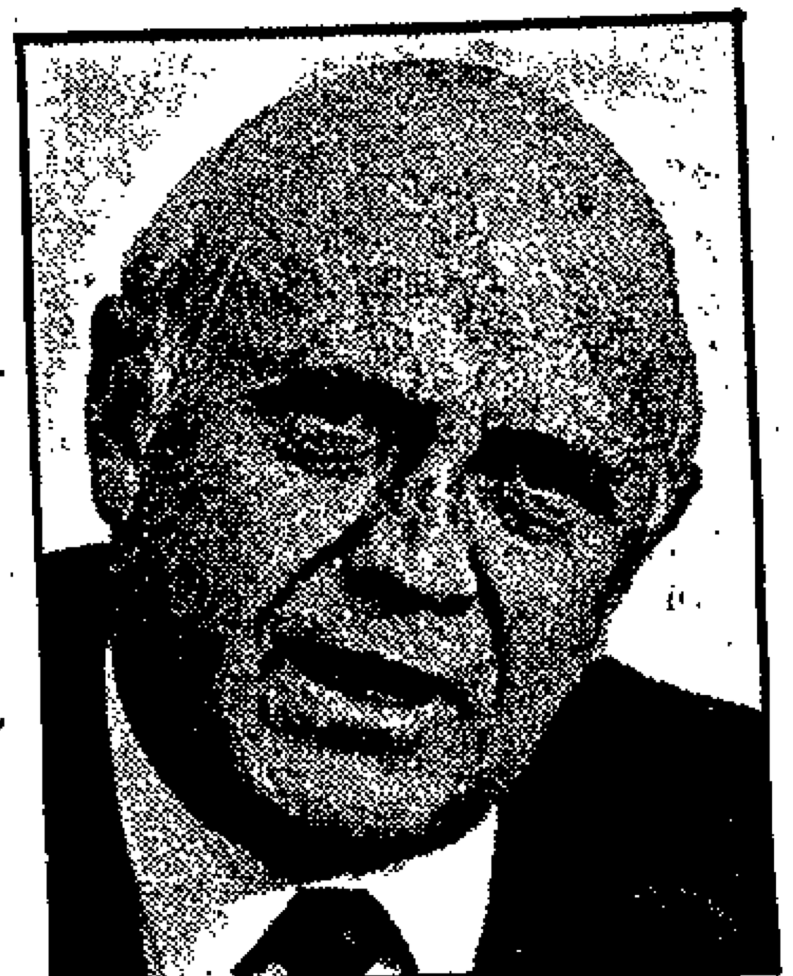
What funding is available could be less than expected because the ANC has been dragging its feet.

The IMF's compensatory and contingency financing facility (CCFF) of $850 million (R2,9 billion) for drought-related relief, first offered to President FW de Klerk, and later criticised by Nelson Mandela on the grounds that the ANC had not been consulted, has still to be ratified.

Although the offer is valid until December 31, SA's tardiness in accepting the loan probably means it will have to settle for a smaller amount.

This is because the effect of the drought on the balance of payments was alleviated somewhat by an uptick in the agricultural performance in the second quarter.

The loan will also probably be subject to a future government following sound monetary and fiscal policies. Observers believe this could be a stumbling block.



FW de Klerk . . . criticised by Nelson Mandela.

With the IMF meeting scarcely two weeks away, there appears little consensus between the ANC and Cosatu on future policy.

For 10 000 of the world's financial elite due to converge on Washington, policy is what it's all about.

After 27 years of pariah status, SA will soon be able to borrow money from the IMF and World Bank again — but there's little indication of when and how much will be forthcoming.

The problem lies with the ANC's attempt to retain its trade-union base in the run-up to next year's election.

While ANC economics chief Trevor Manuel has stressed the urgency of the need to seduce foreign investors into believing there are opportunities in SA, the trade-union movement has sent out mixed messages.

Commentators have reacted with alarm to developments at a weekend Cosatu meeting when delegates reaffirmed their commitment to socialism and repudiated an ANC proposal that macro-economic stability be a cornerstone of a Reconstruction and Development Programme (RDP).

World Bank money is also available, but the bank needs projects to be identified and put on the table.

Although the Government has certain proposals in the pipeline which could see money start to flow, it is anxious not to be seen to be acting unilaterally.

The World Bank needs to finalise its studies on SA and needs to be convinced that a new government will support restructuring programmes and service debt.

But while the ANC is, for the time being, striving to reflect solidity on the issue with the trade unions, many believe that a showdown with Cosatu is inevitable post-election.

Trevor Manuel . . . opportunities in SA.

"Any putative power-sharing arrangements currently being discussed will almost certainly be challenged by the economic problems that a new government will face.

"Clearly the ANC will have to make some exceptionally difficult decisions on which constituencies it wants to shed," says an analyst.

"If the ANC wants to start delivering the goods to the people, it's going to have to attract foreign investment and that means putting the labour movement firmly in place," says another.

Commentators have also criticised the delay in the lifting of sanctions.

Once a Transitional Executive Council is firmly in place, it is believed that Mandela will call for the lifting of sanctions during a visit to the US, timed, perhpas, to coincide with the IMF meeting.

Econometrix notes that had the ANC called off sanctions at the beginning of the year instead of now, it could have made an enormous difference to the state of the economy and to the entire socio-policial environment in the run-up to the election.

"An earlier easing of sanctions would have paved the way for an earlier resumption of foreign loans, thereby preventing the foreign reserves crisis in which the country currently finds itself.

"This would have facilitated a far more significant decline in interest rates in the face of falling inflation.

"It now seems unlikely that new foreign loans, besides the IMF drought relief package, will be forthcoming before the election is out of the way," it says.

The good news is that the IMF funding for drought relief should be enough to see SA through the current pressure on its reserves and to meet the bullet payment on the forthcoming debt agreement.

Hopefully, a government with the right economic policies will be place in the first half of next year and could look at getting further loans.

Depreciate rand, says World Bank

BDay 15/9/93

GRETA STEYN

WORLD Bank economists have renewed their call for SA to depreciate the rand — in sharp contrast to Reserve Bank Governor Chris Stals' stance.

A World Bank study on SA trade policies published last month said the rand should be fixed at a lower rate than the market-determined level as an incentive for SA's manufactured exports.

The view that the rand should depreciate has been expressed in other World Bank reports and a number of SA economists, including Old Mutual's team, have supported the call.

The study said: "The east Asian experience suggests it is preferable to err on the side of undervaluation rather than on the side of overvaluation... To encourage industrial exports, the value of the rand must be maintained at a level that ensures their competitiveness."

Using the exchange rate as a trade policy tool would enable SA to scrap trade interventions, eliminating import duties and export subsidies simultaneously, the World Bank said.

While that would be the preferred long-term solution, the first step towards helping SA exporters was to give them access to cheaper imported inputs.

SA had to enable exporters to pay world prices — rather than inflated domestic prices — for their inputs. While the easiest way to achieve that would be to eliminate all import tariffs on these goods, such a move would be too drastic.

Other ways to achieve the aim of lowering exporters' input costs included exemptions from import duties for exporters and rebates on excise duties. While SA already had a system in place to refund exporters, it was highly flawed.

A cumbersome permit process to import at world prices contrasted with the Korean system "where such requests are decided within hours", the study said.

(356)

The World Bank said SA's rebate scheme should be independent of any suggestion that exporters first shop locally for inputs before importing. A rebate system should guarantee "absolute free choice between imported and domestic inputs" for exporters. SA's duty rebate system needed to be thoroughly revised.

Low oil prices keep PPI down

CT 15/9/93

By AUDREY D'ANGELO
Business Editor

LOWER world crude oil prices helped to keep the producer price index (PPI) down in July in spite of the weakening rand, which pushed up the price of some other imported components.

The year-on-year rise was 6,3%, compared with 6,4% in June and well below the 9,3% reported in July last year. But the monthly rise was 0,7% compared with 0,4% in June.

This was due mainly to a month-on-month rise of 0,9% in the local component compared with a fall of 0,1% in the imported component.

The locally produced component of the PPI rose by 6,7% year-on-year compared with 6,3% in June and 9,7% in July last year. The imported component rose by only 4,5% year-on-year compared with 6,8% in June and 7,5% in July last year.

With a base of 100 in 1990, the index for all commodities rose to 129,1% in July compared with 128,2% in June and 121,5% in July last year.

Economists said it was encouraging that the PPI remained so low, indicating that inflation remained under control and that the weakness of the rand had not yet fed through.

Old Mutual economist Johan Els commented: "We were surprised by the decline in the imported component. It indicates that the fall in the price of crude oil was greater than the depreciation of the rand.

"The rise in the local component of the PPI cancelled this out, resulting in a small rise in the total figure. This was due partly to the fact that the rise in some local components was only estimated in previous months and was actually measured in July.

Southern Life chief economist Mike Daly said the figures were in line with expectations. The PPI had declined consistently since reaching a peak of 8,3% in February.

The year-on-year drop in the imported component was partly due to the fact that there had been a surge in July last year, so that it was measured from a high base. But the PPI was under tremendous pressure from competition in the market place which kept SA prices down.

Boland Bank chief economist Louis Fourie said the figures showed that inflationary expectations were now below 10%.

Overseas PPI figures were also low and the risk of imported inflation would become even less when the rand stabilised.

Nedbank economist Mr Edward Osborn said a fall in fruit and vegetable prices, resulting from the end of the drought, helped to limit the month-on-month rise in the local component.

NEW MARKETS . . . Twelve members of a trade mission from the Cape Chamber of Industries (CCI) to Argentina and Chile met for a final briefing this week. They were, front row from left, Joan Melvin of clothing company Val Hau et Cie; mission leader Dave Pocock of clothing company R A Manufacturing; CCI deputy director Colin Boyes. Back row, from left, James Godfrey representing Sondor Industries (his colleague P Weir will actually go on the mission); Noel Lawrence of SA Fine Worsteds; Richard Thomas of Meshcape Industries; Ivan Miller of Illumina; Basil Marais of WJM International Trading; D C Schwardt of Consani Engineering; Kees Vermeulen of JKC Agencies; David Walton of clothing firm Melia Holdings and Ian Human of engineering firm Powdermet. Two other mission members, L Bouckaert of textile firm Bouckaert-Sonen and D le Roux of L R Plastics are not in the picture. Picture: ANDREW BROWN

In seek of new S American markets

CT 15/9/93

THERE is a growing realisation among Western Cape manufacturers that they will have to seek out new markets aggressively, Colin Boyes, deputy director of the Cape Chamber of Industries, said yesterday.

Boyes has organised a two-week trade mission to Chile and Argentina, leaving on Sunday.

"With the assistance of the SA embassies in Buenos Aires and Santiago, business appointments have been made with import agents, principal representatives and local manufacturers in both countries," he said.

"The spread of companies taking part in our trade mission gives a fair representation of the industrial profile of the Western Cape with three engineering, three textile, three clothing, two plastics, one electrical and one general.

"The indication is that, given the rapid economic growth currently being achieved in both Argentina and Chile, SA companies stand to do well in these markets.

"And the trade mission, closely following President F W de Klerk's visit, is well-timed."

Boyes pointed out that SA companies must become globally competitive as the remaining sanctions end while protective tariffs will gradually be removed. This means that new markets throughout the world must be penetrated.

World bank urges rand depreciation

CT 15/9/93 356

Own Correspondent

JOHANNESBURG. — World Bank economists have renewed their call for SA to depreciate the rand — in sharp contrast to Reserve Bank governor Chris Stals' stance.

A World Bank study on SA trade policies published last month said the rand should be fixed at a lower rate than the market-determined level as an incentive for SA's manufactured exports.

The view that the rand should depreciate has been expressed in other World Bank reports and a number of SA economists, including Old Mutual's team, have supported the call.

The study said: "The east Asian experience suggests it is preferable to err on the side of undervaluation rather than on the side of overvaluation. To encourage industrial exports, the value of the rand must be maintained at a level that ensures their competitiveness."

Using the exchange rate as a trade policy tool would enable SA to scrap trade interventions, eliminating import duties and export subsidies simultaneously, the World Bank said.

While that would be the preferred long-term solution, the first step towards helping SA exporters was to give them access to cheaper imported inputs.

SA had to enable exporters to pay world prices — rather than inflated domestic prices — for their inputs. While the easiest way to achieve that would be to eliminate all import tariffs on these goods, such a move would be too drastic.

Other ways to achieve the aim of lowering exporters' input costs included exemptions from import duties for exporters and rebates on excise duties. While SA already had a system in place to refund exporters, it was highly flawed.

A cumbersome permit process to import at world prices contrasted with the Korean system "where such requests are decided within hours", the study said.

The World Bank said SA's rebate scheme should be independent of any suggestion that exporters first shop locally for inputs before importing.

IFC forced to be more 'selective'

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WASHINGTON. — As the global economy increasingly adopts a market model, the International Finance Corporation — the World Bank's private-sector arm — is being overwhelmed by pleas for assistance, the IFC said yesterday.

In a briefing to unveil its annual report, the IFC, which supports private-sector development in the developing world, said it expected to lend some $2,4bn in the financial year ending next June 30 compared with $2,1bn in the previous year.

CT 16/9/93

"The demand very considerably exceeds our ability to supply," said IFC executive vp William Ryrie, adding: "This means that the IFC in the future is going to have to be more selective."

He said the increased demand reflected countries that are abandoning state management of the economy. — Sapa-Reuter

Edited by Mike Siluma

The World Bank and International Monetary Fund may demand from South Africa a much clearer picture of how it intends to tackle a new economic future before they consider a full-scale set of aid packages, writes **Michael Chester**

Star 16/9/93

Rush to beat wild election promises

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Optimism is running high that South Africa will waltz away from the annual conferences of the World Bank and International Monetary Fund that start in Washington on September 27 loaded with all the treasure chests it needs to pave new economic highways into the future.

The optimism may prove to be premature. Both institutions are expected to lend a sympathetic ear to requests for assistance over immediate problems stemming from the worst recession on record. But they are likely to be far more hard-jawed over a full-scale aid package.

Each still awaits more precise evidence of how South Africa intends to tackle the monumental task of repairing the damage caused by decades of apartheid and laying the foundations of a brand new non-racial society.

The Development Bank of Southern Africa hopes to short-circuit the risk of such a dilemma by reaching as many public loudspeakers as possible before all the megaphones are grabbed by politicians in the election battle.

DBSA chief executive Andre la Grange has set an urgent deadline to complete a master plan for economic reconstruction and broadcast the details by October/November, at least five months ahead of polling day.

Experts from across the entire political spectrum and scores of non-government development agencies and community leaders are being invited to join discussions in a bid to reach consensus on the shape and tempo of short and longer term targets.

Consultations are also in progress with the World Bank, African Development Bank and the SA Reserve Bank to consider the prospects of international assistance to help finance the multi-billion-rand exercise.

"We're not painting fanciful rainbows," says La Grange. "We are mapping out down-to-earth objectives that will be within practical reach, everywhere from housing and infrastructure to education and health services, with heavy emphasis on job creation in all spheres.

"It's crucial that voters learn the real facts about the socio-economic outlook before their heads are filled with impossible pipedreams by political rhetoric.

"The danger in the run-up to the elections is that wild promises of an instant Utopia, pledged by any politicians concerned only with winning votes, could bring a terrible backlash when the new government finds it impossible to wave a magic wand that makes problems vanish at a single stroke."

The top priority on the bank's agenda is to spell out the realities of the time span it will take to reach objectives whatever the composition of the new government.

"Voters need to see way beyond April 27. They want to see where they may stand in the next five years, 10 years, 15 years, 20 years.

"It may test the patience of many impoverished families to learn how long it may take to complete a comprehensive development programme. But they will be prepared for that if we can kindle a sense of trust in the ultimate results, and show them the stages at which benefits will start flowing.

"In short, voters need to be alerted to the reality that the march to a new and better future for everyone is going to be a long and hard slog, whoever comes to power next year."

The DBSA believes that socio-political calm and stability can best be restored by showing everyone a vision of hope.

Also, La Grange feels, there may have been too many players on the field, each one highly dedicated to the upliftment of communities, but often in unintended collision.

"Our aim is to co-ordinate the teams and draw sharper lines around the goalposts."

The prospects of better harmony among the players have been improved by the far wider contacts that have been established across most political boundaries by a new triumvirate at the helm of the bank:

- Professor Wiseman Nkuhlu of the Independent Development Trust, who has succeeded former Finance Minister Owen Horwood as DBSA chairman.

Nkuhlu, also president of the Black Management Forum, has sealed sound relations with all of the key political movements.

- Henri de Villiers, former chairman of the Standard Bank, who has been elected president.

De Villiers brings the assurance of close links with the financial and business world.

- Andre La Grange, who took over the reins as chief executive on the recent death of former Director-General of Finance Simon Brand.

La Grange, who has been with the DBSA since 1983, guarantees good relations with the public sector and the investment community in general.

Their combined new approach is based on strategies used by Singapore and Malaysia, which have astonished global observers with the pace of their economic development in recent years.

Both of them mapped out year-by-year targets that spanned over the next 10 years and beyond, allowing close public scrutiny of results to make certain that goals were met.

"We believe we can inspire similar confidence in South Africa if we clear the fuzziness that clouds the present scenario and deliver a set of objectives that can be seen to be within reach," says La Grange.

"Everyone will be more willing to roll up their sleeves and set about socio-economic reconstruction when they have a better sense of participation and when results can be expected.

"We want the draft development plan completed inside the next three months," says La Grange. "It will concentrate on the next five years, but with signposts to targets as far as 10 years and even 20 years ahead.

"The first priority is to prove that South Africa can produce results on its own."

La Grange . . . SA must produce results.

World Bank wants detailed suggestions on projects for financing

BDay 24/9/93

GRETA STEYN

WASHINGTON — The World Bank has challenged SA for detailed suggestions on projects that would qualify for bank finance, which is likely to become available after the TEC has been established.

Co-ordinator of the bank's activities in SA Alun Morris said yesterday: "We have not had a clear set of requirements of the special help SA wants. The general impression is there, but the detail is lacking."

Finance would become available once "consensus" existed, which would be "somewhere between the establishment of the TEC and the election." Consensus on economic reconstruction was important.

SA's delegation will meet bank vice-president for Africa Edward Jaycox on Sunday. Jaycox has said $1bn could be made available to SA as soon as it was politically feasible. However, Morris said there would be a lag "of some months" between a request for finance for projects, and the money becoming available.

There also would be an information session on Sunday for the delegation about the work the bank had done on SA, Morris said. The South Africans are scheduled to meet bank chief Lewis Preston on Thursday.

By yesterday Morris had not received a clear indication of which political parties would attend the meetings apart from the official representatives: delegation head Finance Minister Derek Keys, Reserve Bank Governor Chris Stals and Development Bank of Southern Africa CE Andre la Grange. It is understood the presence of a high-level Inkatha contingent could disrupt efforts to present a united front. (35b)

Morris emphasised the bank's involvement in development was not only financial — it included technical assistance, advice and capacity building. The bank had built an integrated model of the SA economy to test different scenarios. The work was also aimed at positioning the bank to start lending to SA.

While it would depend on SA which areas of spending the bank would finance, its own view was that the urgent requirement for basic needs would be a good starting point. "Water supply, sanitation and basic health care need emergency attention."

SA is expected to try and meet the bank's challenge by discussing with it the extent of its involvement in a specific multibillion-rand social reconstruction programme. Led by Development Bank chairman Wiseman Nkuhlu, a representative development initiative has drawn up a R90bn programme for a 10-year period. It is expected the South Africans will push for billions to be financed by the bank.

A committee convened by Keys to smooth the transition, which includes ANC economics head Trevor Manuel and representatives of other key political parties, has agreed to the programme being used

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as the point of departure in discussions.

The bank's finance comes on more favourable terms than those applicable in the private sector. Lending to middle-income countries such as SA has a grace period of three to five years, a repayment period of 15 to 20 years and an annual interest rate of about one percentage point below the London Interbank Rate (Libor).

However, as is the case with the IMF, loans come with strings attached in the form of fiscal and monetary discipline. Southern Africa department economist Peter Fallon has said SA's fiscal deficit "has reached runaway proportions" and the Bank would advise SA to restructure government spending within the limits of a sustainable deficit.

It is understood that SA's representatives have studied the feasibility of applying for three World Bank financing facilities which would be paid out sooner than the usual finance.

A source said one of the special facilities the South Africans had looked at was a disbursement to help with trade liberalisation. SA's offer to GATT to cut its import tariffs by one-third over five to eight years would make it a candidate for this form of assistance. It is believed a substantial loan could be negotiated for trade reform.

Less finance could be expected for the other facilities being discussed, which are assistance with urban development in the form of financing inner city upgrading and the portfolio development facility to refine the country's development spending plan.

35b

World Bank throws down the gauntlet

(356) CT 24/9/93

From GRETA STEYN in WASHINGTON

THE WORLD BANK has challenged SA to come up with detailed suggestions on projects that would qualify for Bank finance, which is likely to become available after the TEC has been established.

The co-ordinator of the Bank's activities in SA, Alun Morris, said in an interview yesterday: "We have not had a clear set of requirements of the special help SA wants. The general impression is there, but the detail is lacking."

Finance would become available once "consensus" existed, which would be "somewhere between the establishment of the TEC and the election". Of importance was consensus on an economic reconstruction.

SA's delegation will meet Bank vice-President for Africa, Edward Jaycox, on Sunday. Jaycox has said $1bn could be made available to SA as soon as it is politically feasible.

However, Morris said there would be a time lag "of some months" between SA asking the Bank for finance for specific projects, and the money becoming available.

Also on Sunday, there would be an information session for the SA delegation on the work the Bank had done on the country, Morris said. The South Africans are scheduled to meet Bank chief Lewis Preston on Thursday.

Morris had by yesterday not received a clear indication of which political parties would attend the meetings aside from the official representatives, Bank Governor Chris Stals and DBSA CE Andre la Grange, and the head of the delegation, Finance Minister Derek Keys. It is understood the presence of a high-level Inkhatha contingent could throw into disarray efforts to present a united front.

Morris emphasised the Bank's involvement in development was not only financial — it included technical assistance, advice and capacity building.

While it would depend on SA which areas of spending the Bank would finance, its own view was that the urgent need to provide basic needs would be a good starting point. "Water supply, sanitation and basic health care need emergency attention."

SA is expected to try and meet the Bank's challenge by discussing with it the extent of its involvement in a specific multi-billion rand social reconstruction programme. Led by DBSA chairman Wiseman Nkuhlu, a representative development initiative has drawn up a R90bn programme for a 10-year period. It is expected SA will push for billions to be financed by the Bank.

A committee convened by Finance Minister Derek Keys to smooth the transition, which includes ANC head of economics Trevor Manuel and representatives of other key political parties, has agreed to the programme being used as the point of departure in discussions with the Bank.

IMF's bleak outlook

WASHINGTON. — The IMF has painted a stark picture of the dangers facing the world economy, saying that an expected upturn could still be delayed and warning of the risks of rising protectionism and joblessness.

In its semi-annual economic outlook, the IMF said it is cautiously optimistic that global growth will pick up next year and is forecasting that the world economy will expand by 3,2% in 1994 after rising by 2,2% in 1993.

World Bank is eager to improve image with SA success

(35b)
CT 28/9/93

JAY NAIDOO: "Put pressure on bank to accept progressive policies."

DEREK KEYS: Has given the development model a cautious nod.

By GRETA STEYN

WASHINGTON — The World Bank has made it clear it wants to help pay for a major socio-economic reconstruction programme in South Africa as soon as it is politically feasible. But who will set the development agenda? Does South Africa have a programme ready for the bank to finance? And will a programme that is politically popular meet the bank's need for sound fiscal policies?

South Africa has had no shortage of economic plans, but until recently none provided the kind of detail the bank needed. In April this year a senior bank economist, Peter Fallon, remarked: "The areas in which South Africa may wish to borrow remain unclear, and even if such areas were identified, sufficient detail is unavailable regarding possible projects."

A major step has been taken to rectify the problem in the form of a new "macroeconomic policy model for human development", whose main supporter is the Development Bank. Astonishingly detailed in its scope, right down to the last classroom, clinic and pit latrine, it was drawn up by a development initiative co-ordinated by Development Bank chairman Wiseman Nkuhlu. It is understood the ANC, organised labour, non-government development agencies and other interested parties also participated.

Finance Minister Derek Keys' "secret" committee of key political players, convened some months ago to give future members of government a say in present decisions, has given the development model a cautious nod. The economic and technical committee has agreed that the model can be used as South Africa's point of departure in official discussions with the World Bank. But it is understood the ANC's approval was not without reluctance. Hardly surprising, since it is in the process of drawing up a reconstruction programme with its alliance partner, Cosatu.

Constraints

The Cosatu-led reconstruction programme devotes little attention to macroeconomic stability other than to acknowledge its importance. However, even the acknowledgement of the importance of fiscal and monetary discipline has proved too much for some unionists. This was highlighted at the Cosatu conference earlier this month.

By contrast, the Nkuhlu model devotes substantial attention to the macroeconomic constraints on a massive social spending plan. It approached the problem of wiping out the backlogs by first calculating the cost over a five-year period. It tested the five-year plan against the macroeconomic constraints of sound fiscal policy.

In the five-year scenario, wiping out the backlogs would amount to a capital investment of R56,8-billion, of which almost R23-billion would go on housing, more than R13-billion on water and sanitation, and almost R10-billion on rural development and access to land. Spending on education would be about R17-billion, but R16-billion of this was classified as current rather than capital spending.

The programme is impossible without economic growth. The model says: "A programme on the scale contemplated here, superimposed on a stagnant economy, would see the fiscal debt ratio surge up to an unmanageable 89% (of GDP) in five years' time."

Even if there is economic growth, the five-year scenario presents a problem if fiscal discipline is to be exercised. If care is taken to keep overall government spending to 34% of GDP (already high), the scope for higher spending arising from growth in GDP will not be enough to meet the programme's targets. The problem could be solved by implementing the programme over a longer period, or relaxing the fiscal policy requirements.

Within a 10-year framework, it is possible to implement the programme and maintain fiscal discipline — provided there is economic growth. The economy would only grow if capital and labour productivity improved, and foreign capital outflows turned around.

Redistribution

One of the problems a massive programme of upliftment presents is that the demands of the programme on scarce resources will be immediate while their contribution to the resource base could only be expected "after a considerable lapse of time". But in the long run, investment in people would raise productivity and underpin sustainable economic growth.

Aside from macroeconomic constraints, the model also notes institutional constraints on making immediate progress in getting rid of social backlogs. Politically legitimate organisations do not have the ability to deliver.

To what extent will the Nkuhlu-led programme be acceptable as a national framework for development?

There are specific forums working on many of the issues covered in the programme which have not yet come up with detailed recommendations. Some controversial assumptions are made. While the National Housing Forum continues to debate the form of government subsidies (interest versus capital subsidies), and the size, the model has assumed a capital subsidy of R15 000 per household. The Cosatu programme calls for "decent housing" — an apparent rejection of site-and-service schemes — while the model gives a role to these schemes.

It also makes detailed recommendations on land redistribution, including the transfer of 10% of extensive commercial farm land to small farmers. Controversy might also be stirred by the comment that sanitation standards and the associated recurrent costs have to be tailored according to varying income groups.

But Nkuhlu's team could not afford to wait until the various disputes are settled before presenting the World Bank with a draft framework of what South Africa regards as its overall needs. The bank itself has done extensive research on South Africa, effectively drawing up its own framework for development. The bank, eager to improve its negative image in the developing world, wants a South African success story. But its negative image inevitably means there are large sections of the community in South Africa that will be suspicious of a World Bank programme. Cosatu general secretary Jay Naidoo recently spoke of "putting pressure on the bank to accept progressive policies". A foreign institution cannot call the shots.

Part of the reason for Nkuhlu's initiative was to show the World Bank what South Africans wanted. Hopefully, a synthesis can be found between Cosatu's programme, the Development Bank's model and the work the World Bank has done on the country. Presenting the international financial community with a detailed development programme will require some fancy footwork, not the least by the ANC which wants to attract foreign investment without upsetting its tripartite alliance partners.

BRIEFLY

Loans 'on agenda'

ARGY 28/9/93

NEW YORK. — The head of the African National Congress economics department, Trevor Manuel, said the ANC had not ruled out borrowing from the World Bank.

But he said the ANC could only consider whether to apply for loans once it had better information about development needs. 356

Mr Manuel said there was no prospect of abolishing the financial rand as things stand.

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CT 29/9/93

World Bank ready to help SA

WASHINGTON. — World Bank president Mr Lewis Preston says South Africa's reintegration into the global community has created an unprecedented challenge to the development lending institution.

"The Bank is ready to move ahead," Mr Preston said in his opening address to the Bank and IMF's annual meetings in Washington yesterday.

"We are well prepared to invest in peace."

Mr Preston said the World Bank was working with all the South African parties to design a programme to address the country's most urgent developmental needs.

"This programme, obviously, is contingent on political change making development possible for all her people. As Mr Mandela recently indicated, this is now happening," he told governors of sister lending agencies.

ANC president Mr Nelson Mandela, in an address to the United Nations ahead of the weekend, called for the scrapping of all remaining non-military sanctions against South Africa.

This followed Parliament's passing of the TEC Bill, which prompted both Mr Mandela and President FW de Klerk to herald South Africa's democratic process as irreversible.

The World Bank has conducted four studies on the SA economy over the past two years.

● At the UN, European Community foreign ministers have agreed to remove existing economic sanctions against South Africa, British Foreign Secretary Mr Douglas Hurd said.

"It leaves in place the arms embargo, and oil and nuclear contacts, because those are not specifically EC sanctions," he said.

Mr Hurd said the easing of EC curbs meant that European companies would no longer have to report on their enterprises in South Africa. — Own Correspondent, Sapa-Reuter

IMF, World Bank hail transition

World praise for new SA

Star 29/9/93

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EC trade sanctions to be lifted as international community readmits SA with open arms

Washington — Heads of the International Monetary Fund and the World Bank lavished unprecedented praise on South Africa last night, and declared their eagerness to see vast sums invested in what is now being hailed as the world's newest emerging democracy.

"We are well prepared to invest in peace," World Bank president Lewis Preston said in his opening address to the the Bank and International Monetary Fund's annual meetings in Washington.

And IMF managing director Michel Camdessus told the gathering of the world's most influential financial figures that South Africa's transition process was an example of progress towards peace and stability.

As the financiers were speaking, the last trade and financial sanctions against South Africa were crumbling in New York.

▶ More reports – Page 5

British Foreign Secretary Douglas Hurd said at the United Nations that the European Community would lift remaining trade embargoes on Monday. He and fellow EC foreign ministers pledged to work with the World Bank and the IMF to restore "normal" relations with South Africa.

Preston said South Africa's reintegration into the global community had created an unprecedented challenge to the development lending institution, and the World Bank was working with all the South African parties to design a programme to address the country's most urgent developmental needs.

"This programme, obviously, is contingent on political change making development possible for all her people. As (Nelson) Mandela recently indicated, this is now happening," Preston said.

The World Bank has conducted four studies on the South African economy over the last two years with the co-operation of analysts from the Government, political parties and the private sector.

Finance Minister Derek Keys and ANC economics head Trevor Manuel, along with other political groupings, have been working closely over the last five months in presenting a consensual South African view on key economic issues.

The initial reaction from some South African delegates attending the IMF-Bank meetings has been to downplay the necessity of World Bank monetary aid.

"We are going to be very careful about what loans we contract. We are not going to solve our problems by throwing money at them," Manuel told reporters. "We are not im-

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Star 29/9/93

World praise for the new SA

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pressed by the record of these programmes in Africa."

Analysts say as many as a third of the World Bank's projects on the continent fail, while its strict policy measures cause considerable hardship to the local populace.

Keys quoted a Development Bank of South Africa research paper as finding the country would probably not need development funding from the Bank for the next two years.

Camdessus said in his opening address: "We are meeting at a time of considerable concern about economic difficulties in many parts of the world."

But, he said, the world could draw inspiration from southern African countries which had created new opportunities for their economies. — Sapa, Staff Reporter, Star Foreign Service.

SA 'high on assistance list'

B/Day 29/9/93

JIM JONES

WASHINGTON — SA was high on the list of countries earmarked for special assistance as this year's World Bank and IMF AGM started yesterday.

World Bank president Lewis Preston prefaced his opening speech with the statement that the World Bank would help economic development as rapidly as possible in SA, the Israeli occupied territories and Vietnam. They were areas where political change meant opportunities for economic advancement for all their people.

"We are well prepared to invest in peace." But he warned that in the post-Cold War era, external assistance was being more closely scrutinised, and recipient countries had to demonstrate the capacity to use aid effectively through good policy and good governance. Otherwise, "frankly, they risk losing it".

IMF MD Michel Camdessus also mentioned SA early in his opening address. However, he quickly moved on to a gloomy analysis of the international economy.

He noted the main economic problems of rising unemployment in the industrialised countries, growth that could best be described as anaemic and the deteriorating fiscal position as budget deficits continued to widen. He added that not only were these formidable difficulties, but that they were feeding on each other and multiplying their damaging effects. (356)

Though the economies of the developing countries as a whole were proving resilient

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in the face of stagnation elsewhere, Camdessus pointed out that their development had been patchy. With the exception of the Asian countries, economic development had bypassed hundreds of millions of the world's poorest people. (356)

In the third area, countries in transition from communism, Camdessus noted "formidable problems" for macroeconomic stabilisation and structural reforms.

Camdessus' nostrums for economic recovery and advance did not, understandably, stray from the conventional. Inflation was under control in the industrial countries, no major currencies were out of alignment in foreign exchange markets and national and private balance sheets had adjusted to asset price deflation.

What remained for growth to resume was a refocusing of economic policy mixes and a strengthening of the international monetary system. Liberalisation of trade and exchange arrangements were fundamental, he believed. In particular, the industrialised countries should reverse their recent protectionist tendencies.

Elsewhere, he noted, seven more developing countries had removed exchange controls and he begged others to do so to facilitate their participation in the benefits of global markets.

In the West, structural rigidities hampered economic growth. He pointed to policies designed to help unemployed which, in fact, exacerbated unemployment by discouraging job search and wage flexibility. Camdessus saw little room for fiscal policies to support demand in the industrialised countries apart from Japan and said the problem would be best solved by measures to reduce budget deficits.

The route for developing countries, including SA, was clear. It was built on sound macroeconomic policies — controlling inflation and fiscal deficits; structural policies that made the most of the benefits of competitive market systems; liberal trade and exchange regimes to open economies to trade and foreign investment; social policies which allowed everyone to participate in their countries' growth; and the elements of good governance that included public accountability, participatory government, and legal and regulatory frameworks that were transparent and fair.

● See Pages 5 and 17

EC pitches in

(356) ARG 29/9/93

NEW YORK. — Foreign ministers of the European Community states agreed in New York to work with the World Bank and International Monetary Fund to restore "normal" relations between South Africa and those institutions. British Foreign Secretary Douglas Hurd said it was "crucial to the South African economy" that it had access to these funds. — The Argus Foreign Service.

International bodies under fire

No orchids for World Bank

Star 30/9/93

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■ BY CLAIRE GEBHARDT
Reporting from the World Bank/IMF meeting

Washington — Inside, it was all glitter and hope for emerging nations, release from poverty and job creation.

Outside the Sheraton Washington Hotel, two figures protested against IMF policies, one of them dressed as the Grim Reaper.

They symbolise the rising tide of criticism that is bedevilling the 48th annual IMF and World Bank meeting in Washington.

The opening ceremony was impressive. More than 2 000 delegates from 176 countries crowded the ballroom with its wall of national flags.

World Bank President Lewis T Preston said the bank was ready to move quickly to help economic development in the Israeli-occupied territories, South Africa and Vietnam.

It had been working with all parties in South Africa to design a programme to address the most urgent needs.

"This programme is obviously contingent on political change making development possible and as Mr Mandela recently indicated, this is now happening."

But not everybody shares his faith. The ineffectual protesters symbolise the uneasiness about IMF policy and disciplines afflicting many organisations — among them the ANC.

Mandela and the ANC's Trevor Manuel have expressed reservations about accepting help from these two powerful institutions.

Prominent SA businessmen at the conference are uneasy for a different reason.

Said one: "To reject IMF and World Bank support is akin to trying to run the country without overdraft facilities."

Others said a continued flow of resources was essential to maintain the confidence of international lenders.

"It will also impose economic discipline on a future government."

The IMF view is that those African economies that are growing are ones following IMF-supported programmes.

Poverty reduction is the World Bank's stated objective. Supporters claim its development programmes make it uniquely suited to assume the lead in co-ordinating international donor support for countries such as SA.

IMF managing director Michel Camdessus stoutly defends the fund's role in Africa and IMF-supported programmes.

But his critics say that borrowers end up poorer than before and hopelessly indebted.

A recent Oxfam report says that after a decade of IMF structural adjustment programmes, Africa remains trapped in a spiral of economic and social decline and increasing poverty.

Oxfam has called for the IMF's role in Africa to be reviewed and for the IMF to write off part of Africa's debt.

The World Bank, too, is under fire after former World Bank vice-president Willi Wapenhans issued a report, which questions the bank's priorities and its "pervasive pre-occupation with new lending".

World Bank policy of basing much of its lending on readiness to adopt "structural adjustment" is also attacked.

The policy requires countries to make macro-economic reforms, which include devaluation, overhaul of tax systems, open markets and more exports to improve current account balances.

But the Oxfam report claims that not only has the World Bank not significantly affected economic growth, it has even contributed to a drop in investment.

In his attacking opening speech, Camdessus said industrial countries faced unemployment, anaemic growth and weak fiscal positions, while the developing world showed uneven economic progress.

"When we think of Africa — when we consider the human cost of its civil and ethhnic wars, of its famines, of its two decades of decline in incomes per capita — do we not see a sinking continent?'

Camdessus said those developing countries that had not progressed must strive, with the support of the international community, to implement the policies that had achieved success. These were:

■ Sound macro-economic policies.

■ Development strategies making the most of a competitive market system.

■ A liberal trade and exchange regime.

■ Social policies to alleviate poverty and slow down excessive population growth.

■ Good governance, public accountability and a fair legal framework.

Sowetan 4/10/93

The IMF and World Bank are stumbling over themselves to offer loans to South Africa. Using independent African countries as an example, **Mzimkulu Malunga** looks at the pros and cons of accepting such an offer:

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WITH THE NORMALISATION OF South Africa's international economic relations, one of the key issues the country's technocrats have to address is a policy on interaction with the International Monetary Fund and its sister institution, the World Bank.

This factor became apparent last week when a contingent attending the annual meetings of these two institutions could not reach consensus on whether to accept a loan offer from the World Bank.

Economists of all disciplines know that this country cannot afford to turn its back on prospective funding from either of these Washington-based banks.

It is estimated that the country needs in the tune of R4 billion to cater just for about 400 000 new job-seekers who leave school every year.

Figures released by the Reserve Bank suggest that unemployment is growing at alarming proportions and more money will have to be spent to create jobs.

Even Trevor Manuel, head of the ANC's economics department, was quick to put context to his earlier remarks that the issue of a World Bank loan was "not on the agenda" when he noticed the noise it sparked.

Manuel later clarified his organisation's position as being its unwillingness to support blind borrowing which could result into a debt burden for the country.

Total debt

Currently, South Africa's total debt stands at around $18 billion, yet by international standards the country is said to be "under borrowed".

While dealing with both the bank and the fund is a reality that the country has little room to avoid, the major point of debate is the level of interaction with these institutions, particularly when the loans come loaded with stringent conditions.

Some, particularly in government circles, are in favour of an economic structural adjustment programme under the auspices of the bank.

But on the other hand, there are those who argue that South Africans must agree on an economic restructuring programme and identify the priorities before they can even think of involving outside forces.

Soon the country will be receiving about R2,9 billion from the IMF which will be used to alleviate the effects of last year's drought.

In this particular loan, the major condition is that South Africa should write a letter to the IMF undertaking to pursue sound economic policies and will be cautious when it comes to overspending.

But in future the conditions which have come to be know as "harsh medicine" could be a lot harsher.

‘Officials of the IMF and the World Bank are quick to point out Asia and certain parts of Latin America in their quest to justify their harsh economic conditions for developing countries’

However, the ANC's deputy head of economics, Tito Mboweni, is confident that South Africa can efficiently handle the IMF and World Bank.

He says the only time these two institutions intervene directly into the running of a country's economy is when their loans are not paid back on time.

World Bank

"We must manage our economy in such a way that we do not put ourselves at the mercy of the World Bank," he argues.

Mboweni says he does not foresee a possibility of loans form IMF and World Bank to South Africa exceeding 10 percent of the national budget.

But economists such as the director of the Institute for African Alternatives, Ben Turok, argue that leaders such as President Robert Mugabe of Zimbabwe and former Presidenet Julius Nyerere of Tanzania used to believe their countries had what it takes to keep the fund and the bank at bay.

Today it does not need a schooled economist to relate the hardships brought by Washington-tailored economic structural adjustment programmes in those two countries.

Despite more than a decade of "harsh medicine" in many African countries, the continent is yet to show an economic tiger that African can be proud of.

Writing in one of the bank's newsletters recently, two economists working for the institution admitted that it would take another 50 years before, for instance, an average Ghanaian crosses the poverty line, unless drastic steps are taken to nurture that country's economy.

Officials of these institutions are always quick to point out to Asia and certain parts of Latin America in their quest to justify their harsh economic conditions for developing countries.

Often people have taken to the streets in a number of African countries as the food prices go up after removal of government subsidies.

And their currencies become useless following a heavy devaluation process as the Washington-cooked economic medicine makes its presence felt.

But the institutions are not without their own form of ammunition to counter criticism.

"To put blame on the doctor who is trying his best to resuscitate a dying corpse is wrong," counters Mr Isaac Sam of the World Bank.

The IMF and the World Bank were established after World War 2 to help Europe and Japan recover from the devastations of the conflict.

The IMF was formed to help countries minimise the fluctuation of the value of currencies and problems relating to volumes of exports against those of imports — commonly called the balance of payments.

During the '50s and '60s when more countries gained their independence, the bank's facilities were extended to those states.

Today the World Bank Group comprises the International Bank for Reconstruction and Development, which gives loans to countries where income per person averages about R2 500 a year; the International Development Association, giving concessionary loans to poor countries; the private sector arm International Finance Corporation; and the Multi-lateral Insurance Guarantee Agency, which underwrites private sector investment in risky projects.

The key to Africa's future

FM 8/10/93

Lewis T Preston is president of the World Bank.

At a time when the world's attention is diverted to the dramatic changes taking place in other areas, it is vital that the magnitude of the development challenges in sub-Saharan Africa is not forgotten.

Half the region's 600m people live in absolute poverty. It is the only region where the number of poor people will — if trends are not reversed — increase by the year 2000, where population is doubling every 20 years and external debt exceeds GDP. Indeed, the future of the continent is at stake.

However, Africa is also changing. We are all familiar with the evolving political transformation in SA. Not so well known is the fundamental change in economic policies that has been taking place across much of sub-Saharan Africa.

This has been a quiet revolution, with more than 30 countries undertaking adjustment programmes aimed at increasing productivity. The intensity and success of their reforms have varied and more time will be required before definitive results emerge. However, there are signs of progress.

Benin, Burundi, Gambia, Ghana, Mali, Tanzania and Uganda are among a group of countries — supported under a special programme of assistance co-ordinated by the World Bank — that has achieved growth rates double the region's average, tripled output in the critical agricultural sector and reversed the decline in exports. (356)

There remains a long way to go but these results indicate that in Africa — as in east Asia or Latin America — adjustment to economic realities produces economic results. Now is not the time for Africa to slow down its reform efforts. On the contrary, they must be accelerated.

Many countries have taken the first macroeconomic steps. Africa now needs to underpin them with a second generation of reforms — to encourage the private sector and build its human and institutional capacities.

About 350m new jobs will be needed in sub-Saharan Africa within a generation. Only the private sector — free to allocate resources and respond to market signals — can create employment and incomes on this scale. Only the private sector can provide Africa with the access it needs to investment, know-how and technology. The message is clear: the movement toward a market-friendly approach must be broadened and deepened. It is Africa's only hope of competing in the global economy of the 21st Century.

Educated and healthy people — and competent institutions — are also essential. In this regard providers of aid to Africa have a major responsibility. The international community needs to re-examine the *quality* of its assistance effort and its overall development effectiveness.

Donors cannot be satisfied that external technical assistance to sub-Saharan Africa has increased over the past decade and now stands at about US$4bn a year. Nor can they be satisfied that an estimated 100 000 expatriate advisers, as they are called, are at work in Africa today.

At the same time Africa knows that the rules of the aid game have changed in the post-Cold War era. The competition for resources has never been greater. Aid budgets are being scrutinised and, in some cases, cut. Countries that cannot show that they are using aid effectively — and that means good governance as well as good economic policy — will lose it.

The World Bank is one of Africa's strongest supporters in its development efforts. Evidence of this is the range of initiatives it has undertaken, and the volume of lending, but it doesn't have all the resources required. Nor has it all the answers. The bank's partners in the donor community have a crucial role to play. Nongovernmental organisations are vital at the grass roots and the private sector holds the key to providing the bulk of investment.

However, the principal responsibility for Africa's development rests with Africa and its leaders. They must adopt the right policies, inspire confidence in investors and motivate their peoples.

Many African nations have started to change in the right direction. The international community must support them.

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Taking over

Murray & Roberts chief executive David Brink has been appointed chairman of Absa from November 1 to succeed Herc Hefer, who resigned in August.

Brink will also become M&R chairman to succeed Marius Daling, who is resigning. A M van der Colff becomes CE of M&R.

World Bank ready to make immediate loans

Star 15/10/93

BY NEIL BEHRMANN

London — The World Bank is prepared to lend to South Africa immediately and is waiting for details on projects that need to be financed.

It's a statement that contradicts the generally held view that World Bank funding was not likely to materialise in the near future. (356)

At this week's Confederation of British Industry Conference in London, Stephen Denning, director of the Southern African Department of the World Bank, said the institution was not to blame for any lending delays.

On the contrary, large amounts were available, but there was no SA consensus on the projects to be financed.

"We have not received any requests. It was only at the recent World Bank and IMF meeting in Washington that we received delegations about possible loans from the Government, the ANC and other interested parties."

The World bank would consider loans for specific projects, but without any requests it could not act, said Denning. "Only two can tango."

He indicated that the Government, ANC and other interested parties were moving slowly in regard to funding by the World Bank, which disclosed months ago that $1 billion (R3,45 billion) would be forthcoming.

Cashbuild in good health

BY DEREK TOMMEY

Cashbuild more than doubled pre-tax income in the six months to August to R8,1 million (R4 million).

Taxed income was R4,5 million (R2,8 million). Attributable income was R3,1 million (R2,1 million) — equal to 14,5c (9,8c) a share.

A 5c dividend has been declared.

Turnover rose 22,5 percent to R251,8 million, with just under half of the percentage increase coming from six new stores. Existing stores showed a 12 percent increase.

Chairman Christo Wiese says the improvement comes from margin and expense structures returning to historic levels.

Star 15/10/93

Boland champions interest rate cut

(88)

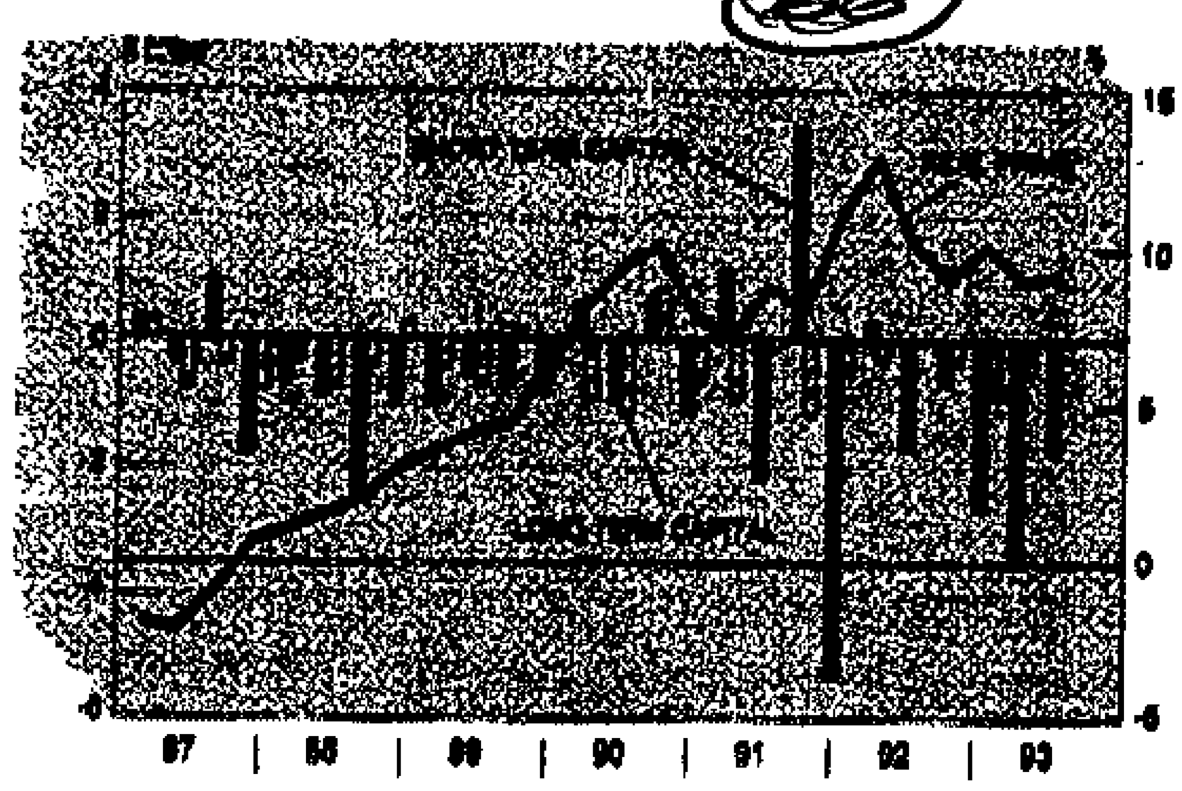
BY CLAIRE GEBHARDT

A desperate need for higher growth is cited as supporting calls for a cut in interest rates, says Boland Bank.

Its Economic Monitor cites seven reasons why the Reserve Bank should comply:

■ The real prime rate, calculated by subtracting the production price inflation (PPI) rate from the prime lending rate, has remained virtually unchanged at 8 to 10 percent since 1990, despite the 4,75 percentage point decline to the present 16,25 percent;

■ Credit demand can "afford" to increase, given that annual growth in credit extended to the private sector declined from a high of 28 percent in 1988 to an average rate of 6 percent in the second quarter of 1993;



No correlation between capital outflows and real interest rates. Graph: Boland Bank

■ M3 money supply growth is well below the Reserve Bank's target range of 6 to 9 percent set at the beginning of 1993;

■ Inflation remains under control, with the consumer price inflation (CPI) rate at 9,3 percent and the PPI rate at 6,3 percent;

■ The fiscal situation has improved, with figures for the first five months of the present fiscal year indicating a substantial improvement on the deficit outcome, compared with last year;

■ The argument goes that flows on a country's capital account are directly influenced by its real interest rate level. Of late, however, SA's balance of payments (BoP) situation has had little to do with the level of real interest rates.

Capital outflows were mainly a function of heavy foreign debt repayment commitments and exchange rate "fright" with corresponding payment "leads and lags".

Declining European interest rates provide further scope for a cut.

■ The limited depreciation of the rand exchange rate between 1986 and mid-1992 has given an unrealistically high real value to the rand.

The recent dip in the value of the currency should therefore not cause concern, given an expected improvement in foreign reserves in the wake of smaller debt repayable in 1993, the expected IMF loan, and improved foreign investor sentiment.

But while Boland says it has great sympathy with these views, it cautions that lower interest rates may contribute to a further depletion of foreign reserves.

It also notes that lower interest rates and accelerating credit growth can at best offer only a short-term solution to the growth problem.

Nevertheless, Boland believes the time may be ripe for the Reserve Bank to ignore the foreign exchange risks inherent in an interest rate cut and bring real interest rates more into line with economic and socio-political realities.

"This need not signal the end of responsible monetary policy."

Boland says it remains hopeful that Bank rate will be lowered by another one percentage point before December 1993.

Star 19/10/93

Political bickering annoys World Bank

(356)

■ BY CHRIS WHITFIELD
POLITICAL CORRESPONDENT

The World Bank was growing impatient with delays by political organisations in giving the nod to a project it was prepared to back in South Africa, Pretoria's ambassador to Washington Harry Schwarz has warned. Schwarz described the delay as a "sin".

Speaking to The Star in Johannesburg yesterday, he predicted that South Africa would get some investment from the United States but that this would be limited by concerns over instability.

However, the World Bank wanted to invest immediately in a non-partisan project but, "because of politics, they cannot get identification of a project".

Schwarz pointed out that the World Bank does not impose conditions on the money it lends, as is the case with the International Monetary Fund. He said this would be long-term finance at competitive world rates.

■ Schwarz is expected to make an announcement on his future within the next week.

It has been reported that he is planning to re-enter the political arena next year, but he has ruled out a party-political role. It was suggested that he would look for a role as an "impartial facilitator".

SAAU, World Bank agree on farm plan

B/Day 19/10/93

PRETORIA — The World Bank and the SA Agricultural Union (SAAU) had reached agreement on how a programme for the large-scale establishment of small farmers should be undertaken, SAAU president Boet Fourie said yesterday.

Following recent discussions between the two organisations in Pretoria, the SAAU said it supported the small-farmer concept in agriculture and welcomed the World Bank's views on the matter.

The bank had suggested that only land falling within the homelands or within the jurisdiction of tribal authorities, or excess government land, should be used for setting up preliminary pilot projects, Fourie said. (356)

Once these projects had proved successful, and a number of small farmers had become established and viable, further projects could be launched.

If further land was required, it would be acquired on the open market at market prices.

ADRIAN HADLAND

The bank had agreed that no land should be expropriated or nationalised with a view to establishing small-farmer projects, Fourie said.

The SAAU had said it would give its full support to the programme on condition that commercial agriculture was not adversely affected and the agricultural potential of the land was maintained.

It was also important that farmers involved in the projects were helped to progress from relatively small operations to fully fledged commercial farming, Fourie said.

The agricultural sector, which employed 1,2-million workers, represented the heartbeat of the rural economy, he added.

"The position which commercial agriculture in SA assumes in the national economy must be placed in clear perspective when the World Bank's plans to establish small farmers on a large scale are considered," Fourie said.

World Bank impatient at delays — Schwarz

(356) ARG 19/10/93

Political Staff

THE World Bank was growing impatient with delays by political organisations in giving the nod to a project it was prepared to back in South Africa, ambassador to Washington Harry Schwarzhas warned.

Mr Schwarz described the delay as a "sin".

Mr Schwarz predicted that South Africa would get some investment from the United States but that this would be limited by worries over instability.

However, the World Bank wanted to invest immediately in a non-partisan project but, "because of politics they cannot get identification of a project.

"You have a situation where the World Bank said: 'Here are the projects — choose one.' But nobody can choose," said Mr Schwarz.

"To my mind this is a sin as the needs in South Africa are great. Now they are getting impatient with South Africa," he warned.

"If we don't want the World Bank we are throwing away billions," said Mr Schwarz, pointing out that this would be long-term finance at competitive world rates.

Certain extra-parliamentary organisations have been reluctant to endorse World Bank-backed projects, apparently on the basis that they do not want foreign agencies to be in a position to interfere with South African economic policies.

Mr Schwarz points out that the World Bank does not impose conditions on the money it lends, as in the case of the International Monetary Fund, and "it does not merely want to give money to governments, it wants to finance projects."

October 22 to October 26 1993

South 22/10 - 26/10/93

ANC wary of World Bank 'generosity'

356

THE World Bank's readiness to lend money to South Africa has received a mixed response from the major players in South Africa.

While government and business has been enthusiastic about taking money, the ANC has expressed caution.

For South Africa, the temptation is overwhelming to take the billions on offer from the Bank and its sister organisation, the International Monetary Fund (IMF), considering the huge sums needed to address pressing social problems and finance other industrial projects.

The Bank's Southern African Department Director, Mr Stephen Denning, said last week he was waiting for details of projects which need funding.

The Bank disclosed a few months ago that about R3,45 billion would be available for South Africa as loan finance.

The government argues that the country is under-borrowed and extra loans would help South Africa onto a steady growth path.

South Africa's foreign debt is currently 15 percent of its Gross Domestic Product (GDP) — or the size of its economy. Countries like South Africa usually have a debt of between 30 percent and 40 percent of GDP.

Yet, the ANC remains cautious.

Mr Trevor Manuel, Head of the ANC Economic Planning Department, said recently the R850 million Compensatory and Contingency Financing Facility (CCFF) of the IMF was enough for now.

That money was aimed at covering the capital outflows caused by the drought.

The CCFF is currently being negotiated and will probably come through towards the end of the year.

The crucial difference, for the ANC, is the conditions attached to the IMF/World Bank's finance.

The ANC is particularly concerned about the effect on the economy of the IMF's controversial Economic Structural Adjustment Programmes (ESAP).

The ANC says the strings attached to the money — the ESAPs — have worsened the economies of African countries.

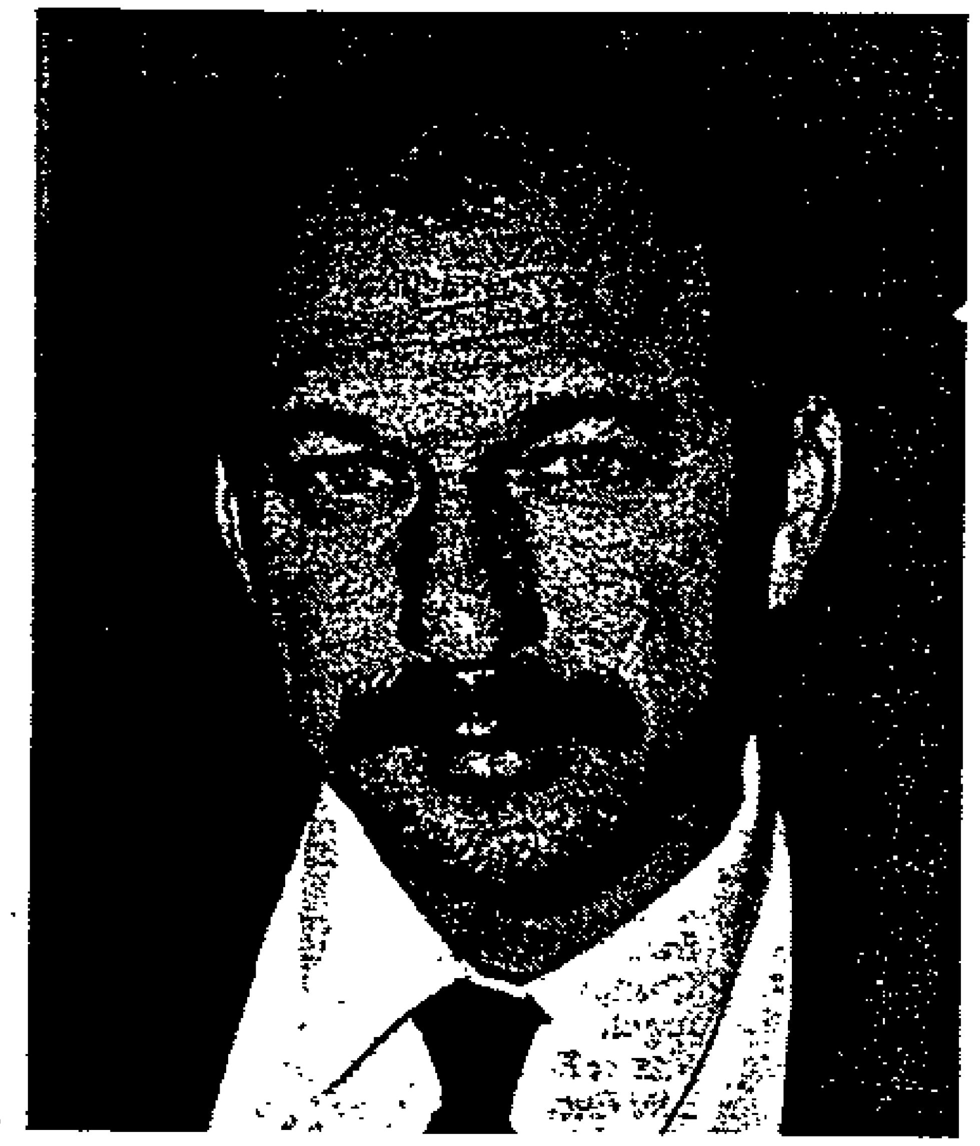
Manuel says the CCFF money does not have the same conditions attached as the loans offered by the World Bank.

Instead of borrowing more, the ANC has been trying to attract foreign investment by punting the strength of the economy on international platforms, notably the World Economic Development Congress in New York last month.

It is in this area of attracting foreign investors that the ANC and the government have come to its greatest agreement on the economy.

The ANC's economic department has been working with the Minister of Finance Mr Derek Keys for about five months now on crucial areas of the economy.

DEREK KEYS



TREVOR MANUEL

The ANC says strings attached to the money — the ESAPs — have worsened the economies of African countries

The areas of agreement include proposals to reduce trade tariffs and the agreement on the CCFF.

The ANC has also paved the way for South Africa, for the first time since 1985 when credit lines were cut, to start commercial borrowings from overseas banks.

But getting attention these days is a difficult thing, especially if you're from Africa.

The competition is tough. The Latin American countries and South East Asia are still the areas in vogue for foreign investors.

Also, commercial banks are already heavily involved in Eastern Europe. In Russia these creditors are owed more than \$27 billion (R81 billion), and are in arrears in interest payments of more than R3 billion.

With so much money involved, it's expected the focus will remain on these economies to make them work.

For South Africa to get an edge in this big-stakes lending, the IMF has recommended regional co-operation as a starting point to attract investors.

One thing is certain: any decision on lending will have to made jointly, if a crisis is to be avoided.

WAGHIED MISBACH

World bank loan scheme has a 'basic error'

ARGT 23/10/93 (356)

■ The World Bank made a fundamental error in not assessing whether black communities were prepared to pay their share in reconstructive development, says Americam researcher Donald Pierce in a new publication. **JEAN LE MAY** reports.

THE World Bank was prepared to inject R19,8 billion ($6 billion) into post-apartheid reconstruction in South Africa, according to one of its economists.

Who will get the money and how will they spend it?

This is the crucial question dealt with by Donald Pierce, an American researcher with the Johannesburg-based Centre for Policy Studies (CPS).

Mr Pierce has raised worrying questions about the viability of the bank's proposals for South Africa in the new CPS publication "Checking the risks: World Bank urban development and policy choices for a transitional South African government".

He concluded that the bank would need a far greater knowledge of South African urban realities if it were to operate effectively in this country.

"Before the power-sharing parties take the plunge, both they and the bank will have to approach the project far more thoroughly than the bank's own analyses have managed to do," he said.

However, he went on, the bank's own analyses rested on two fundamental assumptions which would make it probable that South Africa would default on a bank loan.

"The first point to bear in mind is that the bank disburses loans, not grants. The second is that the injection of development finance into a fragile power-sharing coalition invites partisan in-fighting."

One of the problems with the bank's approach was that "nowhere did it assess the willingness of urban communities to contribute to the costs of urban development financed by loans.

"How could it make so fundamental an error?" asked Mr Pierce.

"The bank's team set aside no time to question the political legitimacy of black community leaders, nor to probe the culture of resistance in black urban life.

"This knowledge is necessary for accountability between the central and sub-national tiers of government, and the bank, before they strike a deal.

"Without it, recipient authorities can claim that their constituents cannot or will not repay a loan, and pass the bill up to a higher level of government.

The bank must investigate the political dynamics of proposed recipient communities more thoroughly than they did in the sample survey they made, said Mr Pierce.

"The bank will actively have to win the support of all actors, or demand that the authorities do so, before financing specific projects."

This was all the more cogent because of the culture of non-payment that had developed in townships, he went on.

It was equally important that people realise that a loan would place enormous demands on foreign reserves, he said.

Assuming South Africa gets a loan of R19,8 billion over 20 years, the annual debt burden from the loan will be R1,8 billion, principal and interest with other external debts excluded, said Mr Pierce.

"This means that South Africa's exports will need to increase by 3,69 percent a year for 20 years at the current exchange rate.

"South Africa can promote its exports either by restructuring its capital-intensive industries for export, or by re-educating its unskilled labour force to harness its comparative advantage of cheap labour.

"The policies are mutually exclusive and will face the new government with a terrible dilemma.

"To realise the comparative advantage of cheap labour, South African industry and trade unions must link wage levels to productivity.

"Many economists are convinced that South African industrial wages are already too high measured against output.

"But choices cannot be evaded. The power-sharing government must accept that the only way to redeem its loans is through its foreign reserves — the bank does not accept rands.

"The post-apartheid government must decide, as a matter of policy, whether South Africa will choose the growth-through-exports path *before* signing a loan agreement with the bank."

If it undertakes to repay a hard-currency loan without this, concluded Mr Pierce, it will invite an IMF structural adjustment programme at a later date, possibly to the citizenry's impoverishment.

The bank's enthusiasm for community participation was another potential stumbling block, said Mr Pierce.

The bank's preliminary report on South Africa proposed that the post-apartheid government should issue "demand-side" vouchers to individual recipients for urban infrastructure services.

The individual (in a squatter camp, say) could then cash in the voucher for urban services in the municipality where he or she chose to settle.

This system apparenty worked in Chile and in Latin America.

"But the difficulty with vouchers is that they only work if there are municipalities or utilities to accept them. Given the scarcity of economical, low-income neighbourhoods near South African towns, the likely result of the bank's proposal would be a rush on the limited number of sites in the cities."

Moreover the bank "glosses over the likelihood of maladministration or outright corruption", added Mr Pierce.

■ Donald Pierce, a graduate in political science from Union College, New York, is a fellow of the Thomas Watson Foundation, Rhode Island. He is a monitor for the Peace Accord in the Witwatersrand-Vaal region.

(356) WM12-18/11/93

Don't Bank on these assumptions

The World Bank has made fatal errors in its missions, argues a centre-right critique of the Bank's urban policy plans for South Africa. Reg Rumney reports

SOUTH AFRICA would probably default on a World Bank loan for urban development, with disastrous consequences, argues a report emanating from one of South Africa's leading thinktanks.

Centre for Policy Studies visiting researcher Douglas Pierce coolly remarks that this is so because the Bank's analyses so far rest on fundamentally flawed assumptions.

Pierce also sketches the problems a Bank loan — and the Bank does give loans, not grants or aid — could pose for the economic policy of a unity government.

His thoughtful and provocative paper, *Checking the Risks**, differs from the near paranoia of some left-wing attitudes to the Bank on one hand, and over-sanguine embrace by some free marketers of World Bank involvement in South Africa on the other, in assuming a loan is necessary but detailing the drawbacks.

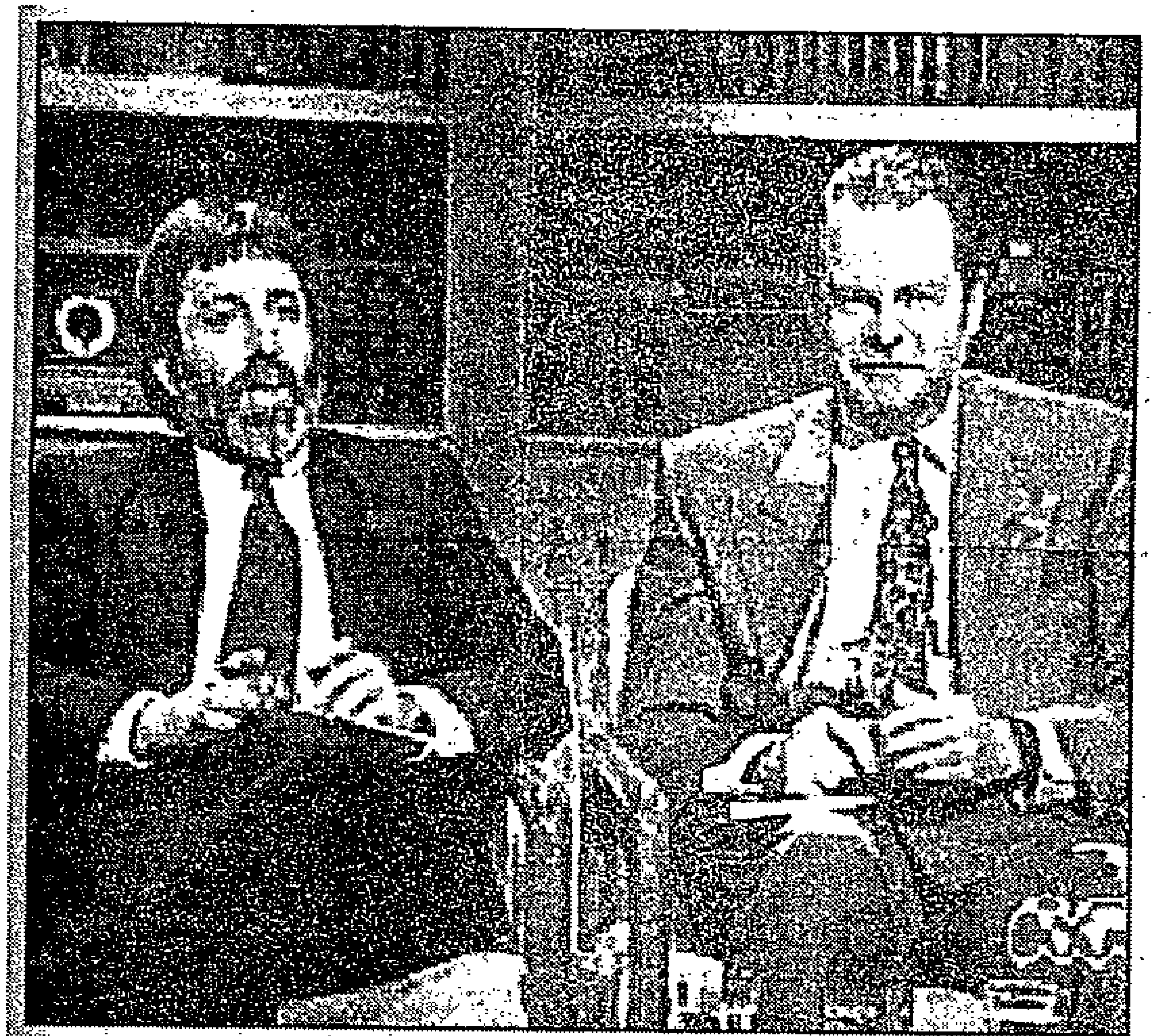
Pierce's starting point is that the parties to the proposed Transitional Executive Council accept that a sense — when divorced from South Africa's political realities.

The proposals will probably fail because they grossly overestimate the insitutional capacity of government.

The Bank's most serious omission is that it does not assess the willingness of recipient communities to contribute to the costs of development financed by its loans.

"How could it make so fundamental an error? Its urban team set aside no time to question the political legitimacy of black community leaders nor probe the culture of resistance below the surface of black urban life. This knowledge is necessary for accountability between the central and sub-national tiers of government, and the Bank, before they strike a deal.

"Without it, recipient authorities later can claim that their constituents cannot or will not repay a loan, and pass the bill up to a higher level of government. Accumulated buck-passing spells loan default."



dangers, for instance, of the Bank' suggested "wealth surcharge". An policymakers in the new governmen must find ways to overcome the "cul ture of non-payment".

What if the new governmen decides to avoid the above problem and instead of tapping the recipient for loan fund repayment to financ urban development taps the fiscus?

Pierce reckons an IBRD loan of $6 billion over 20 years will mean Soutl Africa's annual debt burden fron this loan will be R1,8-billion. South African exports will have to rise by 3,69 percent a year for 20 years afte the loan at the current exchange rate to repay this.

This will entail an export-oriented economic policy. Before signing a loan agreement, South Africa must accept the need for such a policy.

And that, in turn, will mean restructuring capital-intensive industries for export, or re-educating the unskilled labour force to harness a comparative advantage in cheap labour.

The policies are mutually exclusive, Pierce argues. Further, capital intensive policies in Latin America and elsewhere have resulted in dual economies in which the poorer majority subsidises a

IMF loan in SA to end of year

THE International Monetary Fund hopes to have wrapped up its $850-million loan to South Africa by the Information Service Worldnet Dialogue TV programme.

Jaycox said there was not inter-

...depends on sustainable and rapid black economic empowerment. This is beyond the South African treasury to finance.

"International money, it is assumed, must therefore finance much of South Africa's black development if the social faultline rumbling beneath a power-sharing compromise demands that results be rapid."

The World Bank stands in the wings, with a reported $6-billion to inject into post-apartheid reconstruction.

Pierce notes a new Bank enthusiasm for community participation — though this may be bedevilled in South Africa by its assumption about institutional capacity at all levels, but especially at community level, to execute projects and repay loans. Secondly, the Bank assumes communities and leaderships are easily identifiable.

"South African policy and development specialists, however, question the Bank's breezy optimism."

The paper expresses serious reservations about the Bank's market-oriented urban development proposals for, among others, reducing the racial income gap. However, Pierce finds they mostly make economic

The Bank urban development missions have, says Pierce, spent 90 percent of their time studying Port Elizabeth, an oasis of quiet among large South African cities in contrast to the Vaal Triangle and East Rand.

In Port Elizabeth's townships:

- Xhosa-speakers predominate, and ethnic violence is absent.
- Alternative bodies have not mounted serious challenges to the leadership of the African National Congress and its South African National Civics Organisation and South African Communist Party allies.
- Relations between the black leadership and the city municipality are cordial and improving.

"No wonder the Bank blundered in gauging the institutional capacity of other black urban communities if Port Elizabeth was its yardstick."

Pierce says it has been claimed the Bank chose Port Elizabeth because it is politically further down the road to integrated urban development than Johannesburg, Durban or Cape Town, and these cities will reach that stage later.

Pierce is sceptical, and says if that is so it may be a long time before the Bank lends to projects in the other

[illegible] International Monetary Fund [illegible] director, Africa Department, Leslie Lipschitz (left). He appeared with World Bank vice-president, Africa Region, Edward Jaycox, on a US [illegible] loans to South Africa. He said the highest priority for South Africa was to reduce the huge disparities between blacks and whites, increase black employment and increase its export orientation.

major cities. NM 12-18/11/93

The Bank intends developing increasing and refined detail, "based on extensive community participation". Pierce says this is logical, but gathering the necessary insights may be difficult.

The Bank will have to win the consent of all actors before financing specific projects, or see them fail. Identifying those actors — including groups which lack the capacity to implement development but which can sabotage projects that threaten their interests — is hard, given the complexity of community dynamics.

Pierce points to another big problem — the so-called "culture of non-payment" in townships. This could be overstated, but just as importantly no one in South Africa knows the gross product or turnover of local black communities to estimate how much they could pay if they wanted to.

If Pierce is right and World Bank loans cannot be avoided, what can a new government do to avoid a sour loan? He advocates "constructive engagement".

A post-apartheid government, Pierce suggests, must determine how much participation in development by those who receive it can be achieved. Will individuals and communities who, for legitimate political reasons, withheld vital data on income, residency and employment in the past co-operate with a power-sharing government?

The new national and local governments must gather their own data first to negotiate with the Bank as equals.

Nor should local policymakers accept the Bank's idea that maximising recipient participation in development is necessarily a good thing, he urges.

The TEC and new government must convey to the Bank the realpolitik of South Africa, pointing out the more affluent minority.

In South Africa this sort of polic[y] would favour the ANC's union allie[s] in established industry, but ris[k] widening the gap between employe[d] and jobless, and a debt crisis as th[e] poor put pressure on government t[o] narrow the gap.

On the other hand, labour intensive export policies would expose th[e] industrial labour market to fierce competition from the unemploye[d] masses, and sink the wages of rudi[mentarily] skilled black workers i[n] prominent trade unions.

"Finally, a substantial Bank loa[n] while in the opinion of this analysi[s] necessary, creates severe pressure[s] and difficult challenges. Far mor[e] analysis, research and debate i[s] needed before the power sharing pa[r]ties take the plunge.

"Both they and the Bank will hav[e] to approach the subject far mor[e] thoroughly than the Bank's ow[n] analyses have managed thus far t[o] do."

**Checking the Risks?: World Bank Urban Development — Policy Choices for a Transitional South African Government* by Douglas Pierce, visiting researcher. (Centre for Policy Studies Transition Series)

Jacobs, Turok clash over role of IMF

Political Staff CT 19/11/93

SHARP differences about the role of the International Monetary Fund (IMF) emerged yesterday after former Cape MPC Mr Ben Turok accused it of eroding South Africa's sovereignty.

Dr Japie Jacobs, Special Economic Adviser to the Minister of Finance, rejected the criticisms and said the IMF was the lender of last resort when member countries had budget deficits.

Dr Jacobs said at a workshop in Strand organised by Stellenbosch University that the IMF was not prescriptive but it was critical in its approach. It had praised South Africa's monetary policy but was critical of its policies on foreign exchange.

Mr Turok, director of the Institute for African Alternatives, said a World Bank representative said recently the bank had been "a destructive force in Africa" and the IMF had been worse. (356)

World Bank sets out SA's options

Star 6/12/93

■ BY PETER FABRICIUS
STAR BUREAU

Washington — The World Bank predicts that the South African economy could sustain high growth of above 5 percent a year while also redistributing wealth — if the new government pursues sound economic policies and private investment returns to the level of the 1970s.

The key is increased private investment. Without it, government efforts to equalise social spending will briefly boost the economy — but will soon run it into excess public debt and recession. (356)

These are the best and worst-case scenarios for the new South Africa spelt out by a macro-economic model which the bank has just developed. It is part of a major study being conducted by the bank's Peter Fallon and Luiz da Silva.

An abstract of the study entitled Paths to Economic Growth has just been completed by Alun Morris, co-ordinator of the bank's team doing research on South Africa.

The economic model shows that if private investment returns to the level of the 1970s, and sound economic policies are followed, the government will be able to spend R71,7 billion on public investment between 1994 and 2005 — equal to 3,3 percent of gross domestic product (GDP) — mainly to upgrade black social facilities.

Upgrading

Without high private investment, the economy will be able to sustain public investment of slightly more than half that amount — R33,2 billion, or 1,8 percent of GDP — over that period.

To achieve the high-growth path, the government will have to:

■ Encourage rapid growth in skilled labour, especially by upgrading semi-skilled and unskilled labour.

■ Change the import-substitution bias of manufacturing and reorientate it towards exports (by rationalising import tariffs, among others).

■ Boost job creation in small businesses and agriculture.

■ Restructure government spending by raising investment in infrastructure and public spending, targeting the poor and restricting recurrent spending. Where possible, spending should be on labour-intensive public works projects.

■ Maintain prudent fiscal and monetary policies, among others by avoiding high fiscal deficits and cutting the "overstaffed" civil service.

World Bank sees rapid growth in SA

S Times [Buss]

5/12/93

By KEVIN DAVIE

RAPID growth, sustained at above 5% a year, is possible under a new SA administration, says a new study by the World Bank.

"A main conclusion is that there is indeed a feasible growth path that is high (above 5% per annum), sustainable (low inflation, stable fiscal account, low and stable debt-to-GDP ratios) and redistributive."

An advance copy of a report by the bank's southern Africa department says given the right economic environment and policy framework, the economy can return to positive per-capita GDP growth fairly quickly.

Bank staffers Peter Fallon and Luiz Perreira da Silva presented their findings to the ANC on Friday.

The study considers three growth scenarios for SA: faltering, moderate and sustainable.

It says a substantial expansion of public investment is only sustainable if private investor confidence returns to the level of the mid-'70s.

Without this the economy will experience higher growth for a few years and then falter. The authorities would be forced to curtail public expenditure growth abruptly, creating a negative demand shock leading to a new recession.

The moderate growth path looks to 2% to 3% annual GDP growth even without supply enhancement like skills training.

With a revival of private sector confidence the fiscal deficit could remain around the 10% of GDP mark for a few years (1992/3: 8%). It would then "fall as growth continued into the early part of the next century and even turn into a small surplus".

No economic programme can succeed without social stability. "If gains from growth are not perceived as being distributed equitably, social unrest will result."

The three scenarios flow from a macroeconomic model which the bank has constructed to simulate future scenarios for the SA economy.

It says the model can be used either to measure the economic impact of specific policies such as a new tax policy or to identify the variables that will be critical for sustaining high growth.

The bank says one reason for its optimism is the under-utilisation of the country's infrastructure and electrical power capacity.

Financial sanctions have given SA a low foreign debt-to-GDP ratio. (356)

"Returns to raising the skills of the labour force (in particular black South Africans) are likely to be high."

For higher growth SA must revive the private sector, maximise employment growth and narrow income differentials between blacks and whites.

"It must also redress massive inequalities in access to public services and land redistribution."

Priorities are to upgrade semi- and unskilled workers, reorientate manufacturing towards exports, emphasize job creation in small business and agriculture, restructure government expenditure by raising investment in infrastructure and public services, target the poor and restrict the growth of recurrent expenditure.

SA's most urgent task in international trade is to address the anti-export bias inherent in its policies. "Many of the disadvantages exporters suffer stem from the higher prices they pay for manufactured inputs."

Despite its relatively low share of GDP, agriculture is potentially important as an employer.

New public investment should not repeat past mistakes by concentrating on inefficient and highly capital-intensive parastatals.

Where the public sector is the contractor in labour-intensive works projects, wages should be set at close to informal sector wages, about one-half of those in the formal sector.

IMF/WORLD BANK

ARG 1/12/93 ~~255~~ 366

Holding the purse strings

HARRY SCHWARZ, South Africa's Ambassador to the United States, advocates using new opportunities to borrow money from world finance agencies to satisfy post-election social expectations.

TO some, funds from the International Monetary Fund and the World Bank are regarded as opportunities for reconstruction of the economy, safeguarding the balance of payments and obtaining much-needed projects.

Others regard them as endeavours to dictate terms, manipulate the economy and impose conditions which inhibit growth and strangle the self-government of people.

South Africa has not had facilities from either institution for many years. The time has, however, arrived where we can apply with hopes of success to both institutions.

South Africa expects to receive 850 million (about R2,9 billion) before the end of the year from the IMF through a Compensating and Contingency Financing Facility (CCFF) — a facility to provide finance to members of the IMF with export earnings shortfalls and increased cost of cereal imports.

This facility becomes available to South Africa as a result of the drought which turned the country from a food-exporting country into a food-importing country and is designed to help the balance of payments which, as a result, was adversely affected.

It is not a donation or a grant, but a loan for up to three years and it bears interest at an attractive, though market-related rate.

In South Africa's case a letter of intent has been agreed upon not only by the government but as a result of consultation with the representatives of the major political parties in the negotiating process and some outside it. On available information, it contains no unacceptable conditions.

The IMF has as its objectives the expansion of international trade and the promotion of high levels of employment. It seeks exchange rate stability, and so provides balance of payments assistance.

It does not fund particular projects, but provides technical assistance and training, carries out consultations on the state of the economy of individual member countries, and, in particular, seeks to encourage its members to engage in the reconstruction of their economies and to adhere to sound economic guidelines.

Reconstruction is not easy, and there has been much criticism of the sacrifices and politically difficult decisions which have to be made to achieve needed long-term benefits. In recent years the IMF has been increasingly understanding of these problems but the messenger with bad news is never welcome.

The World Bank provides money for quite different purposes through a number of subsidiaries with particular objectives. The facilities are normally much longer term than those of the IMF and they are directed to address poverty. The finance is for particular purposes — not to address balance of payments problems.

The World Bank's IFC subsidiary operates in a slightly different field. It assists private enterprise projects, while other subsidiaries deal with guarantees for projects in underdeveloped countries and help to the poorest nations.

The IMF's conditions are readily identifiable. Many apply to growth, import restrictions, public sector (particularly deficit) spending and current account deficits.

In the case of the World Bank, achieving macro economic stabiity is obviously also an objective, but poverty alleviation is in the foreground and while the IMF deals with country situations, the World Bank is project or sectoral related. The World Bank conditions are therefore more localised and may be perceived to be less stringent.

There are as many critics of the IMF as there are of the World Bank, and already there is, in South Africa, fear of economic rule by the IMF and World Bank. There are also critics of particular World Bank projects elsewhere in Africa, where there have been some failures — but also many successes.

There are important advantages to taking up these facilities:

- The CCFF facility to be granted has few conditions. Yet it would not harm to have some stern advice on good government budgeting.
- Standby facilities are important if there is to be adequate access to world capital markets.
- There is no reason why the cost of reconstruction should be borne by the poor if IMF or World Bank facilities are accepted.

Experience has shown the two bodies that political instability due to economic hardship will not enable effective reconstruction activity.

In the nature of the post-election situation, the crisis of expectations of the mass of the people needs to be addressed. There has been too long a delay in selecting World Bank projects and commencing planning and design. It takes up to two years for money to flow and show results.

There appears to be competition as to which political group should get credit for obtaining facilities and investments. If this is so, it should be remembered it is the people who suffer.

We need to remember that we have to encourage investment — real investment which addresses the urgent needs of deprived people. The World Bank is the most substantial and most important external source of money for social upliftment.

Certainly, we need private foreign investment but this will be regrettably slower in coming, more selective and profit-oriented.

Rural project: DBSA to work with W Bank

CT 2/12/93 (358)

JOHANNESBURG. — The Development Bank of South Africa has been formally approved as South Africa's counterpart agency for dealing with the World Bank and would conduct technical work on the international financial institution's proposed Rural Restructuring Programme (RRP).

DBSA chief executive Andre le Grange said yesterday the bank would serve in this capacity at least until the end of the first quarter of 1994.

Extra-parliamentary support had been obtained for the move, he added.

Regarding the RRP, the DBSA would do "technical" work on the proposal, canvassing the opinions of as many South Africans as possible on the matter.

The programme calls for rapid land reform to give victims of apartheid access to land to alleviate poverty and increase small farm output.

The World Bank would finance land purchases over five years, amounting to about 30% of all agricultural land.

Beneficiaries of the programme would receive a variety of grants and subsidies as well as access to agricultural finance and extension, water resources and social services to aid their move to farming.

Mr le Grange said he had talks with the African National Congress and the Pan Africanist Congress on Tuesday, and added that they all agreed that the matter of World Bank finance — and other donor finance — had to be managed properly.

"They have so many resources at their disposal they could easily overrun us, set the development agenda and put development in South Africa on a course we do not want."

Mr le Grange said he regarded the Agricultural Development Fund Bill, discussed in Parliament on Monday, as possibly leading to the creation of duplicate facilities. Institutions such as the DBSA existed to administer donor funds.

He cautioned that South Africans were "babes in the woods" when it came to administering large amounts of donor funds and the country would have to learn to be tough in negotiating the terms on which funds would be accepted. — Sapa

Resident W Bank mission

From SIMON BARBER 356

WASHINGTON. — The World Bank expects to establish its first resident mission in SA early next year after receiving a formal request to do so from the multiparty Economic and Technical Committee chaired by Finance Minister Derek Keys.

The mission is to be headed by Isaac Sam, the highly regarded senior Bank staff member who has been coordinating the Bank's South African activities for the past two years.

Sam, a Ghanan economist who has been involved in restructuring and development projects from East Malaysia to Latin American, and who played a significant role in the Lesotho Highlands water scheme, said he thought it likely he would take up his post in January. CT 3/12/93

A number of legal and logistical details have to worked out. In particular, the Bank's board must approve a budget for the mission.

The Development Bank of South Africa, in a statement announcing the ETC's decision, said the mission would "enhance (the Bank's) dialogue with SA and also developing a future country assistance strategy".

Commodity Index 1638,1

WORLD BANK _ 1994

World Bank office in SA by April

(35b) 11/1/94

WASHINGTON. — The World Bank has announced that it will open an office in South Africa in April, most likely in Johannesburg, the international organization said.

The mission will be headed by Isaac Sam, a 19-year bank employee from Ghana and an advisor on SA since July 1992.

"The Bank's efforts aim to give South Africans the tools they need for economic reconstruction and to prepare the Bank for a possibly expanded role in the country," Sam said in a statement at the weekend.

The decision comes after two years of studying the South African economy and discussions with local authorities. The bank has also helped Pretoria formulate proposals for rural development and agricultural reform.

A founding member of the World Bank, SA received its seventh, and most recent, loan from the lender in 1966.

No new loans are planned before general elections in April but plans for loans for agriculture, infrastructure development, health services and the financial sector are already under way, a bank source said yesterday.

In December, the International Monetary Fund (IMF) gave SA its first loan since 1982 — $850m towards drought relief.

World Bank reacts to township unrest

CT 11/2/94 (356)

Own Correspondent

WASHINGTON. — The World Bank, citing concerns for the safety of its staff, has decided to suspend on-the-ground research in South African townships, executive Mr Alun Morris disclosed.

The decision chiefly affects a bank mission to study SA's urban reconstruction needs and how they should be financed. The three-week mission, led by Mr Junaid Ahmad of the bank's Southern African infrastructure division, arrives in SA at the end of next week.

The bank team's agenda was to have included "site visits" and meetings in the East Rand and the Cape. The team will now restrict its activities to the relative safety of the major cities. Mr Morris stressed that this did not mean the bank had been "scared out" of the townships, or that the mission was being in any way compromised. There was plenty of other work that needed to be done.

World Bank office for SA

Sowetan 17/12/94

THE World Bank will open its first permanent office in South Africa in April.

The bank's representative in this country will be their Southern African economic adviser, Mr Isaac Sam.

The Ghanaian-born Sam, who has been a frequent visitor to this country since 1992, says the development comes at an "opportune time" when the country will be preparing for its first nonracial election.

Also, he says, the resident mission in South Africa comes at a time when the World Bank itself is realising that it needs to involve local talent if its projects are to enjoy support.

"Especially in Africa, we know the need to pay more attention to local capacity-building.

"Just having a nice project and letting a paid foreign consultant carry it out is no longer the way to go," says Sam.

(356)

The bank has been conducting a series of studies on the South African economy for the past two years.

"We hope we can contribute to the debate on how South Africa can develop its human and economic potential after the April elections," he adds.

Although South Africa has remained a member of the World Bank throughout the years, it was barred from using the institution's facilities because of its apartheid policies.

Researchers oppose World Bank health policy

8/Day 8/3/94

BEATRIX PAYNE

GOVERNMENTS of developing countries, contrary to World Bank proposals, should work in partnership with rather than compete against private sector health services, argues the London-based Panos research institute.

Panos suggested a variety of funding methods be adopted to ensure equal access to services, including health insurance.

Panos said the World Bank preferred governments to provide basic health care and education.

Governments should subsidise nonprofit organisations, but leave the provision of high-tech hospital care and essential services to profit-oriented private sector contractors.

However, health experts opposing the World Bank warned against "treating health as a commodity". Charging full market prices for services could marginalise many poor people and entrench a two-tier health system for rich and poor, Panos said.

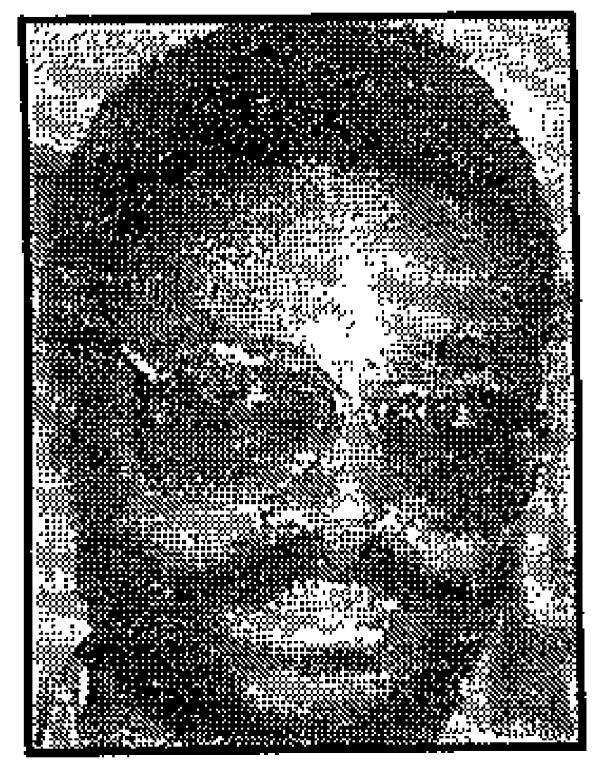
Many developing countries said the private sector focused more on hospital care than on "less lucrative preventive care". (356)

The World Bank believed user fees — fees charged for consultations, drugs or diagnostic tests — prevented "unnecessary use of government services". But Panos research showed that after user fees were introduced in Swaziland, overall use of health services dropped 17,4% and the decline was highest among the poor.

focus on the economy

Sowetan 18/4/94

The International Monetary Fund and World Bank, which lend money to countries all over the world, came under fire at a conference held in Johannesburg at the weekend. **Political Editor Mathatha Tsedu reports:**



The main issues that will confront the new government after the coming elections will centre on the provision of jobs and housing.

The parties that are given a chance to win significant numbers of votes, such as the African National Congress and the National Party, have hinged their ability to meet the demands on the influx of foreign funding.

This funding is mainly from the International Monetary Fund and the World Bank.

Already, the two bodies have approved loans of over R850 million for South Africa. The loans were requested by both the ANC and the NP Government.

A conference organised by the Azanian People's Organisation and the Paris (France) based International Liaison Committee for a Workers' International held in Johannesburg at the weekend, looked at the effects of IMF and WB activities in African countries and found them wanting.

Drawing from the experience of 15 African countries that were represented and in whose countries the IMF and WB have instituted Economic Structural Adjustment Programmes, the conference found that the two bodies were responsible for the misery that grips Africa today.

SA being mortgaged

Delegates said countries were being mortgaged to the IMF and WB, and the South African delegations asserted that the R850 million loan meant that South Africa was being mortgaged even before the reform process transferred political power to the historically disenfranchised blacks.

In Burundi, where poverty and hardship have led to endemic wars among the citizens for scarce resources, the country spends over 60 percent of its gross national product on debt repayments to the IMF.

In neighbouring Rwanda, the situation is even worse, but statistics are a national secret and cannot be divulged. The figures, however, are said to exceed those of Burundi.

The IMF and the WB were accused by delegates of creating pauper states that were forever dependent on loans that they could not repay.

But it was the Economic Structural Adjustment Programmes that came in for a hammering from the delegations, which represented trade unions from the 15 African countries and France.

The ESAPs, it was said, went hand in hand with devaluing the local currency, cutting back on subsidies on food, reducing state expenditure through mass retrenchments of civil servants, and the wholesale closure of local firms to make way for imports from countries controlling the IMF and WB. This was a recipe for instability, they said.

Zimbabwean delegate Mr T Mashakada of the Zimbabwe Congress of Trade Unions said

Azapo deputy president Mr Pandelani Nefolovhodwe.

(356)

adjustments being dictated to African states by the IMF have hampered the establishment of true democracy because they have led to poverty and suffering for the majority of Africans.

While the general thrust of the ESAPs was to "reduce or eradicate internal and external imbalances and achieve more efficient resource allocation through trade liberalisation and economic deregulation as well as privatisation", Mashakada said this had not happened.

"Rising inflation and unemployment as well as declining incomes have always been hallmarks of ESAPs. In fact, all ESAP policies — devaluation, trade liberalisation, economic deregulation, price decontrol and subsidy withdrawal — tend to accelerate the inflationary spiral and contribute to growing political, social and economic instability," he said.

The promises of growth never materialise and "all that can be noticed is the increasing indebtedness of African countries as ESAPs take their toil", he added.

Safety nets provided for in the programmes in the form of social dimension funds do not cope with the devastating effects of ESAPs, and it all adds up to the dislocation of the moral, social and political fabric of society.

Azapo deputy president Mr Pandelani Nefolovhodwe said the IMF and WB had already got their hold on South Africa through guarantees that loans made by the apartheid regime to finance its oppression of black people would be honoured by the new government.

He said agreements reached ensured that the IMF and WB would continue the "plunder of the Azanian economic resources. This then is the decisive linkage between the present reform process and the two international bodies.

Blacks on receiving end

"The mission has been completed and black people in Azania, just like in many parts of the Africa, are going to continue to be on the receiving end of this national and international conspiracy," Nefolovhodwe said.

He said the IMF connection meant that the new constitution, however noble the intention of the party in power, would fail to deliver and that black people in particular would remain in bondage.

It was pointed out that the IMF was insisting that the subsidy of over R200 million each year to the motor industry should be phased out. This would mean locally manufactured vehicles would be more expensive than imports, and would lead to a decline in the industry and loss of jobs. It would, however, boost imports of cars made in Europe, Japan, and the USA which are areas that control the IMF and WB.

The conference called for trade unions to be vigilant and to fight ceaselessly against IMF intrusion in their countries.

While local trade unions were represented, the major federations, Cosatu and Nactu, were absent. The conference deplored their absence and called for a major drive to publicise the effects of the IMF on workers interests.

It became clear, however, that the issue, important as it is to all here, had not caught the imagination of people who saw the promises of the election campaign as real promises of a brighter tomorrow. (Report by M Tsedu, 61 Commando Road, Industria West, Johannesburg.)

New roles foreseen for World Bank and IMF

B/Day 26/4/94

THE IMF and World Bank have every reason to celebrate their 50th anniversary this July. Although they have made some bad loans and shown insensitivity on issues such as poverty and the environment, critics should remember that, on the whole, they championed the right causes.

They advocated free markets and conservative macroeconomics when such policies were reviled by the world's intelligentsia.

Yet at this moment of triumph, the future of the Bretton Woods twins is murky. Over the next 50 years the power and prestige of these agencies and many like them are likely to decline, reflecting profound changes in the economic landscape.

The fund and bank, admittedly, have adapted skilfully to changing circumstances. Today, both institutions are engaged in policy-based lending; both are trying to promote structural reforms; both are concerned with long-term development. This suggests a clearer division of labour and some rationalisation of functions is possible, as the independent Bretton Woods Commission is likely to recommend later this year.

But a 50th anniversary year review of their operations ought to dig deeper. The fund and bank are engaged in three distinct activities: the provision of economic advice; the supply of development capital; and the certification of policies. All three activities are separable, and all three can be provided by the private sector.

On advice, there is now broad agreement on the market-friendly policies likely to promote development. And private consultants are perfectly capable of devising economic reform strategies. Meanwhile, the lifting of controls on capital flows and the growth of pension funds and other forms of institutional investment in rich countries have created a huge pool of mobile private capital.

Foreign direct investment is now the largest single source of capital for developing countries, rather than official aid or loans. (356)

Despite this revolution, the fund and bank claim they are uniquely well placed to influence economic policies and thus promote development, because they can make loans conditional on policy changes. (356)

There is something in this conditionality argument. But as the fund's problems in Russia illustrate, the leverage of external agencies is limited in the absence of a domestic consensus for reform.

The private sector alternative seems far cleaner. If a country wants to implement market-oriented reforms, it can buy the necessary advice privately. Once it has proved its good faith, investors will be clamouring at its doors. And it is not true, as some sceptics argue, that private investors are willing to risk their shirts only in relatively prosperous countries already under the tutelage of the bank and fund. The example of China, which attracted more than $20bn in private inflows last year, shows that countries with low per capita incomes can attract private capital without official approval.

Yet the bank and fund are still needed. Governments must still coordinate policies, so as to avoid destabilising shifts in fiscal, monetary and exchange rate policy. And there will still be financial emergencies.

What the fund and bank can no longer deny is that the growing competence of the private sector in all aspects of development finance logically requires a tighter definition of their role. Public agencies exist to perform tasks that the private sector either cannot do at all, or cannot do well. — Financial Times.

World Bank lashes farmers

S Times (Buss) 1/5/94

By SVEN LUNSCHE

SOUTH Africa's commercial farmers have come under fire from the World Bank, which describes them as inefficient, unproductive and increasingly dependent on state support.

However, the bank warns that the solution to the agricultural crisis is a land redistribution programme driven by market factors and not administered and operated by the state.

The bank says in a discussion paper, SA agriculture: Structure, performance and options for the future, that land ownership in SA is among the most highly skewed in the world.

About 86% of farm land is held by 67 000 mostly white farmers, supporting a rural population of 5,3-million.

"Consequently, the white rural areas have a very low population density. Conversely, the level of urbanisation is relatively high at 74,5% of the total population."

The report argues that although SA achieved food self-sufficiency and acceptable incomes for white farmers, it did so by "distorting the policy environment and causing society to pay a considerable financial and social cost".

It suggests that a combination of financial assistance programmes and tax incentives is largely to blame for the fact that most farmers are price- and scale-ineffective.

Most recently, under the guise of drought relief, large amounts of farm debt were effectively written off through a R3,4-billion recapitalisation effort for grain producers.

Artificial support has helped to make SA unproductive by international standards. Between 1947 and 1991, the total factor productivity of agriculture increased by only 1,26% a year.

(356)

The report notes a deterioration in price efficiencies, the emergence of a concentrated agrarian structure and large-scale farms and a steady fall in employment on the land in the 1980s.

These trends were exacerbated in the past decade by limited market liberalisation, exposing farmers to a more market-oriented environment.

Profits declined and debt increased in many parts of the farm sector.

This suggests that many elements of the large-farm sector would not be efficient under a new policy.

It suggests that a smaller scale of operations in many sub-sectors would be "at least as sufficient as the larger-scale farms".

The report warns that the "highly inequitable" distribution of resources — most notably land — is not sustainable.

"The combination of weaknesses in the old strategy, inequities in the distribution of and access to resources, and political change means that quite apart from issues of inefficiency in the large-farm sector, the inequity of the present land distribution will necessitate a major rural restructuring, including land reform."

The bank's preferred option lists elements that have characterised successful reform:

- ☐ A market-assisted land redistribution programme.
- ☐ A public sector that help this process by ensuring adequate supplies of land on the market.
- ☐ The inclusion of a grant component in the programme.
- ☐ An anti-trust approach through more powers to the Competition Board.

The bank suggested last year that land reform could create a million rural jobs in SA within five years at a cost of about R2,5-billion.

World Bank to aid women

WASHINGTON. — The World Bank, citing alarming statistics showing 1 000 women die in childbirth each day, said it plans to push for greater investment in a holistic approach to women's health.

"Immediate priorities for the World Bank and its partners ... are to support cost-effective programmes to reduce maternal death rates immediately and drastically," the bank said in a statement to coincide with Mother's Day yesterday. — Sapa-Reuter

World Bank loan for gas project

JOHANNESBURG. — The World Bank is likely to approve a $30 million engineering credit in early June for the Pande natural gas project in Mozambique, a Bank spokesman said from Washington.

The $30 million credit negotiated between the World Bank and the Mozambiquean government is for further exploration and general preparation of the Pande project, which involves South Africa's Sasol.

(350) ARCT 6/5/94

The credit would involve the strengthening of Empressa Nacional de Hidrocarbonetos, and other costs relating to a project management team, an environmental assessment, training, arranging finance and further engineering of the development project, the Bank spokesman said.

The World Bank, the Norwegian aid agency, Norad, and the former Soviet Union have financed the bulk of the exploration undertaken by Mozambique's state oil company, which has been studying the field since 1980.

Exploratory work by to date by ENH has found there are proven gas reserves close to the level required to support a gas export project.

Proven reserves appear adequate to support projected market demand over at least 20 years and would generate revenues of $5,8 billion over this period, joint sponsor Sasol estimated.

A spokesman said: "ENH and Sasol have undertaken a range of studies on gas reserves, pipiline routes and costs and market demand.

"In-house feasability studies by each of the partners have confirmed that the project appears viable and economically attractive."

According to an agreement between the two companies, Sasol has access to Pande technical data and some priority rights to enter into an investment agreement with ENH. — Sapa.

Reforms begin to pay

S Times (Buss)

By ZILLA EFRAT

POLICY reforms have begun to yield results south of the Sahara, but they must go further to reduce poverty.

So says a World Bank report on 29 sub-Saharan countries which drew up adjustment programmes in the 1980s. They aimed to improve policies that were the primary cause of the 15% fall in Africa's gross domestic product (GDP) between 1977 and 1985.

15/5/94

Overall, countries with better macro-economic policies and limited government intervention show GDP growth.

But the report says growth rates among the better African nations are still too low to reduce poverty much in the next two or three decades.

So far, the rallies in performance have merely restored low growth rates. However, most adjustment programmes are young.

The report is the World Bank's most comprehensive effort yet to examine the relationship between economic policies and growth south of the Sahara.

It examines countries in two periods — 1981 to 1986 when most were hit by economic crisis and 1987 to 1991 when many embarked on reform.

No country has a policy which in broad terms would result in inflation under 10% a year, a low budget deficit and a competitive currency-exchange rate.

Countries showing significant improvements in policies include Ghana, Tanzania, Gambia, Burkina Faso, Nigeria and Zimbabwe.

(356)

This group also showed the strongest resurgence in GDP growth — a median increase of almost two percentage points a year. Improvements in their industrial and export growth were even higher. They also improved gross domestic savings and investment.

GDP in 11 countries fell to minus 2% a year. Among the 11 are Ivory Coast, Cameroon, Congo, Mozambique, Sierra Leone and Zambia.

Most countries have some way to go in eliminating non-tariff barriers and adopting moderate import protection.

World Bank's recipe for success

Star 15/6/94

■ BY DEREK TOMMEY

The World Bank has issued its recipe for rapid economic growth and greater social stability in South Africa.

The ingredients are greatly increased private sector investment, an export-oriented economy, a major upgrading of workforce skills, a committal to prudent fiscal and monetary policies, to stable economic and political policies and the avoidance of excessive wage increases.

In a discussion paper entitled "South Africa: Economic Performance and Policies", World Bank economists say sustained growth in SA requires an on-going improvement in the supply side of the economy.

This can be encouraged by improving export incentives and the skills of the labour force.

Reviving demand within the economy can lead only to limited growth.

However, it concedes that should private-sector investment not emerge, public expenditure could play an important but temporary role in kick-starting the economy and assisting redistribution.

But the key to successful growth remains a major revival in private investment.

If sufficient private investment is available, then sustained per-capita growth becomes a reality.

The economists say that direct foreign invstment should be encouraged and that the regulatory framework should present no obtacle to new ventures.

(356)

They add that the visible implementation of redistributive policies through greater public investment should improve social stability.

The economists stress the importance of stable and transparent government policies.

To stimulate growth, the single most important ingredient is investor confidence. And this will only materialise if policy-making is transparent and there are no sudden and unexpected policy shifts.

More skilled labour is needed to make growth sustainable and ease the upward pressure on wages as the economy moves back to full capacity.

Temptation

They also give considerable attention to the need to avoid the temptation of thinking that fast redistribution of wealth can be attained simply by large wage rises for the unskilled.

A once-and-for-all wage increase of 5 percent above the rate of inflation in 1995, followed by persistent real wage resistance, would not only slow growth, but would leave real wages at a lower level at the end of the century than in the absence of such an increase.

It adds that excessive wage increases are eventually self-defeating.

But they also emphasise that fiscal indiscipline as represented by excessive government expenditure could have even worse results — particularly if accompanied by a fall in private investment.

Growth in gross domestic product (GDP) and employment would decline and the economy would soon face mounting public and foreign debt and faster inflation.

"Although doubtless motivated by the best of intentions, such excessive expenditure would eventually work to the disadvantage of most of the population," they say.

World Bank shows the way to SA growth

ARG 15/6/94

PETER FABRICIUS
The Argus Foreign Service

WASHINGTON. — The World Bank estimates that South Africa's socio-economic backlog — estimated at about R46 billion — could be wiped out by 2001, but only if the government follows disciplined supply-side economic policies which stimulate private investment and spur high growth.

If the government does not follow the right policies, it will only be able to clear about R16,5 billion of the R46 billion backlog by 2001, the World Bank's latest economic assessment of SA — "South African Economic Performances and Policies" — forecasts.

World Bank economists are reluctant to compare their analysis with the ANC's Reconstruction and Development Programme because of uncertainites about the assumptions on which it was calculated.

But the Bank's figures seem to be more conservative than the ANC's estimate that it can wipe out a R39 billion backlog in five years.

The bank has generated its figures from an economic model which calculates the implications of different policies. It presents a low, middle-, and high-growth scenario. This shows that the most dramatic differences among the scenarios would materialise only after four years.

Under all three scenarios, the new government could spend an additional R12 billion (at 1992 prices) — wiping out about one quarter of the socio-economic backlog.

But under the best economic policies, the remaining R34 billion of the backlog could be erased between 1998 and 2001. However under the worst economic policies, only about R4,5 billion of the R34 billion would be eliminated between 1998 and 2001.

Under the best-case scenario, the foreign-financing requirements of the economy would be modest during the early years of the uplift programmes. Between 1994 and 1997 the economy would basically just need finance to cover existing debt repayment and increase the level of reserves.

These long-term financing needs would then rise as the current account moved into deficit.

But with substantial growth in the economy, long-term external financing requirements would never go much over one to two percent of the GDP in any year before 2001.

However under the worst scenarios, the external financing requirements would be "much more severe".

The report also warns against the temptation "to imagine that fast redistribution could be attained by simply encouraging large wage rises for unskilled workers".

"Excessive wage increases are eventually self-defeating," the report says, because they increase inflation and the fiscal deficit.

FOCUS

Two sides weigh up the Budget's balancing act

S Times (Buss) 19/6/94

The new government's first Budget will give taxpayers an indication of how the balancing act between social spending and fiscal restraint will be maintained, if at all, writes SVEN LUNSCHE.

MOST commentators have already labelled this week's Budget a holding operation, while the government prepares its first full reconstruction and development Budget for 1995-96.

It will be more than that — the government has sent out clear signals that it will begin to deliver on its much proclaimed socio-economic agenda.

The inevitable conflict between social and fiscal priorities has so far been deftly handled by the Cabinet, under the unmistakable guidance of Finance Minister Derek Keys.

Aware of international investor focus on the Budget he has committed the ANC to "responsible" economic policies, but also convinced his National Party colleagues to back the RDP.

The proposal of an initial R2,5-billion injection into the RDP fund in 1994-95, rising to R10-billion over five years, looks responsible and manageable.

Yet there are doubts that the ambitious aims of the RDP can be met in the long run without resort to excessive borrowing or large-scale tax increases.

Already some rifts are evident. The government was this week involved in apparently difficult negotiations with Cosatu over varying and higher VAT rates.

The list of the government's social commitments is growing by the day, ranging from feeding schemes for primary schools and the electrification of 350 000 homes to integrating numerous armies and 1 000 affirmative public service appointments.

The financial markets, as usual, are taking the cynical view. Long-term gilt rates recently broke through 14% to their highest level in over a year in expectations of rising government borrowings.

Mr Keys, his deputy Alec Erwin and (RDP) Minister Without Portfolio Jay Naidoo, have stated frequently that they view strong economic growth as the panacea to the financing of the RDP.

This is supported by the Econometrix research institute, which recently calculated that a steady 5% growth rate would add a cumulative R67-billion to state coffers over five years, sufficient to make a significant dent in — if not cover completely — the estimated costs of the RDP.

In a recent meeting with Mr Keys the SA Chamber of Business stressed this point: "Economic growth is the key variable in determining the extent to which the new government will have scope to increase spending aimed at eliminating social backlogs and simultaneously reduce the fiscal deficit to proportions that are sustainable and consistent with sound economic management."

In the current fiscal year growth is estimated at only 3% and speculation is mounting that tax increases are on the cards to meet the initial costs of the programme.

In its fiscal review, which was published in March, the Department of Finance published provisional 1994/5 expenditure, revenue and deficit figures but these have undoubtedly been revised by the new cabinet to cater for higher social spending.

These then are the expected key features of the Budget:

EXPENDITURE: The fiscal review projected spending of R125,3-billion for 1994-95. Government officials have indicated that there will not be major changes to this figure.

This is despite the inclusion of the R2,5-billion RDP fund, which they state will be financed from savings in other departments. Some economists, however, expect that total spending could rise to about R127-billion to finance overspending by the Independent Electoral Commission.

It is speculated that a recent call on all state departments to cut budgeted

In April, the first month of the fiscal year, total revenue was 35,6% up on April last year. The Department of Finance explained that this reflected the incorporation of the TBVC states as well as a VAT rate of 10% rather than 14% in April 1993, but it does give some indication that revenue income should be higher than expected.

The government will be relying heavily on indirect taxes to boost its coffers. VAT is expected to bring in R28,7-billion, 13% more than last year, although this could be changed if the tax system is adjusted.

Income from the fuel levy could also rise from the budgeted R7,8-billion if, as the Automobile Association expects, the government adds a further 7c/l to this week's 8c/l petrol price hike.

Revenue from income tax on individuals is expected to rise 13,3% to R40,4-billion, making it unlikely that the ANC will live up to its promise to equalise tax rates downward for married men and women which could cost up to R1,5-billion in lost revenue.

Income tax on non-mining companies is also set to boost revenue substantially, by 7,8% to R12,25-billion.

DEFICIT: If, as projected by Finance, spending totals R125,3-billion and revenue R99-billion this year, the projected 1994/5 deficit before borrowing will equal 6,4% of GDP.

This is slightly below last year's 6,8% but no consolation to economists worried about runaway government debt.

not want to risk a confrontation with Cosatu it would have to raise VAT on "luxury goods" in order to recoup the R2-billion it could lose by extending zero-rating to basic items.

OTHER TAXES: Speculation is mounting that the government plans to introduce a capital transfer tax to replace the 15% rate on both donations tax and

WALKING A TIGHTROPE . . . Finance Minister Derek Keys, who keeps a steady hand on the purse strings

World Bank figures out SA's backlog

S Times (Buss) 19/6/94

By KEVIN DAVIE

A QUARTER of SA's total social backlog can be addressed during the first four years of the new government, says a World Bank study.

SA: Economic Performance and Policies says that over the years 1998 to 2001, the remainder of the backlog can be addressed under a best-case scenario.

"However, if the macro-economic situation is less favourable and closer to that of the lower-case scenario, then the room for manoeuvre is obviously more restricted and only about 13% of the backlog could be cleared.

"The lower scenario would imply that less than 40% of the estimated backlog (R46-billion) of capital expenditures would be addressed in the first eight years of the new administration." (356)

With a private investment revival and the successful implementation of supply-enhancing policies, redistributive public investments could amount to about R14,9-billion a year at 1992 prices between 1994 and 2005.

"This is equivalent to an annual average of about 3,2% of GDP."

The bank's projections are based on a macro-economic model which it has developed for SA. The model uses 45 econometric equations.

If high levels of private investment re-emerge and supply-enhancing policies such as faster skills accumulation and export promotion are put in place, there are feasible growth pat[hs] for SA which are high [by] past standards (above 5% [a] year), sustainable (low infla]tion, stable fiscal accou[nts,] low and stable debt-to-GDP ratios) and redistributive.

The alternative is that [the] economy continues do[wn a] recessionary path.

"In such a case, attem[pts] to introduce redistribu[tive] public investments [would] quickly run into fisc[al] and/or balance of payment crises."

It warns that excessi[ve] wage increases will eve[nt]ually be self-defeating, stimulating inflation and rai[sing] the fiscal deficit by incre[as]ing the cost of employing government workers.

The bank says SA's ave[r]age import duty is not hi[gh] by developing country sta[n]dards. It says a lower ave[r]age rate would make indu[s]try more international[ly] competitive, but the prese[nt] high unemployment [and] stagnating economy ma[ke] such a course undesira[ble].

SA's most urgent task [is] to address the anti-ex[port] bias inherent in its polici[es]. "Two-thirds of the disad[]vantage that SA exporter[s] suffer relative to foreig[n] competiton stem from th[e] higher prices for manufac[]tured inputs."

Direct foreign invest[]ment should be encourage[d] and the regulatory frame[]work should present no ob[]stacles to new ventures.

wm 24-30/6/94 (351)

World Bank attacks wastage

Developing countries could save $50bn if they maintained their infrastructure. Will Hutton and James Nicholson report

THE developing countries could save at least a quarter of the $195-billion they spend every year on public infrastructure by introducing market-based efficiency savings to transform their economic and social prospects, the World Bank said at the weekend.

Infrastructure spending, the Bank reported, "is no longer the grey backdrop of economic life but the front and centre of development", with growing evidence it has strong links to growth, poverty reduction and environmental sustainability.

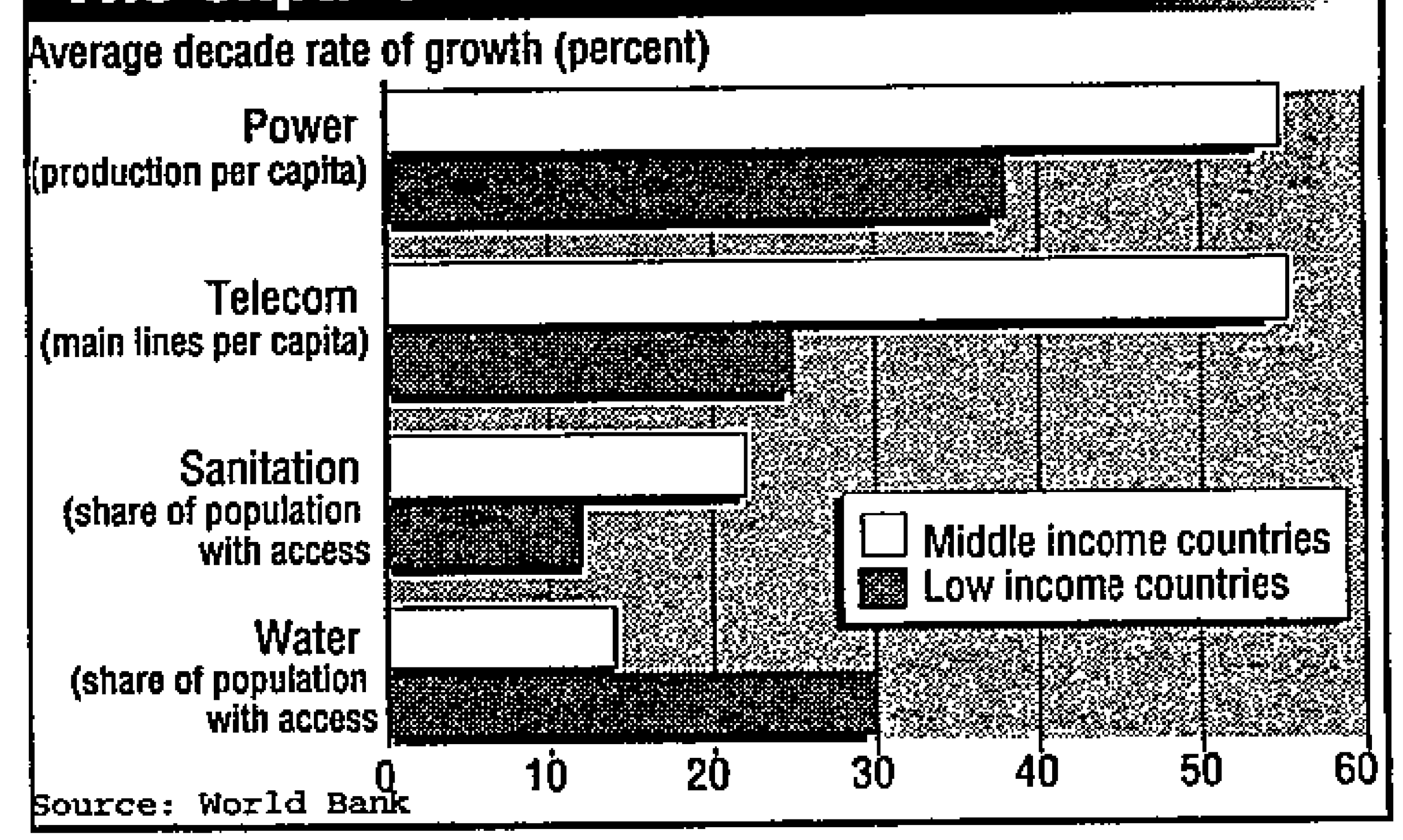
Spending on public infrastructure has grown rapidly over the past 15 years, particularly in the provision of power and telephones, but the Bank is concerned that much of the spending is wasted through inadequate maintenance, bad management, overstaffing and investing in the wrong projects. It insists concern needs to broaden from the quantity of infrastructure stocks to improving the quality of infrastructure services.

Developing countries could save $54-billion a year — more than they receive in official development aid — by improving the efficiency of power, water, telephone and other infrastructure networks. They could save another $123-billion a year, or 10 percent of their annual revenues, by eliminating underpricing of infrastructure services such as railways and electricity.

African countries could have saved road reconstruction costs of $45-billion over the past 10 years if they had spent $12-billion on maintenance. The Bank also notes the scale of achievement. In the past 15 years, the share of households with access to clean water has increased by half, and power production and telephone lines per capita have doubled. It also acknowledges the rates of return on infrastructure spending can extend up to 60 percent and are much higher than on other forms of capital investment — although it is unclear why.

Yet, despite improved spending in the developing world, efficiency is poor and deteriorating, often with the poorest suffering most. A review of power networks in 51 developing countries showed technical efficiency has fallen over the past 20 years, while governments in low-income countries often invest in high-profile ports or irrigation systems before much of the population has access to transport, clean water and sewage disposal.

The expansion of infrastructure



Source: World Bank

Governments must release their grip on public-sector monopolies, which, in most cases, control infrastructure systems, the report adds.

One proposal is to introduce commercial operating practices into the running of projects, using explicit performance objectives, well-defined budgets and more managerial autonomy.

At the same time governments must refrain from haphazardly interfering in the infrastructure organisations.

Another is to introduce competition, auctioning the right to run projects, allowing firms to compete for customers, and breaking down monolithic utilities into self-contained units.

A third would be to involve the eventual customers in designing and operating projects. The Bank says this helps make suppliers more accountable to their customers.

Development aid agencies reacted critically to the report. Paul Spray, head of policy at Christian Aid, said it was a missed opportunity. The report contains no analysis of how tackling poverty and improving infrastructure are related, he said. It "fails even to specify the proportion of Bank infrastructure lending that goes on essential maintenance".

● Japan is to increase its 10-year infrastructure spending programme by more than $150-billion.

'Don't blame us if you don't get it right'

WM 1-7/7/94

Duma Gqubule speaks to the World Bank's new representative in South Africa, Isaac Sam

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ISAAC SAM, the World Bank's new chief in South Africa, believes any country can can be a winner, provided it embraces sound economic policies. But he cannot understand why African countries are so fond of finding someone else to blame when things go wrong.

In the World Bank's new Hyde Park headquarters, there are a handful of assistants, about a dozen empty offices and even more computers. Tastefully furnished, the place could be mistaken for the offices of a small accounting firm. There is no suggestion whatsoever that these are the headquarters of an organisation, which together with the International Monetary Fund, has so much influence in world economics.

The organisation whose restructuring of Russia's economy made many of that country's citizens wish for the old days of communism. The organisation whose economic reforms resulted in a week of rioting and deaths in Zambia.

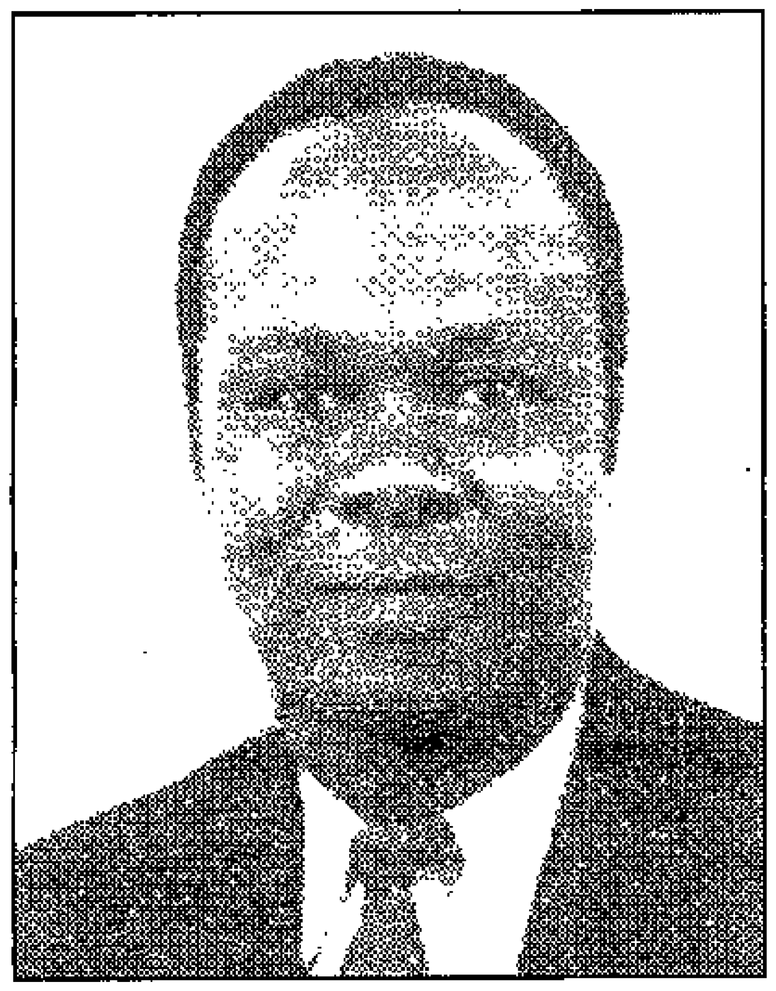
Sam explains the World Bank will not be recruiting lots of South Africans because there is not much to do yet. The World Bank has not been asked to participate in any local development projects.

When it is asked to do so and becomes more involved, South Africans might be needed to monitor projects.

The tall, slim and immaculately-dressed Ghanaian says: "Look at me. How can I alone be more powerful than the government and president of your country? How can I be responsible for the success or failure of your country? It's so absurd."

He continues: "We Africans are so fond of pointing fingers, blaming others when things go wrong. One minute it is the World Bank the other it is neo-colonialism. How come it is only in Africa where people think the World Bank is a terrible organisation? We have succeeded in Chile, Mexico and Ghana, my country of birth. The bank is not the devil it is made out to be."

Sam says the reason the bank has so many problems in Africa is because countries do not stick to their commitments. "You can't say you will build so many schools and commit so much money and then unilaterally decide not do so. We don't mind if countries come to us early and say they are having problems with this or that, but many do not."



ABOVE: Isaac Sam backs tax incentives

RIGHT: Small contribution ... The World Bank lent about $110m for the Lesotho Highland Water Project

On the riots in Zambia and the restructuring of Russia, Sam counters by saying that there is always a cost when a country goes through a structural adjustment programme. But the World Bank is not to blame. "Many countries countries only come to us when they are in a hopeless situation. It's like a sick person who, instead of going to the doctor waits until the disease spreads to the whole of his body. The doctor may then order shock therapy to keep the patient alive. But the disease may have spread so much that the treatment is not successful. Do you blame the doctor?"

As an example he says the World Bank has been lambasted for forcing countries to devalue their currencies by up to 500 percent. This therapy boosts exports but has the side effects of countries having to slash vital imports and endure soaring prices of many basic goods like fuel.

Sam explains: "Major currencies like the yen, the dollar and the Deutschemark are shifting against each other on international currency markets every day. Many weak African countries have, in the past, chosen to fix their exchange rates which results in distortions which accumulate over time. When it is time to behave like everyone else they can either take the bitter medicine all at once or in stages."

Does this mean that South Africa's currency also needs to be devalued? The ever-diplomatic Sam does not commit himself one way or the other, but says: "South Africa is a manufacturing country which has now been integrated to the rest of the world. The country will need to export, to earn foreign exchange and create jobs, like the Japanese and Koreans did. In export markets, you will have to compete not only on price and quality. Quite often the management of a currency is a major component of an export strategy." That sounds like yes.

The tough-talking Sam, after working for the World Bank for two decades in places like Brazil, China, Indonesia, Kenya, Mali, Mexico and Southern Africa, says the secret to economic success is quite simple.

A nation's biggest asset is its people. The job of any government is to create the environment for its peoples' energies to be unleashed so that they can take care of themselves.

Governments must do what they can do best, that is investing in infrastructure and human capital — roads, water, sewerage, health care and education — and refrain from putting obstacles in the way of private entrepreneurs wanting to do better for themselves.

Since arriving in South Africa, he has been amazed at the entrepreneurial spirit that has been unleashed in ordinary South Africans, especially in the past three or four years.

"I have seen so many people wanting to do better for themselves, to have good clothes, a nice house and so on. That is what makes a country tick. This country has been blessed with an abundance of natural resources. They mean nothing unless the collective potential of everyone is unleashed and directed towards growing the economy."

But surely South Africa's unique situation requires that special measures be taken to redress the effects of decades of deliberate disempowerment of the black population?

"Yes, the government must remove obstacles in the way of black people achieving their full potential. It is economic madness not to have the whole population contributing to the country's growth as was the case under apartheid.

"You must invest heavily in upgrading the skills of your labour force so that it can make an even greater contribution to national output. You must not shy away from land reform. Be wary of those who shout the loudest against the such reforms, they are usually gaining from the status quo. It is ridiculous to say the small-scale farming doesn't pay. What do you expect if you give people terrible land in Gazankulu?"

Pressed further on whether the Bank would support other direct interventions to correct imbalances of the past — like affirmative action quotas and legislation and subsidies for emerging businessmen and homeowners — Sam says: "Governments have to intervene in the economy in certain situations. I know that governments do not create jobs, but in your case it would be silly not to have public works programmes, as long as it is not forever. As for legislation, I think it would scare people away. I prefer tax incentives. Imagine how many engineers the country would produce if the five major mining houses pooled their resources to contribute one percent of their profits into a scholarship fund. What is needed is the commitment."

Turning to the World Bank's likely role in South Africa now that it is ready to resume loans after discontinuing them in 1966, Sam does not commit himself to saying how much the country can expect in development loans.

'We do not put a limit on how much a country can borrow, except in the cases of countries like China which have huge appetites for our funds. The Bank will look at the size of a country and its per capita income. Our allocations are based on needs and performance. The more you perform the more you get."

The Bank will usually only finance a small proportion of a project's required funds. In the case of the Lesotho Highlands Development Water Project, which Sam has been involved with since 1987, the bank only contributed $110-million out of a total cost of about $2,4-billion. The balance was forked out by other international donor agencies.

"If we have commited ourselves to a project and given it the green light it becomes easy to attract other donor agencies," he says.

In deciding on which projects to support, the requirement is that it contributes significantly towards enhancing a country's growth potential. An example is South Africa which received 11 loans between 1949 and 1966. Most of the money helped build the country's national highway system, improve Eskom's power generating capacity and upgrade ports and other infrastructure.

The World Bank also has huge technical expertise and research teams which can help South Africa make decisions about future economic policies.

"For South Africa to succeed, it will have to examine its own ideas about economic policy against what has worked and what hasn't in the rest of the world. That is where we can help," Sam says.

World Bank slates town-twinning idea

BDay. 14/7/94

SAMANTHA SHARPE

THE concept of a "twinning" programme aimed at merging white local authorities and adjacent townships to reorganise local government has been condemned by the World Bank. (356)

The bank's latest report on reducing poverty in SA said the "twinning" of Sandton, Randburg and Alexandria, which has a deficit of R12m, would require a 9% increase in property taxes in Randburg and Sandton to cover the Alexandria shortfall.

But the "twinning" of Johannesburg, Diepkloof and Soweto — Diepkloof and Soweto's local authorities are burdened with a deficit of R200m — would result in an increase of about 40% in Johannnesburg property taxes.

This would encourage the pattern of "space distortion" inherited from the apartheid era, the report said.

Firms and households in high tax areas would relocate to avoid a heavier tax burden, with different households getting varied levels of service depending on where they lived.

"Ultimately a twinning programme would result in the loss of economic base for Johannesburg (for example) and a further deterioration of the level of services provided in the lower-income areas."

The report called for a metropolitan boundary which incorporated the entire central Witwatersrand region.

The metropolitan system would more than likely create a local government system accountable to constituencies and independent of the uncertainties of central financing.

It would also have a better chance of financing the backlog in urban infrastructure and services in a way that ensured disciplined government spending.

Urban centres were the economic core of the country, and enhancing their functioning was vital to national growth and improving access to basic services for the poor, the report said.

Central Witwatersrand Regional Services Council chairman Len de Wet said recently that a transitional metropolitan council would be created soon to take over the functions and powers of the Johannesburg and neighbouring city councils and the regional services council.

Dispute threatens services in Tembisa

BONILE NGQIYAZA

MORE than 300 Tembisa City Council workers were dismissed last month after an unresolved dispute that is threatening services in the area.

Tembisa administrator Han Eybers said the dispute started with alleged illegal actions by the labour force, including taking a council official hostage.

The council has enlisted the assistance of private contractors and remaining staff members in an attempt to render essential services. BDay

The council alleges the dismissed employees were involved in disruption and intimidation. 14/7/94

Eybers said a subcontractor was prevented from digging graves. Electricity staff, and the ambulance and fire brigade were also prevented from performing their duties.

Eybers said the council was granted a Supreme Court interdict two weeks ago to prevent the dismissed workers from occupying council property.

He said an Industrial Court hearing on the matter had been set for today.

The Health, Municipal and Allied Workers' Federation could not be reached for comment.

140 ballot boxes disputed

BDay 14/7/94

TIM COHEN

CAPE TOWN — A total of 140 ballot boxes with 185 115 ballot papers were disputed in the KwaZulu/Natal election, constituting about 4,1% of the province's voters, the SA Institute of Race Relations has reported.

The institute said most of the disputed ballots were marked in favour of the Inkatha Freedom Party. In all other areas, the number of disputed ballots was negligible, the institute said.

The Independent Electoral Commission (IEC) had reported widespread irregularities and incidents of coercion in KwaZulu/Natal, including the stuffing of ballot boxes, voting by children, the operation of illegal voting stations and the removal of IEC officials from some polling stations.

Because of the coercion, about 20% fewer monitors were deployed in KwaZulu/Natal than had been planned.

Assessing the election, the institute said one of its vice-presidents, Lawrie Schlemmer, had described SA's present political situation as one of "pre-democracy".

In such a situation, ethnically based political groupings had opted for a unity government rather than a normal government-versus-opposition arrangement.

He said the ANC had been supported by only 3% of whites while only 2% of blacks had supported the NP or the DP.

Government by "grand ethnic coalition" would lead to a "corporatist state", he said.

While providing the country with stability, such a system would also cater for the interests of central and provincial government, most labour, most agriculture, most business and most traditional sectors.

But SA could pay dearly for this in the long term through the possible exclusion of the concerns of consumers and investors.

Opposition to government and innovative policy proposals would have to be provided by groupings outside Parliament, particularly through the work of non-governmental organisations, Schlemmer said.

UN study knocks World Bank, IMF

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CT 15/7/94

UNITED NATIONS. — A major new study of the United Nations says the World Bank and the International Monetary Fund (IMF) should attack the world's economic inequalities rather than overestimate their value to poor nations.

"The World Bank, has, of course, done useful work but the realities do not really match the mystique," said the report, financed by the Ford Foundation.

Entitled "Renewing the United Nations system," the study was written by Erskine Childers and Sir Brian Urquhart, former senior UN officials and authors of several authoritative books on the UN.

Their book recommends radical reforms of other UN structures, including grouping all of its specialised agencies in one location instead of scattering them around the world.

Among their recommendations are:

- Secretary-general Boutros Boutros-Ghali should organise world experts to make proposals on the World Bank and IMF when heads of state gather for the UN 50th anniversary next year.
- The UN should consider setting up its own non-commerical bank to complement the commercial lending to developing states by the World Bank.
- The General Agreement on Tariffs and Trade (GATT), which they say denies too many states a fair share of world trade, should be replaced by a genuine international trade organisation to include all countries.

At minimum, the authors contend the IMF should live up to claims of devising macro-economic or big-picture strategies.

"While the UN has been denied its role as a forum for agreeing equitable macro-economic strategies, such strategies have not been formulated at the IMF either," they say. "For most developing countries the experience has been disastrous."

In 1990 there was a global surplus of \$180bn while indebtedness from developing countries was eight times higher. But there was no real remedial effort by the IMF, they said.

Most of the surplus went to private capital markets in rich countries while the World Bank was taking in \$1,7bn in interest and principal payments from poor states.

As for the IMF, its structural adjustment policies have actually "undone painstaking" work by the UN system in public health and education, the authors said.

"In fact, all the original intentions of the IMF in assisting member UN countries have long disappeared." — Reuter

The future according to the World Bank

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WM 7/7/94

Simon Segal reports on the World Bank's latest foray into the economic policy debate

NEITHER growth through business-as-usal policies nor growth spurred by a government spending spree and big wage increases will work for South Africa, believe World Bank economists.

In the World Bank's seventh discussion paper on South Africa, authors Peter Fallon and Luiz A Pereira de Silva look at how this country can move on to a much faster growth path in which the poorer majority gain the most.

"Growth without redistribution," as most local economists would now agree, "is almost certainly unsustainable, as it would falter as social tensions rose." The two prime requirements for redistributive growth are fast employment creation and narrowing the racial gap in public service provision.

Finding South Africa's real gross domestic product to be nine percentage points below its potential in 1993, the 389-page report concludes South Africa needs a policy mix of Keynesian and monetarist policies.

Their suggested strategy is broken into five major components: skill accumulation, productivity growth through exports, job creation, reviving government investment in infrastructure and public services that target the poor and prudent fiscal and monetary policies.

To succeed this strategy must:

●Encourage the supply side of the economy by improving export incentives and labour skills. Importantly, it notes "kick-starting the economy through public expenditure could play an importan role: well-targeted public investment will help redistribution while assisting economic recovery".

●Raise private investment by transparent, credible and stable policies. As the country battles to contain its deficit before borrowing to under seven percent of GDP the Bank warns "excessive fiscal deficits are likely to send the wrong signals".

●Redistribute through diverting public expenditure, upgrading skills, a modest programme of rural resettlement and developing small enterprises. The report is optimistic that "a significant proportion of the backlog in social expenditures can be cleared in a few years without breaking important macro-economic constraints". It estimates that "feasible growth in government investment could result in impressive redistribution if real recurrent expenditure growth is held around 2 percent annually". Redistributive public investment can come to some R14,9-billion/year over 1994-2005 (at 1992 prices), equivalent to 3,2 percent of GDP.

●For Cosatu its message is clear that "redistribution through immediate pay increases to lower-paid workers and excessive public expenditure is unsustainable". Increased inflation and pressure on the balance of payments could result.

Using a complex model the report outlines three scenarios. Under all three scenarios an extra R12-billion (1992 prices) can be spent during the first four years. The social investment backlog is accepted to be R46-billion. "If this estimate is correct then about a quarter of the total backlog can be addressed during the first four years of the new government." Under the best-case scenario the remainder of the backlog can be cleared over 1998-2001. If the low-case scenario materialises only 13 percent of the remaining backlog can be cleared.

World Bank re-defining its mission

Star

Washington — After 50 years and $300 billion in loans, the World Bank president would like to hand out less money and be more selective about where it goes.

Lewis Preston said yesterday there would be enormous change at the world's biggest lender. 20/9/94

Preston said the bank was lending more money for environmental projects and basic health and social programmes.

Its main concern was the world's 1 billion people who had less than a dollar a day.

The bank was born out of a conference at Bretton Woods, New Hampshire, in July 1944. Its mandate was to help reconstruct and develop the economies of member nations.

Critics were already lining up to attack Preston's view of the world.

"Preston has prescribed for the bank an expanded role as global development strategist. But any objective look at the havoc his institution has wrought would lead one to conclude that its operations and power must be significantly cut back," said Doug Hellinger of the Fifty Years is Enough Campaign.

The campaign accused the bank of allowing its projects to destroy the environment, while "shoving aside the poor".

Preston, who spent 40 years with one of the world's top private banks, JP Morgan, before becoming World Bank president in 1991, said some critics were talking ancient history.

He defended the bank against critics who said its 11 000-member staff was overweight with economists and light on environmentalists and social scientists. — Sapa-AP.

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World Bank to be more selective

B Day

WASHINGTON — After 50 years and $300bn in loans, World Bank president Lewis Preston would like to hand out less money and be more selective about where it goes.

He said there would be "enormous change" at the world's biggest lender.

Before yesterday's release of a special 50th anniversary World Bank report, Preston also said the bank was lending more money for environmental projects, basic health and social programmes.

He said the bank's main concern was the world's 1-billion people who lived on less than a dollar a day.

"We have to anticipate enormous change in some of the bank's activities," Preston said.

The bank's mandate is to help reconstruct and develop the economies of member nations.

Preston said in the future, the bank would be more inclined to get into partnerships with other lenders and non-government organisations.

Despite his vision of leaner lending and more carefully crafted policies, however, the bank expected to make available another $200bn over the next decade.

(356)

Critics were already lining up to attack the report and Preston's view of the world.

20/7/94

"Preston has proscribed for the bank an expanded role as global development strategist.

"But any objective look at the havoc that his institution has wrought would lead one to conclude that its operations and power must be significantly cut back," said Doug Hellinger of the Fifty Years is Enough Campaign.

The campaign accuses the bank of allowing its projects to destroy the environment while "shoving aside the poor (and destitute)".

Preston has reacted saying some critics are talking ancient history.

He said the bank's role would shift from a financial one to an advisory one in the booming Latin American and East Asian regions. "The last thing the bank ought to be doing is crowding out the private sector."

But in south Asia and Africa, "it's likely that the need for our financial contribution is going to increase".

In Eastern European and other economies that are in transition from communism to capitalism, the bank would take an advisory and financial role, with its lending programme serving as a catalyst for private investment, he said. — Sapa-AP.

No 'cheap' loans from World Bank

CT 23/7/94 (356)

By ARI JACOBSON and KATHARINE BUTT

POTENTIAL World Bank loans to South Africa will not come cheap.

Economists warned yesterday that the going rate, depending on the hard currency used, failed to take into account the depreciation of the rand.

Their concerns follow an address at an international conference in Johannesburg in which the World Bank's top envoy to the country, Isaac Sam, outlined current interest rates attached to World Bank loans.

"At this moment, for anyone borrowing, the US dollar interest cost is 3,75% and for the Japanese yen it is about 2,75%".

"So in SA if you borrow today, to obtain the money ... we are talking about a repayment period of 15 to 17 years and an interest cost of about 3,75% or 2,75% depending on the currency you choose," he said.

However Old Mutual chief economist Dave Mohr pointed out yesterday that while this borrowing rate from the World Bank "seemed to be subsidised" the depreciation of the rand over the period stipulated, against hard currencies such as the yen and the dollar, could ultimately be equivalent or even higher than the domestic borrowing rate (14,25%).

Sam continued: "These interest charges assume the country's central bank has the capability to manage the foreign exchange risk and the SA Reserve Bank one can expect has the capability to manage that foreign exchange risk."

SA, freed last year from major remaining sanctions, has not borrowed from the World Bank since 1966.

World Bank loans to SA were stopped in 1966, "because we believed its policies did not help reduce poverty", Sam said.

The government has given no indication as to when it might wish to apply for new funding from the bank. The World Bank does not offer loans as such — it is up to the government in question to apply.

A year ago, a World Bank official said the bank had by then identified projects worth $1bn in SA which it could assist to redress imbalances in areas such as housing, education and water supply.

Sam acknowledged that the bank's record in Africa had not been very good, but hoped it would prove successful with SA.

"In Africa our track record has not been very good, but ... the principles that we use in Africa are the same everywhere."

He ascribed the poor performance to the failure of African governments to take responsiblity for their economies.

The bank had been analysing policy in SA since 1990 in preparation for a resumption of aid.

Sam said the the organisation was focusing its research on five key areas which required reform to improve South Africa's competitiveness.

These were trade and industry, land, education, urban services and small- to medium-scale enterprises.

World Bank looking at $1-bn in aid

Star 25/7/94

World Bank envoy, Isaac Sam, says the cost of any loan the bank might extend to SA would depend on the currency denomination.

He told a business gathering at the weekend: "At this moment the dollar interest cost for anyone borrowing is 3,75 percent. For the Japanese yen it is about 2,75.

"So in South Africa when you borrow today, to obtain the money, we are talking about a repayment period of 15 to 17 years and an interest cost of about 3,75 or 2,75, depending on the currency you choose.".

These interest charges assumed the central bank had the capability to manage the foreign exchange risk.

"With the Reserve Bank, one can expect it has the capability to manage that foreign exchange risk."

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(356)

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He ascribed the poor performance to the failure of African governments to take responsibility for their economies.

World Bank loans to South Africa were stopped in 1966, "because we believed its policies did not help reduce poverty", Sam said.

But the Bank had been analysing policy since 1990 in preparation for a resumption of aid after the end to apartheid. — Reuter.

Report urges sweeping reforms

World Bank indicts high pay demands

BIDay 25/7/94

WASHINGTON — High wage demands by organised labour have cost South Africans hundreds of thousands of jobs and have been a factor in the chronic tendency of SA business to invest in machines rather than workers, says a new World Bank report.

The report, Reducing Poverty in SA, calls for sweeping reforms of the country's labour, capital and land markets to promote employment.

Such reforms, combined with private-sector-led growth of 4,6% a year, could mean an increase of 7-million jobs over the next decade, the study says.

A further 1,9-million jobs could be created in agriculture and related activities — more than doubling current levels — if 30% of commercial farm land was redistributed under the right conditions.

A five-year rural restructuring programme would cost government R17bn, the study estimates. A 10% redistribution could be achieved for R6bn.

Union agitation pushed wages 15% higher than they would otherwise have been through the 1980s, reducing potential formal sector black employment — now standing at around 5-million — by 200 000 to 400 000 jobs, the report says.

Unless industrial relations improve and unions agree to forgo pay increases in return for training and other social benefits, "an employment-oriented industrial strategy is a non-starter".

If job creation is SA's top priority, continued enthusiasm for metals beneficiation megaprojects such as Alusaf and Highveld Steel is misplaced.

SIMON BARBER

In the past, the cost of capital for investment in labour-intensive industries such as textiles was effectively three times higher than for the capital intensive base metal sector. Although these biases have changed, "the proclivity to provide special benefits to big investment which do little to create employment has persisted".

The report does not accept the argument that capital intensive investments in steel and chemicals bring employment gains in downstream industries. (356)

Over the medium term, investment in labour-intensive light industries such as clothing are said to yield directly and indirectly three to five times as many jobs as Highveld-type projects. A simulation conducted for the study showed a R50m investment in clothing manufacture creating 25 000 to 40 000 jobs across the economy, but only 10 000 in chemicals.

However, the price of SA labour — 10 times that of Indonesia and Bangladesh — meant it would be folly for SA to try to compete internationally by producing "low-end" products.

Nor would it make sense to expand such light industries to meet domestic demand from poor consumers. "Such a strategy not only would lead directly to the trap of high protection and an inefficient private sector, it could also more than double the prices to the poor."

Instead, given the prevailing wage structure, SA should focus on manufacturing for niche export markets. Products

□ To Page 2

Jobs

BIDay 25/7/94 □ From Page 1

could include high quality textiles, garments, shoes and furniture as well as high value metal and plastic products.

Essential for success would be high product quality, reliability in meeting delivery schedules and quick turnaround, which in turn meant ensuring no return to "conflict-ridden industrial relations".

Continuing trade policy reform will also be needed, especially the removal of tariff protections. (356)

Government must improve access to finance and technical support by emerging exporters and "modernise and expand duty-free access to inputs used in items manufactured for export".

No industrial strategy will succeed without growth, which in turn can only be achieved through a healthy resumption of private investment. Based on the country's historical performance, the study stresses that the SA economy cannot be kick-started by public investment.

If non-housing private investment remains below 13% of GDP, growth will stick around 1,3%, the research finds.

Strikes hit exports – World Bank

Star 29/7/94

■ BY PETER FABRICIUS
STAR BUREAU

The World Bank has warned that conflict-ridden industrial relations could harm the very types of exports which South Africa most needs to penetrate international markets.

And expanding exports is essential to create growth and jobs, the bank says in a report, "Reducing Poverty in SA".

It says that because of its relatively high labour wages, South African products are "entirely uncompetitive internationally" in "low-end" products such as clothing for poor consumers.

But a sustainable expansion of labour-intensive, light manufacturing of quality products is possible with the present wage structure.

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South Africa's best chance for export success lies with high-quality niche products such as textiles, garments, shoes, furniture and high-value fabricated metal and plastic products.

The essential ingredients for success in these markets include high product quality, reliability in meeting delivery schedules and quick turnaround.

"But if conflict-ridden industrial relations emerge, SA firms will be vulnerable to work stoppages and a consequent inability to meet commitments on time, undercutting their ability to penetrate export markets."

The report was written before the current rash of strikes. At another point in the report, the World Bank says there is reason to hope that South Africa's political transformation will reduce the intensity of conflict between labour and capital.

World Bank warns against high cost

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PETER FABRICIUS
Weekend Argus Foreign Service

WASHINGTON. — The World Bank has warned that South Africa's conflict-ridden industrial relations could harm the very types of exports which would enable the country to penetrate the international market.

And expanding exports are essential in creating growth and jobs, the bank says in a report, "Reducing Poverty in South Africa."

It says that because of its relatively high labour costs, South African products are "entirely uncompetitive internationally" in "low-end" products such as clothing for poor consumers.

But a sustainable expansion of labour-intensive, light-manufacturing of quality products is possible within the present wage structure.

South Africa's best chance for export success lies with high-quality niche products such as textiles, garments, shoes, furniture and high-value fabricated metal and plastic products.

The essential ingredients for success in these markets include high product-quality, reliability in meeting delivery schedules and quick turnaround. "But, if conflict-ridden industrial relations emerge, South African firms will be vulnerable to work stopages and a consequent inability to meet commitments on time — undercutting their ability to penetrate export markets.

"Moving towards 'win-win' industrial relations is a necessary condition for moving to an efficient and labour-demanding growth-path."

The report was written before the present rash of strikes.

At another point in the report the World Bank says there is reason to hope that South Africa's political transformation will reduce the intensity of conflict between labour and capital.

"Without better industrial relations, an employment-oriented industrial strategy is certain to be a non-starter."

The World Bank study has estimated that increased union activity raised blacks' real wages in the formal sector by 15 percent above what they would have been from 1979 to 1990.

"The evidence is clear that higher wages have led to lower demand for labour..."

Without the 15 percent increase, blacks would have had between 200 000 and 400 000 more jobs in the formal sector.

Problems in the labour market have both slowed down the rate of overall growth and helped to skew growth in a capital-intensive direction. The bank is also critical of government policy continuing to favour capital-intensive industry.

It says that until the late 80s, South Africa's financial markets and tax code were geared to reduce the cost of capital to firms.

Real interest rates were kept negative and tax breaks made the effective tax rate substantially lower for capital and investment-intensive activities. This system worked against job creation, providing incentives for firms to replace workers with machines.

Many of the biases in favour of capital-intensive activities have been removed and real interest rates have been positive since 1984.

But, the tendency to give special benefits to big investments — which did little to create jobs — has persisted into the 90s.

"New invesments in an aluminium smelter and a stainless steel plant were given special tax breaks, injections of equity finance by parastatal organisations and preferentially-priced inputs."

Subsidies for these investments were "at the direct expense of resources which could otherwise have been used to move the economy onto a more equitable growth path."

A bank study found that light, labour-intensive industries such as metal products or garments, created three to five times more jobs than heavy, capital-intensive industries.

of SA labour

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World Bank remedy for SA's debt ills

ST Times (Buss)

By SVEN LUNSCHE

THE government will need to borrow upwards of R175-billion over the next four years to meet debt commitments and fund social upliftment, says the World Bank. 3/7/94

In a report, "Developing a domestic funding strategy for SA's public sector", the Bank says SA can meet this target only if the capital market undergoes a major restructuring.

Recommendations include lowering tax on interest, lifting foreign exchange controls and centralising state funding operations.

Using alternative growth scenarios, the Bank estimates borrowings to total between R44-billion and R48-billion during 1994 to 1997, equivalent to 7,4% to 7,6% of GDP. (356)

In the current 1994/5 fiscal year the government has budgeted for borrowings of R36-billion.

Underlying the restructuring of the capital market is the need to maintain positive real interest rates and fiscal discipline, enforced by setting a ceiling on public sector borrowings, the Bank warns.

"Given the fragility of investor confidence it is essential that the public sector borrow only as much as it can afford, while every effort should be made to restrain the natural tendency of local authorities to succumb to financial indiscipline," the Bank says.

For this reason it proposes establishing "a centrally funded pass-through borrowing facility" and the allocation of "sub-national borrowing authority to lower tiers of government in capped amounts pro-rated by population".

The capital market's illiquidity is identified as another constraint to its efficient functioning. In order to boost diversity and liquidity, the Bank proposes reducing the tax burden on gilts by lowering tax on interest income at the expense of equity investments.

The Bank, however, opposes the reintroduction of prescribed investments "which in many countries have led to negative growth and hyperinflation".

While admitting that dropping exchange controls at present "may be excessively risky", lifting regulations had in other countries "successfully mitigated, if not fully satisfied huge public sector funding needs".

ANC to call on World Bank for Mossgas study

BiDay 9/8/94

EDWARD WEST

CAPE TOWN — The ANC planned to commission two independent studies — one by the World Bank — on synthetic fuel producer Mossgas, the party's mineral and energy policy co-ordinator Paul Jourdan said yesterday.

It was no use "crying over spilt milk", he said, referring to the estimated R9,8bn spent on the parastatal. As scrap, it would net barely R150m.

However, the project's viability, gas reserves and possible expansion continued to be questioned.

Discussions were being held with a view to commissioning a World Bank study. A further investigation by another independent body was envisaged.

The operation produced 8%-10% of SA's fuel requirements, which, in terms of future balance of payments constraints the reconstruction and development programme would impose, amounted to substantial foreign exchange savings, he said.

Mossgas produced 1,34-billion litres of fuel in its first financial year to March and an operating surplus of R52,8m, excluding from the calculation the synthetic fuel levy or tariff protection payments. The project netted forex savings of about R500m.

Industrial protection mechanisms granted to Mossgas and Sasol were being discussed by the National Economic Forum's liquid fuels task force, which was expected to make recommendations by the end of the year. (55/356)

SA Chamber of Business representative on the forum, Ben van Rensburg, said any expansion — such as the plan mooted to convert capacity to crude oil refining — had to be based on private sector principles. The fact SA had sufficient crude oil refining capacity would have to be considered, as would the cost in the context of SA's other financial needs.

DP spokesman Roger Hulley described as "outrageous" the plan to convert some of Mossgas's capacity to crude oil refining capacity, given private sector investment in refineries. He suggested instead that the operation be auctioned off.

Rand Water in World Bank talks

B/Day 10/8/94

GRETA STEYN

RAND Water has held exploratory talks with the World Bank on raising finance for part of a R3bn investment plan to provide water to the PWV region.

Rand Water CE Vincent Bath confirmed the funding requirements of the plan had been discussed with the bank, but added that discussions were in their early stages.

A World Bank loan would have to be approved by government, sources said. ANC leaders have opposed using bank finance for projects that do not generate foreign exchange earnings to pay off the loans.

Other foreign lenders have also been in talks with SA water authorities about providing finance for water provision, estimated to require billions of rands of investment to meet targets set in the reconstruction and development programme.

But Bath said finance could be raised on the domestic capital market, as Rand Water had done in the past.

He said Rand Water had been asked to project the additional water supply requirements for the PWV over a 15-year horizon.

The key to meeting these requirements was the Lesotho Highlands water project, which would come on stream in 1997. Through adequate investment in infrastructure within the limits of Rand Water's supply area, the water supply from Lesotho Highlands could fulfil the region's needs until about 2003.

Bath expected the full amount of investment spending from 1994 to 2003 would be R3bn. Thereafter, additional infrastructure would be required in the PWV region.

It is understood Japan and other countries anxious to link finance and aid to social spending have cottoned on to water supply as a route into SA. Grants and "fairly soft loans" had been discussed with Rand Water.

The World Bank is apparently ready to provide the finance, if Rand Water's board finds the terms and conditions acceptable. It is also understood a government guarantee would be required for such a loan.

Bank involvement would open up other sources of foreign finance, as creditors feel comfortable when its stamp of approval is on a country's policy package.

The bank's representative in SA, Isaac Sam, said it was up to SA to ask for a loan, and no requests had been received.

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World Bank tells of unique ties with SA

THE World Bank had developed unique ties with SA in that it was the only country in which it worked with government and opposition on potential aid programmes, a bank official said.

The head of the bank's mission to SA, Isaac Sam, said it hoped to apply lessons from this in other countries.

"It's a unique situation," he told a discussion forum organised by the Association for the Advancement of Black Accountants.

"This is the only country in the world where we speak to the opposition. We think it's very important."

The bank, which froze aid to SA in 1966 because of its race policies, resumed work with the country in 1990 and launched studies to identify areas of possible assistance.

It was at the moment working with the national economic forum, a consultative body representing the state, business and labour, on ways to ensure the economy became more outward oriented, or export-driven, after years of political isolation.

He noted that the PWV industrial and commercial heartland, with Cape Town, Durban and Port Elizabeth, produced 80% of the country's economic output. All had excellent infrastructure.

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However, he was shocked that economic activity started about 7am. "But by 6pm to 7pm it is dead".

He asked how SA could compete with countries which worked 16 hours and much longer. "How are you going to compete with Hong Kong, Mexico City, Jakarta, which work 20-21 hours?

"It's not that you don't have the infrastructure. The roads are still there at night, water still runs in the pipes, electricity is available, the telephone works. How come you can't use these assets to push the economy?"

He understood the political importance which the national unity government attached to developing public works schemes as a means of creating much-needed jobs, but did not believe these would create sustainable employment. "We believe the real dymanics are small- and medium-scale enterprises," he said, adding that the bank had been encouraged by results of efforts in recent years to promote these. — Reuter.

Take World Bank money - Mugabe

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ARG 20/8/94

PRESIDENT Robert Mugabe of Zimbabwe has urged South Africa to accept assistance from the World Bank and the International Monetary Fund for the country's reconstruction and development programme.

He said this despite accusing the organisations of "financial imperialism".

"Our world, the developing world, is groaning under the financial imperialism of these two institutions," Mr Mugabe said yesterday at a news conference before his departure from Cape Town after a four-day state visit to South Africa.

Mr Mugabe and Mr Nelson Mandela said in a joint communiqué they discussed improved economic relations between their countries, including matter related to trade, energy, transport and tourism.

Mr Mugabe was the first African leader to make a state visit to post-apartheid South Africa.

Foreign Minister Alfred Nzo said at a joint news conference the two countries would begin talks in September about a new trade agreement to replace the defunct 1964 trade pact.

He said they had agreed to set up a permanent bilateral commission on energy and to encourage a power-pool — sharing electric energy throughout the region.

Mr Mandela in turn said: "We want to see to it that the volume of the trade increases significantly to the benefit of the two countries."

Mr Mugabe said future trade would be in line with policies of the Southern African Development Community and other regional economic groups.

"One does not wish to see one's own country being given more favourable treatment than is given to other countries in our region," he said.

Responding to questions, Mr Mugabe said South Africa should seek and accept assistance from the World Bank and the IMF for its reconstruction and development programme.

But, he said, Africa needed to continue to press for the democratisation of the two bodies as well as for international bodies such as the United Nations.

"We would want to see some real transparency and also some democracy in those institutions.

"They are not institutions God-given, they are created by man and we are members. We pay our contributions to them and they should not act as dictators to us.

"I am not suggesting in the least that South Africa should have nothing to do with the World Bank and the IMF, of which they are members.

"We expect the World Bank, the IMF and other institutions to play their role ... There is need for assistance, tremendous.

"It is the manner in which they are going about dictating to us what should be done and not be done ..." he said.

President Mandela did not comment on Mr Mugabe's views about the two institutions.

The World Bank — main backer of Zimbabwe's five-year reforms due to end next year — and Zimbabweans hit by high taxes and living costs have become increasingly vocal against the Mugabe government's failure to rein in its spending, which is nearly 50 percent of the annual gross domestic product — one of the highest such rates in the world — with most of the money funding a bloated civil service and loss-making companies.

■ Mr Mandela had accepted an invitation to pay a state visit to Zimbabwe in the near future, Mr Nzo said. — Sapa-Reuter.

Picture: BRENTON GEACH, Weekend Argus

□ **PRESIDENTIAL FAREWELL:** Flanked by military aides, SA president Nelson Mandela sees off his Zimbabwean counterpart Robert Mugabe at Cape Town Airport yesterday after Mr Mugabe's official visit to South Africa this week.

SA on threshold of bank loan big league

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CT 27/9/94

From SIMON BARBER

WASHINGTON. — SA may not yet be taking World Bank loans, but it is getting an increasing amount of the bank's business in the form of procurements for projects elsewhere.

In fiscal year 1994, the bank's two mayor lending arms, the International Bank for Reconstruction and Development and the International Development Agency disbursed $192m to SA for purchases of goods and services.

This puts SA at the threshold of the big leagues, especially for procurement by the IDA, the soft-loan branch that caters for the lowest income countries.

IDA procurements totalling $3,5bn; or 4,3%, were put through SA this year, according the the World Bank's annual report.

This was a marked increase on previous years. Since IDA's founding, SA's share has been only 1,9%.

SA might be getting even more business were it not inconveniently located in the world's poorest region and thus a less well-placed supplier for projects financed by the IBRD, which serves a relatively better off class of borrower.

Only $38m, or 0,7%, of IBRD procurement was sourced from SA this year. Even so, that was above the previous average of 0,4%.

SA's share of combined IBRD and IDA payments was 2,13%. The two entities spent $155m on SA equipment, $27m on "other goods" and $9m on consultants.

The US and UK hogged the largest shares with close to 11% apiece, followed by France (8,7%), Germany (8,5%) and Japan (7,8%).

The SA Foreign Trade Organisation is working to increase SA's share and has retained an agent in Washington to keep an eye out for contracts.

World Bank wants clarity on SA role

BDay 30/9/94

GRETA STEYN

MADRID — The World Bank will ask SA to clarify the bank's future role in the country when an SA delegation meets top officials on Sunday — a year after the bank indicated \$1bn of loans were available to SA.

Bank vice-president for Africa Edward Jaycox yesterday confirmed in an interview that the bank would like more clarity on the reconstruction and development programme and its own role in it. "We have a lot to offer and we expect to be involved," he said. The bank would not foist its ideas onto SA, and was prepared to wait. But at some point, a lending programme would be needed to justify the cost of the policy analysis being done.

It is understood SA's reluctance to borrow stems in part from a caution over foreign borrowing, especially when it comes with strings attached. But some possibilities have been identified, including export promotion and urban development.

Reserve Bank Deputy Governor Pierre Groenewald confirmed that the bank wanted clarification. The possibility of borrowing would be discussed with the World Bank, but not with the IMF. (356)

"There is no need yet to ask the fund for balance of payments (BoP) assistance," he said, noting that the recent high level of imports was partly the result of speculation that the finrand would be abolished.

Groenewald said SA would continue negotiations about which group in the IMF it would join once next week's IMF/bank AGMs got under way. The groups elect an executive director which represents them at IMF meetings. He confirmed the African group had put out feelers, but SA was not happy with the fact that its executive director and deputy were chosen on a rotation basis. "SA's clout at the IMF is much bigger than the other African countries."

Two years ago, there was talk that SA and Switzerland — a relative newcomer to the IMF — would join forces. But Groenewald said SA would probably look closer to home, although "a number of options" were being discussed.

On the proposal by IMF MD Michel Camdessus to increase the world's foreign exchange reserves by creating more of the IMF's reserve currency, Special Drawing Rights (SDR), Groenewald said SA was unlikely to benefit. He expected the main beneficiaries to be new IMF members from the former communist countries, and

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possibly the poorest countries.

Camdessus has proposed that a total allocation of 36-billion SDRs be made, as more than half of the IMF's members had forex reserves equal to less than 12 weeks of imports. But he had encountered resistance, particularly from Germany, which argued that the [illegible] reserves would be inflationary. (356)

Finance Minister Chris Liebenberg will address the third annual World Economic Development Congress today, ahead of a special summit meeting on investing in SA. Reserve Bank Governor Chris Stals will speak at the meeting.

Groenewald did not think the proposal by Britain to sell the IMF's gold reserves to alleviate poor countries' debt would be ratified at the AGM. "This is an issue about which there will be more debate," he said.

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IMF AND WORLD BANK

FM 7/10/94

Resilience through integrity

Success of conditionality depends on staying politically neutral

One of the great strengths of the International Monetary Fund (IMF) over the 50 years of its existence is that, by remaining aloof from politics, it has been able to bring economic order and thus prosperity to many countries after the chaos fostered by politicians, some of whom were well-meaning but mistaken and others who were simply self-serving.

Because the IMF, and to a lesser degree its larger sister the World Bank, refused to be drawn into politics, its credibility has been high and the conditions it imposed for the use of its resources were accepted as having economic utility even if they were politically inconvenient.

The country in trouble could always point to the political impartiality of the fund to justify compliance.

This year, as the IMF and the bank celebrate their 50th anniversary and contemplate adjustments in their role in a world much changed, and indeed improved, since their inception at Bretton Woods, there are increasing attempts by the Left, those who support intervention and those who dislike the disciplines imposed by markets, to politicise them as instruments of developmental advancement. (356)

The popular arguments are that both institutions have failed to eradicate poverty and have worsened the lot of the poor. They are held out as clandestine devices of Western, particularly American, economic imperialism. Much of this is based on fallacy, inadequate statistics and the special interests of the critics themselves.

It is true that while the MD of the IMF has traditionally been French, the US — which is the dominant shareholder — has tended to appoint a politician or benefactor of the ruling US party to the chair of the much larger World Bank. Nevertheless, the track records of both institutions testify substantially to disinterest in politics and a professional application of market-orientated economics.

This year, however, at the annual meetings of the institutions, IMF MD Michel Camdessus is at the centre of a major split between members over the use of the fund's resources to boost members' reserves. The split suggests he is harbouring substantial political motivation.

Simply put, Camdessus' plan involves injecting US$50bn into the world economy through a pro rata allocation of special drawing rights (SDRs), which are the fund's reserve asset, at the same time increasing members' automatic drawing rights from 68% of their contributions to 90%.

The impact of a distribution of that nature would be substantially inflationary and flies directly in the face of the IMF's urging members in its World Economic Report, released only days before, to reduce their deficits to avoid the latest inflationary potential of rising expenditures. It is suspected that behind this contradiction is Camdessus' desire to see an enhanced role for the IMF in the international system, with the SDR emerging as a reserve currency that will rival the dollar and other major currencies. Previous attempts to give it that status have failed.

Only a few years ago he was canvassing for increased member contributions to the IMF and he has opposed a UK plan that the fund sell some of its gold and distribute income from the invested proceeds to some of the indigent countries of Africa who have no chance of ever emerging from a debt trap. These countries have neither the assets to sell, the skills to extricate themselves nor the will to run their economies on any sound economic principles. The fact that these countries would most probably waste the proceeds and land back swiftly in the mire is besides the point. Like Camdessus' plan to distribute SDRs, these gold sales would reduce the resources of the fund but without bringing any enhanced role for it in the international financial system.

Camdessus ... *centre of a split between members*

Bundesbank president Hans Tietmeyer has rejected the Camdessus plan out of hand. Tietmeyer called on the IMF to concentrate on promoting monetary stability and cautioned against it seeking to overplay its role in global financing. He is, however, prepared to compromise and support an Anglo-American proposal for a once-off distribution of SDRs amounting to $24bn, specifically to Russia and 37 other countries that have joined the fund since the last SDR issue in 1981.

The French and Scandinavians have a rival plan to redistribute about $28bn, but this week controversy in the fund's powerful interim committee centred on the inflationary implications of the Camdessus plan — which naturally has the support of developing countries anxious for yet another handout — and the more targeted Anglo-American proposal.

The fact, however, is that the Anglo-American plan, while less potentially inflationary, is also politically inspired. It is intended to buy support for the return to market economies in the transitional countries of the post-communist world, where lack of commitment and piecemeal reform has led to a contraction of these economies and social distress as a result.

Commitment needed

There is no fundamental economic argument that can be applied to this type of IMF support for the transitional process. Official support or aid in any form will never be enough to bring about a smooth transition in these economies. It requires a commitment from the governments of the countries concerned, and through that commitment substantial sums of private-sector fixed capital investment, which has not

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been unduly withheld.

Unfortunately, the row in the interim committee has a clear political dimension that will not be lost on the critics of the IMF and the bank.

These critics believe that conditionality is not bereft of political purpose and, far from enhancing prosperity in Africa and Latin America, has entrenched poverty and redistributed income from the poor to the better off.

The British aid organisation Oxfam and other social pressure groups such as Greenpeace, Christian Aid and (believe it or not) the Slovak Forest Protection Group are seeking to have conditionality softened and to have it made economically less potent through the introduction of income redistribution, land reform and minimum wage policies.

The arguments against making conditionality more convenient for delinquent governments are telling. But they hinge on the maintenance of economic integrity and the absence of political motive — which is belied by the split in the interim committee over SDR distribution. Politics should have no part in the functioning of either the IMF or the bank.

Both the fund and the bank believe that the best way to help the poor is through growth based on macroeconomic stability, free trade and minimal government intervention. However, in regions where reliable statistics are difficult to find, there is evidence that the incomes of the poor have declined. But there are also indications that the very poor may indeed be better off now where these policies have been properly applied, than they were when left to the devices of their own governments.

For instance, *The Economist* points out this week that in both Latin America and Africa infant mortality decreased, life expectancy increased and illiteracy rates fell or did not get worse.

Tietmeyer

The fact is that there is not sufficient evidence from these particular countries to make a compelling case either way.

But the fund itself has found that where countries are being restructured under its guidance, and where conditionality has been embraced by the governments concerned with enthusiasm, significant and salutary progress has been made to a general upliftment. Redistribution, if it is desirable, can be undertaken without destroying economic potency.

Unfortunately, in Africa, where many countries are politically unstable and the ruling elites see conditionality as a threat to power exercised through preferment, the fund's restructuring has had less success. The damage done by collectivist misadventure is also so deep-seated that it could take generations to remove.

It is not difficult to understand why Camdessus has adopted a political posture. Both the IMF and the bank came into existence at a time when international capital flows were minimal and not expected to increase; most governments and institutions believed they had a role to play in asset allocation and market discipline.

Greater emphasis was placed then on trade liberalisation and many governments felt that, either individually or collectively, they could maintain orderly and stable markets. Since then there has been a massive surge in international capital flows, fostered by deregulation and technological advances, and consequently markets, rather than international financial institutions, have become a major source of discipline on domestic policies. The greater independence of central banks, which is part of this process, has also detracted from the influence of these institutions.

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Prudent economic policies

Order and stability in international markets now are more dependent on the willingness of the large industrial countries to adopted prudent and orthodox domestic economic policies than on successful management by the fund or any other international agency.

And likewise, the prosperity of developing countries is much more dependent on private-sector investments that carry the disciplines of adequate returns than on what have increasingly by comparison become minuscule foreign aid flows — which are inevitably wasted and often put to dubious purpose.

Of course, it is entirely appropriate that the fund and bank reassess their roles in a changed world.

And they have the leisure to do so now well ahead of the next crisis, which may well arise out of the massive and uncertain capital flows to the emerging markets.

But it should not be forgotten that in the various post-Bretton Woods crises they have shown remarkable resilience; disaster on more than one occasion has been avoided. This in turn suggests that they are probably much more mutable than they appear to be to those in Madrid, locked unfortunately in political disputation.

Experience has shown that the economic integrity of the IMF and the bank is by far their most important asset. *Nigel Bruce in Madrid*

The global mint with a hole in it

(BM) WM 7-13/10/94 (356)

The IMF and World Bank are fighting for survival, write **Will Hutton** and **Alex Brummer**

IT may have been arcane, but it was a seminal moment none the less. In failing to agree over how the former communist countries could take their fair share of the International Monetary Fund's resources at the Madrid meeting last weekend, the governing body of the world economy exposed the new hawkishness and power of the developing countries to defend their interests — and with it the deep fissures over principle that are a harbinger of an emerging dark age in international economic affairs.

The developing countries, which have been supplicants at the table of the rich ever since the IMF and World Bank were founded at Bretton Woods 50 years ago, finally found the will and economic power to challenge the existing order. They would not allow the big Western nations to put Western economic and political concerns over instability in the ex-communist world before their own interests.

But equally, the leading industrialised countries themselves proved intransigent, unwilling to compromise further, either between themselves or with the wider world. They had done their deal in private conclave to supply a minimum of $23-billion to the new ex-communist members of the IMF and it was take it or leave it. But that is the point. The wider meeting left it: it was not going to be dictated to.

But if agreement is impossible on this, what chance is there of wider agreement on reconstructing the IMF and World Bank? Is there any realistic possibility of reorganising the world financial system? More importantly, if this minimum of assistance cannot be agreed, is there any prospect of boosting the shrinking public sector transfers from the rich to the dispossessed — wherever they are? The world, by default, faces a future in which the private sector and markets rule.

Yet only three months ago, at the Naples world economic summit, the Clinton administration persuaded its allies among the richest industrial nations that the time was right for a thorough investigation of the work of the IMF and World Bank. There seemed a real chance of renewing their roles.

It is not the Group of Seven countries who are any longer the big users/borrowers from the IMF and World Bank — the last first world client was the US itself during the dollar crisis of 1979 — but the biggest Asian countries, India and China. Whatever thinking lay behind the review, they and other developing countries wanted to be involved; but if it was to undermine the IMF and World Bank in even their current approach to development they were doubly concerned. To these economic behemoths of Asia, the IMF and World Bank are not bloated world bureaucracies, which need slimming down or abolishing, but reasonably benevolent institutions which have unlocked for them economic growth, potentially higher living standards and access to private sector capital.

China and India launched intense diplomatic offensives, in Washington and London respectively (where they have clout because of the vast market they offer for manufactured exports) and made it clear they would oppose a radical overhaul.

The confidence they showed reflects economic clout. Using the IMF's new accounting methods the share of world output made up by the Asian countries in 1990 jumps from seven percent to 17 percent; throw in all of the developing world and it reaches 33 percent; add Eastern Europe and the former Soviet Union and the share is 44 percent. The Group of Seven are fighting a losing battle to preserve their position at the top of the economic pyramid.

But this deadlock resulted not only from the new distribution of power, but from an alarming lack of intellectual consensus about how the world should attempt to order its relationships — as marked within the industrialised countries as between them and the developing world. On the one hand there is the pitiless view that every nation — from struggling ex-communist republics like Azerbaijan to advanced industrialised countries like Spain — should surrender to the invisible hand of the market. And on the other there remains the view, held by the managing director of the IMF, developing countries like India, and by France and Japan, that the world requires some order in which to organise its trade and financial flows.

Michel Camdessus: Courageous stand at Madrid

It was this clash of principle that made agreement on Sunday impossible. Michel Camdessus, the courteous French banker in charge of the IMF, was insistent that the fund must hold on to its mission as upholder of the world's public good. This obligation was in its founding articles; and while in the 1980s it had become the sometimes thoughtless vehicle for public austerity and free markets as its sole policy advice, this was only because it felt such policies served the world interest. Now the world interest required the IMF to distribute its currency — the Special Drawing Right — more generously both to old members and those that have joined since the collapse of the cold war.

Special Drawing Rights may be obscure, but if developing countries can swap their own reserves of paper currency which nobody wants for the IMF's currency, then suddenly they have buying power in world markets. In effect it is a surrogate Marshall Plan, which is why the British and Americans were anxious to limit Camdessus' ambitions. For inflation-haunted Germans the worry was that any increase in world spending power might be inflationary and their opposition was the most implacable of all.

If agreement cannot be reached on this, the chances of finding an intellectual consensus over the need for a new exchange rate regime, or capital movement controls, are non-existent.

There may be growing alarm about the power of foreign exchange traders to set the value of currencies, interest rates and the fate of governments' economic policies as they swing vast sums of money from centre to centre — but the signal from Madrid is that there will be no co-ordinated effort to establish any other system. The order is the non-order that exists at the moment, so that countries and parties as disparate as South Africa's ANC and Italy's Forza Italia are obliged to pursue broadly similar economic policies.

Yet there are growing signs of unease. The IMF and World Bank were themselves children of the Keynesian revolution of the 1930s, and the flame still flickers in both organisations. The IMF has become concerned about the massive instability engendered by the deregulation of global finance, and the evidence that floating exchange rates are, if anything, more destabilising to national economic policies than the old system of fixed exchange rates. Its attempt to enlarge the role of the SDR in Madrid was its first tentative effort at hitting back — and the initiative's collapse in ignominy is a dramatic setback.

Here the South may well have undermined its own economic goals. By checkmating the development of the IMF they undermine its first at-tempt to organise a new international order, and so hasten the descent of the world into the grip of rule-less finance — where only the strong get stonger and the weak weaker. The IMF and World Bank are not blameless institutions, but they are fighting for their lives.

RDP gets World Bank aid

STimes (Bus) 9/10/94

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By KEVIN DAVIE: Madrid

WORLD Bank officials will meet the SA government within the next few weeks to discuss which projects in the reconstruction and development programme are suitable for funding by the institution.

A priority list is being compiled by a committee approved by the Cabinet to liaise with foreign funders and government departments charged with implementing the RDP.

Senior World Bank officials gathered in Madrid this week for the IMF/World Bank's annual general meeting, say an application for loans could see money in South Africa within a few months, although it is admitted that this is an ambitious target.

Members of the SA delegation which held talks with World Bank officials in Madrid say the bank is not attaching any conditions to loans besides those which government has already agreed to implement in the latest version of the RDP.

Gill Marcus, chairman of Parliament's standing committee on finance, says World Bank loans will not have conditions attached.

"Conditionality is not applicable. There are no areas of variance between the reconstructing identified by South Africans (in the RDP) and by the bank.

"We have a clear programme. We will only take loans if they fit into the programme."

She says that privatisation should be included if it meets the objectives of the RDP, benefits the economy and promotes black empowerment.

The initiative to secure World Bank funding follows the Cabinet decision to set up the inter-departmental committee on international development assistance.

The committee, headed by the Department of Finance's Eltie Links, includes representatives from the departments of State Expenditure, Trade and Industry, Foreign Affairs and the RDP ministry.

Mr Links says the committee is charged with identifying priority projects for discussion with the World Bank.

Areas which could get priority include infrastructural development for socio-economic upliftment, support for small and medium-sized enterprises and finance to assist with industrial restructuring to improve competitiveness.

One possibility that will be assessed is to use World Bank guarantees to enable South Africa — this week given ratings below BB — to get finance at rates available to countries rated AAA.

The bank's private sector arm, the International Finance Corporation (IFC), which opens an office in Johannesburg next month, announced two projects this week to facilitate economic growth and black empowerment — a \$9,2-million, 10% equity stake in Aflife and a \$3,7-million advance for a joint fund with Nedcor to assist black entrepreneurs in franchising.

The World Bank group's insurance risk arm, Miga, has nine applications from SA companies wanting to invest in Africa and has registered eight investment projects in South Africa.

"We are already processing the first one," says Miga's Akira Iida.

The World Bank's annual report shows that SA companies supplied goods and services to the bank worth \$192-million during its last fiscal year.

The size of potential World Bank loans to South Africa has not been quantified but is likely to be prudent given Finance Minister Chris Liebenberg's insistence that money should not be taken just because it is available.

"The government will undertake a full review of (World Bank) resources available with the intention of jointly agreeing on how assistance can be optimised to achieve the objectives of the RDP," Mr Liebenberg told the annual meetings.

Reserve Bank Governor Chris Stals says South Africa needs its own structural adjustment programme. He says the RDP is moving in the right direction but is not comprehensive enough.

Mr Stals says the Reserve Bank is working on a submission on how exchange control reforms could fit in with the RDP.

He says it would be wrong to attempt this reform without it being part of a comprehensive restructuring package.

S. Times 9/10/94

Africa's willing and almost able ally wants to help

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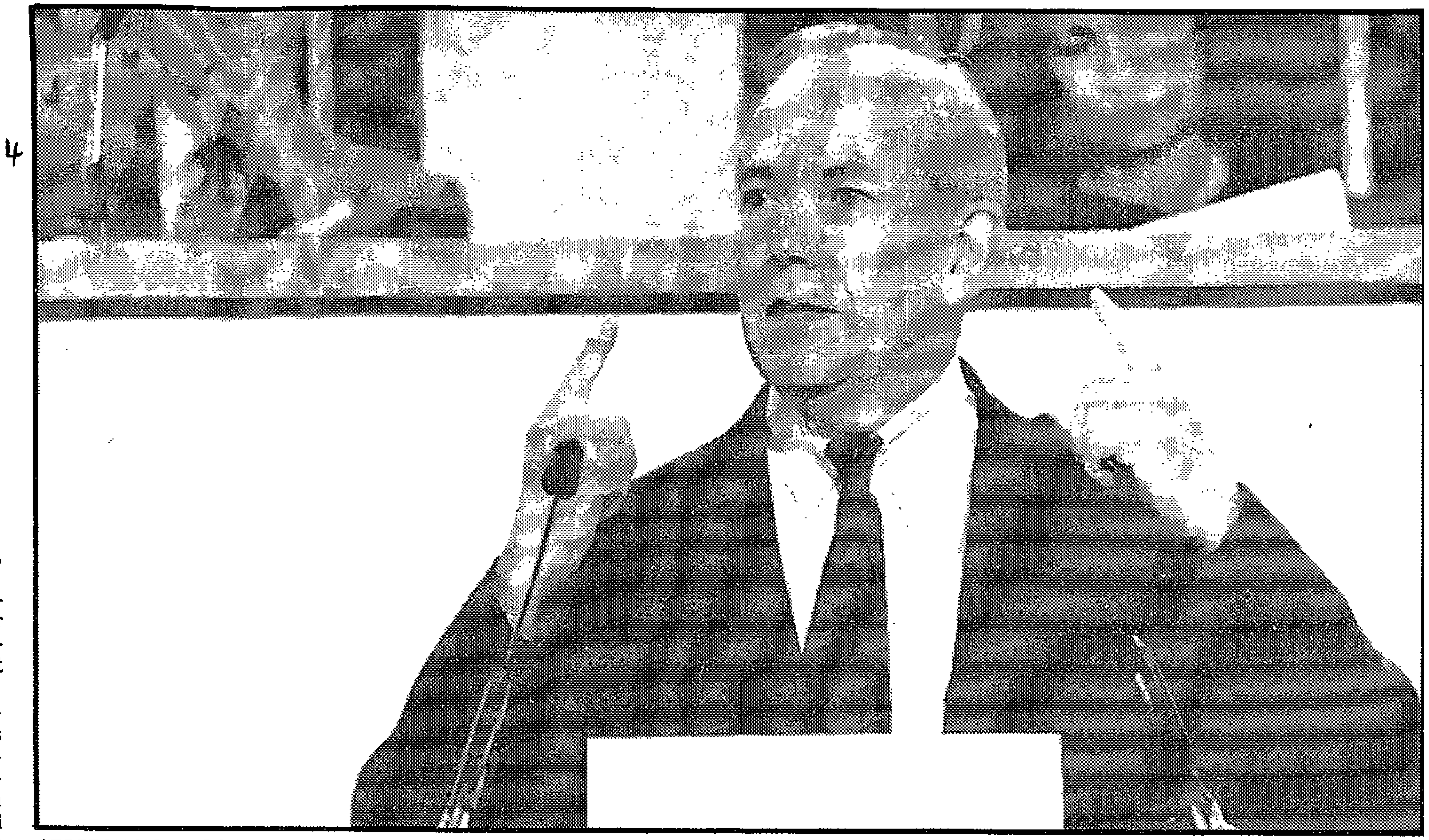
Can the World Bank help the reconstruction and development programme? **KEVIN DAVIE** reports from Madrid on the institution's new commitment and optimism towards upliftment in Africa.



STRETCHING A POINT . . . IMF managing director Michel Camdessus, who opened the conference in Madrid Picture: AP

SOUTH Africa is establishing a new relationship with the World Bank at a time when the institution is coming under renewed attack from economists on both the left and right, environmentalists and aid agenices such as Oxfam.

The bank, the world's primary development agency, is busy re-examining itself. The initiator of economic structural adjustment programmes in many parts of the world, it is now subjecting itself to structural change which will see it cut its expenditure by 6% a year during the next two years.

The criticism of the bank and its sister organisation, the International Monetary Fund, is not new. But the volume has intensified into a crescendo to coincide with their 50th birthday celebrations and annual meetings in Madrid this week.

The critics have not only been vocal. They breached tight security at a media briefing on Monday, where a protestor who planned to throw a birthday cake at World Bank president Lewis Preston was arrested. A banner proclaiming "murderers" was confiscated.

This was followed by a security breach on Tuesday, when two Greenpeace protesters managed to get into the rafters of the hall where the opening ceremony was addressed by King Juan Carlos of Spain.

Some delegates wondered if the protesters would be shot by snipers to ensure that an assassination attempt was not made on the king, but the protesters had no more in mind than to float fake dollar bills on the assembled dignitaries.

The dollars read: "World Bankenstein. Public money for environmental havoc. 50 years of destruction. No dollars for destruction. This note is redeemable for ozone destruction, climate change, deforestation. Greenpeace."

The bank clearly has enemies, including some relatively influential policy makers in South Africa.

Their criticisms include accusations that its attempts at development in Africa — particularly — have failed dismally.

But, curiously, while the bank and IMF are being maligned for policies insensitive to people and the environment, IMF managing director Michel Camdessus was taking on the might of the developed world on behalf of the developing world.

He incurred the wrath of the IMF's major shareholders, the Group of Seven industrialised countries, in a dispute over increased contributions, mainly to fund reconstruction in eastern Europe.

The G-7 objected to the increase, with Bundesbank chief Hans Tietmeyer saying the Gemans were terrified of inflation.

Emerging Markets, the daily newspaper published during the meetings, responded that the developing world was "terrified about poverty".

Edward Jaycox, World Bank vice-president for Africa, the bank's most senior official responsible for the troubled continent, occupies perhaps the hottest seat at the bank.

Asked at a lunch sandwiched between meetings with some of the conference's 47 African delegations (including South Africa) what the bank had been doing during the past decades while governments had been messing up, Mr Jaycox replied: "We were messing up, too."

Mr Jaycox explains that Africa's ills arise chiefly from the fact that most governments have until recently been propped up by an external power.

"There was no requirement that they satisfy the needs of the people."

But the end of the Cold War has brought democracy to much of Africa (from three multiparty governments to 28 at present).

Mr Jaycox says the emergence of elites mindful of the need to serve constituencies who can throw them out of office gives better hope for the continent.

Also good news is the worldwide economic recovery after the worst recession since the 1930s. Commodity prices are improving, as are exports from the continent.

He pleaded with reporters not to see Africa in averages ("that's the no-brainer approach"), saying the disasters dragged down the success stories.

He says there are at least 12 countries achieving growth rates as high as 5% to 6%, "twice as high as the population growth rate".

The World Bank annual report says countries which stuck to their structural adjustment programmes have on average achieved growth rates two percentage points higher than those which have not.

Mr Jaycox says much of the World Bank's failure in Africa is that "it was myopically concentrating on project finance".

While the bank still makes most of its loans in the form of finance for projects, it now puts much more concentration on ensuring that projects are managed in terms of a broadly sound economic strategy.

He does not see South Africa as an engine of growth for Africa. "You have to fix the engine first."

South Africa's problems are enormous. The government is new and political factors are high.

"There is also controversy on what should be done."

Mr Jaycox says the bank is keen to be part of the process of change in South Africa, but says this has to be an SA enterprise. "We are anxious to be involved but are waiting for the government to decide what the role of the bank should be."

He says that most governments now implementing structural adjustment programmes in Africa "claim ownership of the programmes".

He sees a "coalesence and convergence" of views and plans in South Africa and the potential for consensus to form around the reconstruction and development programme.

Fifty years on, the World Bank is not proud of its record in Africa. It has faced huge problems and admits to its mistakes.

But it nonetheless plays a crucial role in development. Mr Jaycox repeats an oft-quoted remark: "If the bank did not exist it would have to be reinvented very quickly."

National consensus on a new economic direction for South Africa, as articulated in the latest version of the RDP, appears achievable.

The bank can, no doubt, bring its considerable policy expertise from many parts of the world and financial resources to assist in achieving the programme's goals.

World Bank in RDP talks

CT 21/11/94 (356)

Planning on services backlog

Own Correspondent

JOHANNESBURG. — The World Bank and the Reconstruction and Development Programme ministries are planning strategies which will form the nucleus of a local government renewal scheme.

The programme to rehabilitate rural and urban infrastructure was one of President Nelson Mandela's projects, RDP deputy director-general Mr Bernie Fanaroff said yesterday.

He said the framework of the programme would be published in March next year for discussion in a second RDP White Paper. This was intended to secure wide consensus on the programme.

He said the government wanted to tie rural and urban upgrading schemes through a campaign which would be spearheaded by Provincial Commission chairman and Constitutional Development deputy director-general Mr Thozamile Botha.

The campaign, which would involve community-based bodies, non-governmental organisations, trade unions and the private sector, would seek to develop credible local government.

This programme would be launched early next year.

RDP Urban Infrastructure Investment Planning Team (UIIPT) met the World Bank's Urban Mission in Pretoria last week to look at the implications of financing such a backlog.

The meeting was the first between the two organisations, but Mr Fanaroff said the bank had been working closely with major cities for some time. The bank was now extending its services to smaller cities, he said.

The objective of last week's meeting between the UIIPT and the bank's Urban Mission was to "initiate planning on the feasibility and sustainability of various levels of local government services such as water, electricity and garbage removal".

UIIPT chairman Mr Joe Modibane said the urban renewal strategies would be developed in conjunction with local government. This was expected to be completed by February.

"The World Bank and the planning team of the UIIPT will be working together with local authorities in certain cities to draw up profiles of each community."

Upgrading blueprint on the way

World Bank in local govt revamp role

BIDay 21/11/94

WILSON ZWANE

THE World Bank and ministry overseeing reconstruction and development are forging strategies for a local government renewal programme.

The programme to rehabilitate rural and urban infrastructure formed part of one of President Nelson Mandela's special projects, RDP deputy director-general Bernie Fanaroff said yesterday.

He said the framework of the programme would be published in March, in a second RDP White Paper, for discussion. This was intended to secure wide consensus on the initiative.

Government wanted to link rural and urban upgrading schemes through a campaign spearheaded by provincial commission chairman and Constitutional Development deputy director-general Thozamile Botha, Fanaroff said.

The campaign, which would involve community-based bodies, non-governmental organisations, trade unions and the private sector, would seek to develop credible local government.

The RDP's urban infrastructure investment planning team met the World Bank's urban mission in Pretoria last week to quantify the backlog in urban infrastructural services, and to look at the microeconomic implications of financing such a backlog.

The meeting was the first between the two organisations, but Fanaroff said the bank had been working closely with major cities for some time.

The bank was now extending its services to smaller cities, he said.

The objective of the talks was to "initiate planning on the feasibility and sustainability of various levels of local government services such as water, electricity and garbage removal".

The urban infrastructure investment planning team said at the weekend: "Objectives tabled were rehabilitation and expansion of local government structures. Emphasis was put on the central role of local government in this process."

Team chairman Joe Modibane said the urban renewal strategies would be developed with local government. This was expected to be completed by February.

"The World Bank and the planning team will be working together with local authorities in certain cities to draw up profiles of each community."

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The team said while local authorities would be given some priority, it was "recognised that capacity is stronger in the larger cities".

The organisation said needs analysis would be followed by the supplying and upgrading of municipal services, which underpin the urban renewal programme.

It said the second phase — supplying and upgrading municipal services — would be structured so that communities determined their needs themselves.

Botha has said the local government renewal programme, dubbed Operation Self-Reliance, is also aimed at accelerating democratisation of local government structures and restoring the culture of paying for services in townships.

The programme is a result of discussions between the Constitutional Development, Housing and RDP ministries.

IMF concern over RDP 'hidden costs'

CT, 22/11/94 (356)

JOHANNESBURG. — Concerns about hidden costs in the RDP and its potential effect on fiscal discipline were likely to feature in the IMF's annual report on SA, sources said. An IMF delegation, which left Johannesburg yesterday, was in SA to carry out its annual consultations in terms of the IMF's constitution. The delegation, headed by assistant director for Africa Leslie Lipschitz, presented its preliminary findings yesterday to Finance Minister Chris Liebenberg, Finance director-general Estian Calitz and Reserve Bank governor Chris Stals.

WORLD BANK

1995

World Bank seeks investors for Africa

EDWARD WEST

CAPE TOWN — The newly created trade, finance and investment division of the World Bank's west-central Africa department has identified a pool of potential SA investors for seven African countries.

The department was created on January 1 to work with governments in specific West African countries to create an environment conducive to private sector involvement and to increase trade. (356)

Department chief Peter Watson said in an interview yesterday he and his mission met several SA utilities and companies to assess the level of interest in investing in the Ivory Coast, Benin, Burkina Faso, Ghana, Niger and Togo.

He said the level of interest was exceptionally high and obstacles to investment in those countries were identified and would be related by the department back to the governments of those countries.

The obstacles included bureaucratic procedures, unfair trading and problems in repatriating profits. BD 24/2/95

He said the department's initial objective was to identify a pool of leading SA companies in their respective fields which would be interested in participating in a programme of parallel investment with the World Bank in the West African countries.

Initial candidate organisations could include merchant banks, investment funds, professional advisory teams, construction companies which would also take project equity, project operators for utility companies and hotel and tourist operators and project end-users such as manufacturers and exporters.

Watson said once a project had been identified with a potential investor, the World Bank would provide "a guiding hand" to bring the project to full and sustainable fruition.

SA must turn policies into reality

JOHANNESBURG. — South Africa's post-apartheid government had reassured potential investors with its commitment to fiscal discipline and free market principles, but it needed to follow through, a senior World Bank envoy said.

"They want to see this commitment translated into reality," said Isaac Sam, chief of the bank's mission to South Africa.

His comments appeared in an interview published in the March issue of RSA review, which is published by the SA Communication Service.

He said the international community was also looking at "the enormity" of the national unity government's reconstruction and development programme (RDP) and its ability to make it work.

"However, the world is wondering how South Africa is planning to finance this programme without creating inflation and consequently macroeconomic instability," he said.

"So, South Africa is faced with the challenge of managing the RDP in a way that will ensure economic sustainability."

He believed the RDP provided a viable framework for tapping funds from the World Bank.

(356) CT 2/3/95

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World Bank comes under siege for its performance

BD 15/3/95 BD 15/3/95

LONDON — The World Bank has taken on the air of an institution under siege in recent years, assailed from all sides for its record and policies.

While environmentalists attacked it for lending to big and sometimes damaging infrastructure projects, such as the Narmada Dam in India, Third World lobbying groups complained its structural adjustment policies created hardship for African nations that took its advice.

Industrialised countries, meanwhile, criticised the Bank's generous pay scales and perks, and argued it was not doing enough to promote private sector development.

With the nomination at the weekend of James Wolfensohn to be the institution's next president, World Bank staff are wondering without excessively high hopes whether this investment banker, who played the cello with the New York Philharmonic, can lift the siege.

Managing the World Bank has proved to be a difficult challenge for most recent presidents. Not since Robert McNamara (1964-1981), who was the last president to serve more than a single five-year term and who wanted Wolfensohn to follow him, has a president truly succeeded in imposing his vision on the institution.

The Bank has a strong internal culture, built partly on its unusual relationship with its clients. As pointed out by Moses Naim, a former Venezuelan finance minister and Bank executive director, staff know that their promotion prospects usually depend more on their internal reputation than on the opinions of anyone outside the organisation, including borrower governments.

Although every new president reshuffles the boxes in the Bank's organisational chart, Naim says, informal pyramidal clans owing allegiance to individual senior managers tend to re-form soon after the reorganisation, so behaviour inside those boxes changes little.

Several Bank executive directors say current president Lewis Preston has begun to make progress in changing the corporate culture. But he is stepping down because of illness.

In the absence of clear leadership from recent Bank presidents, the clan chiefs have taken over the job of defining the institution's mission.

A distinction between corporate direction and operational management is missing at present and has been for some time. Instead, operational management filled the void and thereby defined strategic direction, says Willi Wapenhans, who was one of those clan heads but whose 1992 report on the Bank's portfolio management provoked a broad rethink of how the organisation works.

Wolfensohn has read and is intrigued by Wapenhans's report, which ascribed a deterioration in the quality of the loan projects in the World Bank's portfolio to an internal culture that tended to promote officers who made the most loans, rather than those whose loans performed best.

The Bank's articles require it to lend only to government institutions. That restriction posed few problems when its tasks were rebuilding Europe after the Second World War or laying the first infrastructure foundations for the developing world.

Today, however, the Bank preaches the gospel of reliance on the private sector to its borrowers, but at the same time can lend only to their public sectors.

The expansion of the International Finance Corporation, a World Bank affiliate which does lend to private businesses, has not resolved this contradiction. The serious money is still in the parent World Bank, which lent $14,2bn (£8,6bn) last year against the IFC's $2,5bn.

The answer to the conundrum may lie in the use of the World Bank's power to guarantee projects, a power of which it is making cautious but growing use. Former senior officials of the organisation say it lies also in making sure the private sector mentality becomes more deeply ingrained in the corporate culture.

But the World Bank faces also a challenge in the heart of its development business: at the International Development Association (IDA), which makes cheap loans to the very poorest countries, most of them in sub-Saharan Africa.

The World Bank itself is now self-financing, funding new loans on the income it earns on its existing portfolio. Because of its heavy interest rate subsidy, however, the International Development Association must pass the hat to donors every few years.

The Clinton administration is having a hard enough job persuading Congress to produce the final $1,49bn of its contribution to the most recent replenishment of IDA, to which the US pledged 20,9% of the total. Negotiations have already begun on the next round, and US treasury officials have had to tell their counterparts that it must shrink if they are to have any chance of winning the funds from Congress. — Financial Times.

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BD 24/3/95

Popular choice to lead World Bank

SIMON BARBER

WASHINGTON — It is not difficult to see why President Bill Clinton picked James Wolfensohn to replace cancer-stricken Lewis Preston at the helm of the World Bank, or why the bank's board so readily endorsed the choice.

The 61-year-old Australian-born investment banker is deeply respected in financial and philanthropic circles around the globe.

He has a proven track record of helping turn around troubled corporate clients — like Chrysler — and of raising finance to save ailing cultural institutions like New York's Carnegie Hall or the Kennedy Centre in Washington.

His agenda for the World Bank, or that part of it which he divulged while campaigning for his new job, is well in accord with what the US and other major shareholders want.

He hopes to carry on Preston's work in slimming down the institution's sclerotic bureaucracy and focus it more on achieving on-the-ground results rather than simply measuring success by the volume of loan agreements signed.

He has pleased Vice-President Al Gore with his seemingly genuine interest in environmental issues which the bank has long taken heavy flak for ignoring. Even more encouraging to the White House, he wants the bank to stop putting the bite on taxpayers for capital and have it rely entirely on private markets instead.

Wolfensohn, who became a US citizen in 1980 (and thus eligible for a post that by tacit agreement belongs to Americans), is regularly described as a renaissance man. The cliché is overworked, but in this case seems justified.

Few men in his position decide, as he did, to take up the cello in midlife. Fewer still become accomplished enough to play Brahms at Carnegie Hall, with Vladimir Ashkenazy and Itzhak Perlman as accompanists, and not risk being called vulgar buffoons.

Wolfensohn is not the only Australian to have clawed his way from poverty to immense wealth and influence, but he may be the only one who evokes, even from his bitterest rivals, the word "integrity".

In his Manhattan office hang the portraits of three men he regards as mentors: British financier Sir Siegmund Warburg, Lord Richardson of Schroders, where he worked in the '70s, and William Salomon of Salomon Brothers, which he left after helping organise the Chrysler bailout to found his own company, Wolfensohn Inc, in the '80s.

There are plenty of Wall Street investment banks that are bigger and make more money than Wolfensohn. None had the reputation to attract former Federal Reserve chairman Paul Volker, who joined the company in 1988.

Competitors

Wolfensohn Inc does not trade or underwrite. It simply advises clients and assists them, for retainers that start at $250 000, to expand their operations or get out of trouble. It does not self-servingly seek to profit from percentages of the deals it arranges.

This has led competitors to scoff that Wolfensohn is selling reputation over substance. As one told Business Week in 1992: "He's one-third psychiatrist, one-third concierge and one-third business adviser. If your jet breaks down, he will lend you his."

To which Wolfensohn replied: "We've done more than $16bn in transactions in the past two years. You don't do that by being a concierge."

His client list, which ranges from American Express to the Hong Kong and Shanghai Bank and Russia, would seem to bear him out.

In an age when investment companies have routinely been getting their clients into trouble by self-servingly selling them on whatever happens to be the fad of the moment — junk bonds, derivatives — Wolfensohn has quietly been winning trust.

One result is that even Henry Kissinger's contact book is a slim volume compared with Wolfensohn's. Because governments need honest advice just as much as businesses, his political connections around the world are peerless.

The Bush administration thought highly enough of him to have him run the Kennedy Centre. He worked hard at the job, which he still holds, but it did not stop him from cultivating the Democrats' chief hostess, Pamela Harriman.

When she held a dinner for Clinton shortly after his election, Wolfensohn was naturally there. And when the New York Times called to seek his opinion on the president-elect's economic policies, he warmly declared them likely to be a vast improvement on George Bush's.

Wolfensohn's original ambitions, as he now recalls them, were to make a comfortable $100 000 a year.

Though he has added several zeros to that figure, he is still a man for whom the accumulation of assets, for its own sake, is not the ultimate driving force.

Not only does he give away 20% of his income each year, he devotes a lot of his time and energy to worthy causes.

He is chairman of the board of Princeton's Advanced Study Institute and a trustee of the Howard Hughes Medical Institute (the largest charitable trust in the world).

Then there is the Kennedy Centre, which he chairs without pay and into which he has put substantial sums of his own money, and the restoration of Carnegie Hall. And all of that is just for starters (and does not even include the time his wife of 31 years, Elaine, has spent teaching English in New York's slums).

One unanswered question is whether he intends to move the giant pair of custom-built speakers given him by his friend, Placido Domingo, and installed in his New York office, to his new place of business.

SA, World Bank plan $1bn deal

ST(BT) 23/4/95 (356)

By KEVIN DAVIE

THE Cabinet has concluded a memorandum of understanding with the World Bank for loans of up to $1-billion a year for the reconstruction and development programme.

The memorandum — Business Times has a copy — agreed to by the Cabinet last month provides for two loans to begin this financial year. A $450-million loan will supply basic urban services in black metropolitan areas and a $150-million loan is designed to help small, micro- and medium-scale enterprises, or SMMEs.

The loans, to mature in 15 to 17 years, have a grace period of three to five years and interest rates as low as 2,66%.

The loan programme will give a major boost to the reconstruction and development programme, give the government a respite from meeting its burdensome interest bill and encourage the flow of long-term capital to South Africa.

But there are fears that bureaucratic procrastination may mean the funds will not flow this year.

"The problem is with senior officials who are not used to making use of the World Bank to fund their programmes," says a source.

The memorandum, drawn up by the Department of Finance, says the World Bank needs eight to 12 months to release funds.

It says the government and the World Bank aim to reach agreement during the first half of 1995 on a "country assistance strategy", required by the bank's executive before assistance can be considered.

"Such a strategy would review progress in economic development in South Africa and confirm and prioritise activities identified in the memorandum. A collaborative process for preparing the strategy is envisaged allowing free expression of views."

The memorandum says World Bank loans and guarantees operate as a catalyst for other sources of finance including grant and concessional finance.

"Given South Africa's prudent foreign exposure and the government's sound economic and fiscal policies to date, World Bank lending in the range of $1-billion a year is feasible."

The memorandum says it is estimated that service backlogs in the four metropolitan areas will cost between R11-billion and R19-billion.

Communities assisted by the $450-million basic services investment programme will determine their own priorities for improvement based on sequencing and standards of servicing they prefer and can afford.

The programme will be implemented under the direction of Minister without Portfolio, Jay Naidoo. It will provide bulk urban infrastructure including water, sewerage, roads and drainage, electricity and solid waste removal.

"All services would be subject to full cost recovery with provision made for cross-subsidies between income groups residing within the local authority. The blending of bank and RDP funds would buy down the effective rate to local authorities, resulting in more affordable services."

The memorandum says World Bank experience in countries like Zimbabwe and the Philippines shows the public sector should be limited to providing services, leaving financing and construction of houses to the private sector.

The SMME programme envisages making $150-million available for financial and advisory services.

"The programme seeks to create a dynamic, labour-demanding, export-orientated SMME sector by supporting access to pre- and post-shipment export finance and access to business services to help them adapt to international markets."

AFRICA AND THE WORLD BANK

Heart of bureaucracy

(356)

There are not enough bankers and too many well-heeled consultants

FM 12/5/95

As James Wolfensohn ponders his new job as president of the World Bank, sub-Saharan Africa will weigh heavily on him. For all the World Bank's publicly expressed optimism about the success of its structural adjustment programmes in the region, its own numbers tell a different tale.

For the past 30 years Africa has underperformed, with its growth rate falling behind the average for emerging economies as a whole and the gap with the successful Asian tigers widening. With population growing at 3%, real per capita incomes have been dropping for a generation so that living standards in most African countries are no higher today than at the end of empire in the Sixties.

Particularly disturbing is the failure of structural adjustment, adopted increasingly over the past decade in sub-Saharan Africa, to turn the region around. Indeed, the bank's latest figures released last month show that, in the decade to 1994, per capita incomes fell remorselessly — 1,1% a year.

Characteristically though, the bank is again heralding a new dawn in the region, just as it did — prematurely — with its so-called *Long-Term Perspective Study* in 1989. It predicted then that the region would grow at 4% to 5% annually as reform policies took root. Today, it admits that hasn't happened — not yet, anyway.

But wait a minute! The new dawn is here. Over the next decade, GDP growth will accelerate to 3,8% a year — double that of the past 10 years — and at least some of the ground lost over the past generation will be recouped. Where the bank is on weaker ground is in explaining why this much-delayed turnround should suddenly materialise.

This "culture of optimism" is just part of the bank's explanation for the relatively disappointing performance of structural reform. The second limb of the argument is that generalisations and continent-wide averages mask a huge diversity of performance. Thus, the new *Continent in Transition* report currently being debated by carefully selected groups behind closed doors around Africa — the bank's idea of transparency — calculates that almost half of sub-Saharan Africa (21 countries) achieved positive per capita income growth during the 1988-1993 period.

Unfortunately, that list of 21 includes a clutch of small atypical countries like Botswana, Seychelles, Mauritius, Cape Verde, Lesotho and Gambia. It also includes a handful of states which are not growing, in any real sense of the word, but regaining some of the ground lost in the last 20 years. Ghana — the Bank's prize pupil

Wolfensohn . . . *entering a culture of distortion?*

— Uganda and Tanzania are examples.

Most disturbing of all, perhaps, is the fact that those countries that did reverse years of decline relied heavily — some would say almost totally — on foreign aid inflows. Net aid disbursements to Tanzania, for instance, currently average more than 80% of GDP, while in Mozambique the figure is a horrendous 111%, in Uganda 48% and Burkina Faso — another success — 30%.

In the four years to 1993, net disbursements of aid to the region averaged almost US$20bn annually (at constant 1992 prices and exchange rates) — approximately 36% of the global total. Indeed, no less than 46% of the aid disbursed by the World Bank's soft-loan window (the International Development Association) and 45% of that of UN agencies comes to sub-Saharan Africa. Yet living standards continue to fall.

Just where a culture of optimism becomes one of distortion is impossible to say. It is not difficult to drive a horse and cart through many of the bank's more upbeat claims — the citing of Nigeria as a successful reformer, the publication of a report *Africa can Compete!* alongside its own numbers showing the region losing market share globally; the choice of the National Railways of Zimbabwe as a model for commercialisation; and the citing of marginal changes of two or three percentage points in national savings ratios computed on who-knows-what grounds for the region as a whole.

Indeed, the bank repeatedly exploits the poverty of national databases to impose its own numbers to substantiate its claims. While it is obvious that economic data for almost all African economies is unreliable, it's hard to see why the bank's numbers — or those of the IMF for that matter — should be any better. Even the best and brightest econometrician using unreliable crude data is as subject to the garbage-in-garbage-out syndrome as anyone else. Yet arrogant World Bank economists in African capitals repeatedly insist that their numbers are better than those of the national statistical service.

Nor does the optimism culture stop at numbers. The *Continent in Transition* report makes much of the benefits of political transition in the region. But, clearly, it is far too early to suggest that multipartyism in Malawi will achieve better results than ex-president Banda's dictatorship. SA's successful transition is one side of the coin — but what of the retreat from democracy in Nigeria and Gambia, de facto one-partyism in Zimbabwe, war and civil unrest in Sudan, Somalia, Rwanda, Burundi, Sierra Leone and Liberia and continuing chaos in Zaire? The glass is as half-empty as it is half-full.

Also questionable is the bank's claim that it is achieving greater transparency and consensual decision-making. This may be so in some instances, but on the whole crucial economic issues are still debated behind closed doors by a clique of government and central bank officials on one side and a donor group, including the World Bank and the IMF, on the other.

The people of the country whose fate is being determined are the last to be told, while private sector consultation is at best desultory. Sadly, for all its commitment to supporting interfacing with the private sector, that, too, is a highly selective process depending more on the

WORLD GROWTH SUMMARY

Region	1966-1973	1974-1980	1981-1990	1991-1993	1994	1995-*2004
World	5,1	3,4	3,2	1,2	2,8	3,3
OECD	4,8	2,9	3,1	1,2	2,9	2,8
LCDs	6,9	5,0	3,2	0,8	2,0	4,9
East Asia	7,9	6,8	7,6	8,7	9,3	7,7
Latin America	6,4	4,8	1,7	3,2	3,9	3,5
Sub-Saharan Africa	4,7	3,4	1,7	0,6	2,2	3,8

* Forecast Source: World Bank: Global Economic Prospects 1995 (April 1995).

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personality of the resident bank representative in the country concerned than on the sensitivity of the issue. The more sensitive the issue, the less consultation.

Two recent and glaring examples of the bank's tendency to undermine the private sector leap from recent headlines. In Nigeria, as industrialists warned last month that the manufacturing sector "was in the fast lane to collapse," an official of the International Finance Corp (the bank's private-sector investment arm) stunned the private sector by praising the much-criticised 1995 budget and welcoming the government's plan (not provided for in the selfsame budget) to pay its $1bn in arrears to its joint-venture partners in the oil industry. No matter, too, that this comment was flatly contradictory of the ank's own warning (in *Global Prospects*) that "without a reversal of policies," incomes in Nigeria will stagnate.

Equally bizarre was the bank's mind-numbingly wimpish response to President Robert Mugabe's decision to enlarge his Cabinet and treble the number of Deputy Ministers, in conflict with his government's agreement to cut public spending.

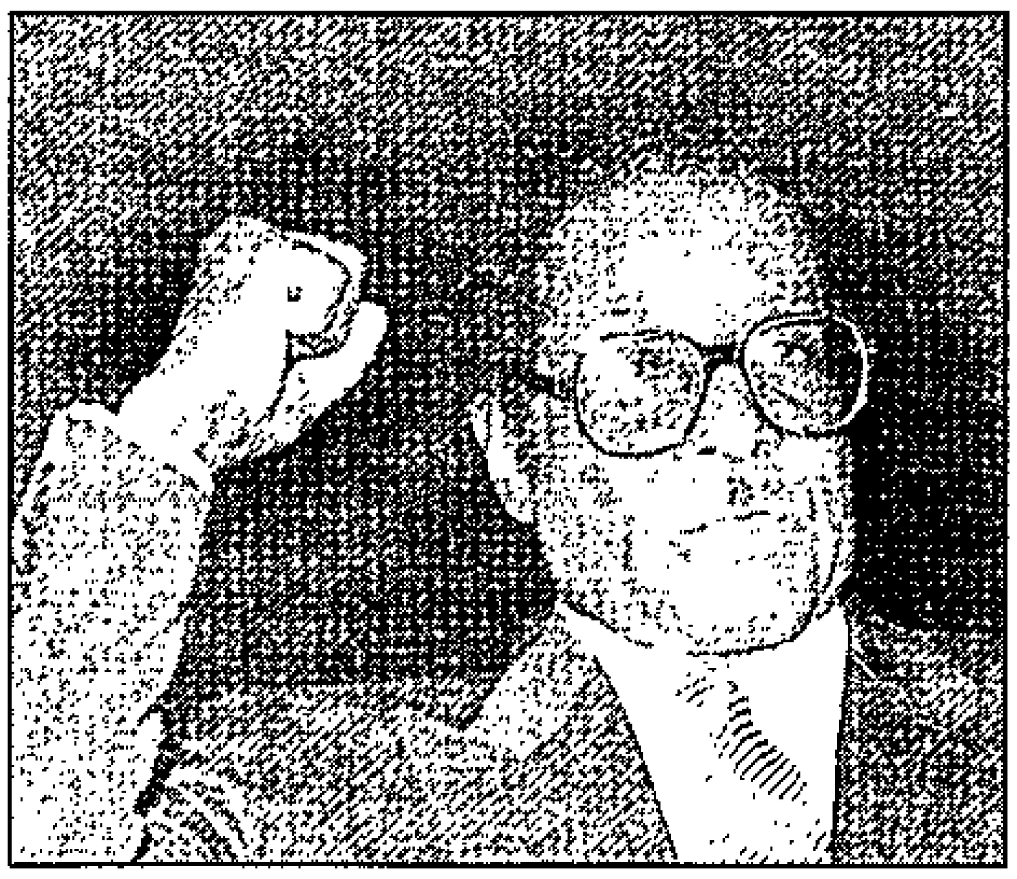
Banda . . . *political transition not enough*

Zimbabwe would not "dance" to the "whims and caprices" of the World Bank, said a defiant Mugabe. Such a challenge should have been answered; instead, private enterprise was appalled to read that the bank did not see the size of the Cabinet as "an issue in itself."

Coming close on the heels of the Mexican debacle, this bland dismissal of business and investor perceptions, and of the signals sent to the economy at large, is disturbing. The bank's refusal to condemn such spendthrift behaviour — at a time of civil service retrenchment, too — illustrates why and how it has lost its way. If it cannot see the importance of signals and perceptions in the opinion-driven world of private investment, then who can?

The *Continent in Transition* report sums it up: "Investment assistance to Africa has been substantial, but the returns to it have been disappointing." Until recently, the donor community paid scant attention to institutional capacity. When things went wrong, it drafted in (or paid for) technical experts to run the finance ministry and central bank. The bank admits that there are now more than "100 000 expatriate technical assistants in Africa — more than the combined colonial administrations which pre-dated independence."

Aid-dependence has grown — doubling as a proportion of GNP from 4,6% in the first half of the Eighties to 9,6% in 1988-1992. One Zambian businessman laments that meetings with government are dominated by exchanges between donor-funded expatriate technical experts while Zambians sit silently by, gloomily pondering the implications for jobs and living standards of donor-driven social and economic experiments that, as often as not, have already failed elsewhere in the region.



Mugabe . . . *his defiance appalled businessmen*

Nor can the bank explain how rebuilding destroyed institutional and physical infrastructural capacity — Africa's telecommunications coverage is the worst in the world — is compatible with tight budget constraints and falling real aid inflows. Not only that, but a rising proportion of that aid is now going to emergency operations and peacekeeping missions — Somalia, Rwanda, Mozambique.

There is a conflict, too, in the bank's advice to reduce the size of government while simultaneously urging greater "planning" and "co-ordination" — and implicitly thereby, increased intervention — to protect the environment. Environmental protection is vital, but how compatible is it with public spending cuts and rolling back the boundaries of the State?

For all its faults, the bottom line remains that Africa needs the World Bank and the IMF; that without them the situation would have been far worse than it is. Many countries are on the road to reform, with more being achieved on the macro-economic policy front than in securing structural change and the crucial supply-side response.

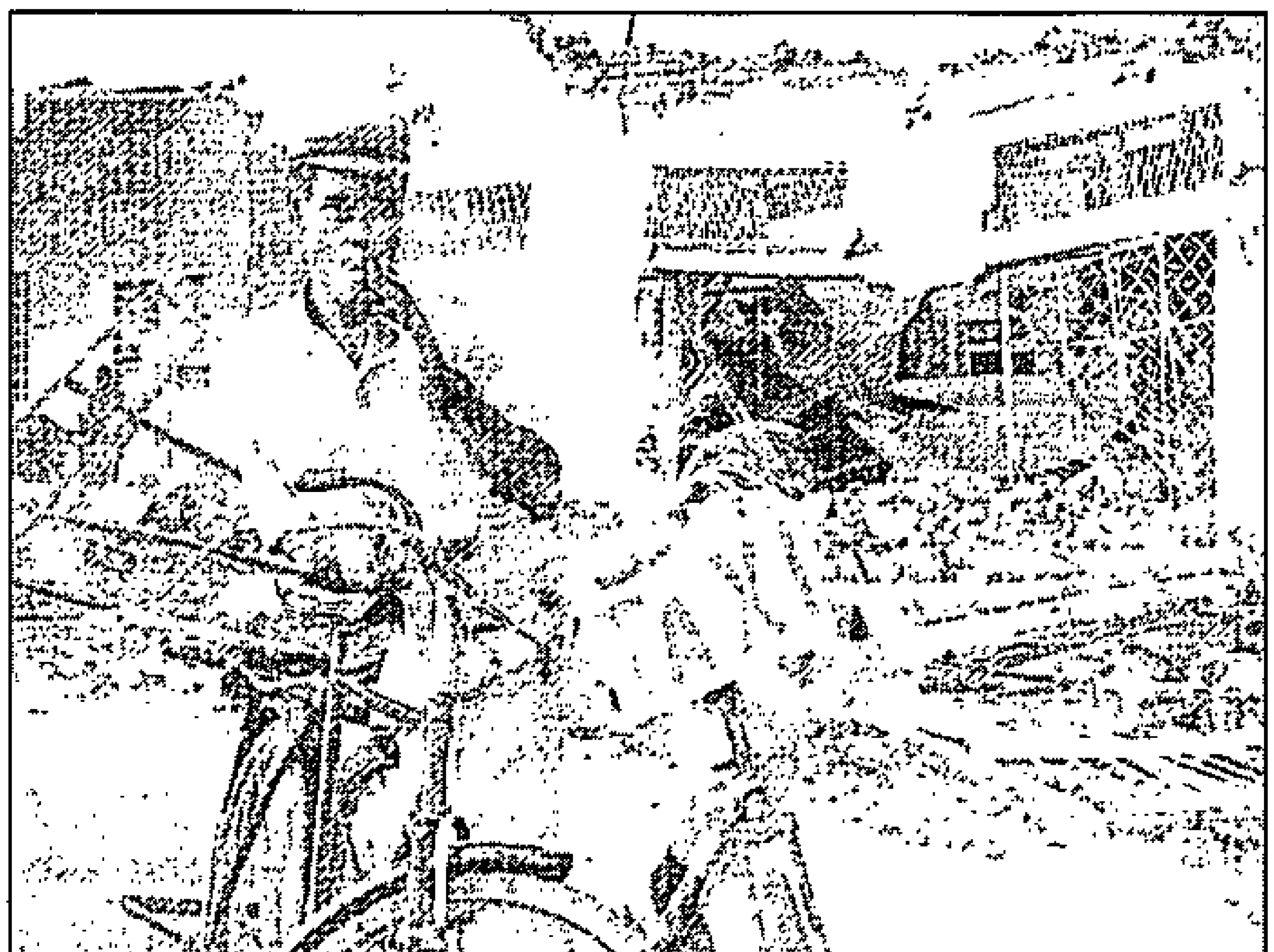
That said, however, Africa needs a different bank — one that is more willing to make the tough decisions that it is urging governments to take. One that is more willing to lead by example than dictation — sizing down, delayering, retrenching. One that will translate the rhetoric of transparency into reality. One that will back and support — not undercut — the private sector. One that will tell the truth openly — and not just in secret reports published years later in sanitised form.

The term "bank" is in itself something of a misnomer. Old hands lament the loss of focus, the diminished role for the banker relative to the policy "expert," whose knowledge of the practice of banking could be written on the back of a small postage stamp. Many feel that the shift to policy-based lending, now on the retreat, was something of a mistake. Certainly, the preoccupation with grandiose macro-economic strategies, rather than the micro-economics of making sure projects actually succeed, has done nothing for the institution's image in the financial world.

Above all, Africa needs a World Bank that recognises the simple truth that the continent cannot be developed from outside by bright young men and women whose time horizon and commitment seldom exceed three years. Indigenous capacity is crucial, and experience suggests that this is best built by domestic institutions and by private enterprise with its long-term commitment of equity, expertise, training and market access, rather than academics whose knowledge and experience of the real world of business is minimal.

Anyone doubting this should try reading a random selection of World Bank "policy" research papers, full of mind-blowing jargon, econometric models and, of course, the obligatory commitment to more research to keep the well-heeled consultancy profession happy.

In 1995, the structural adjustment formula may be the only game in town but its implementation, its neglect of infrastructure and institutional capacity, require both a new approach towards implementation and a greater role for the private sector. Over to you, Mr Wolfensohn. ■



Rwandan business . . . *role for the World Bank?*