# South Africa Searches for a "Financial Parachute", A $170 Billion Foreign Debt Cliff Looms. IMF "Economic Medicine"

By Prof. Patrick Bond
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*Johannesburg – This week's hush-hush visit by International Monetary Fund Managing Director **Christine Lagarde** to Pretoria (between stops in Ghana and Angola) is mysterious. In contrast to last week's IMF press briefing claim – "Madame Lagarde will hold meetings with the authorities, as well as fairly extensive meetings with the private sector, civil society, academia, women leaders, and of course the media" – there's a complete information void here, with no public events scheduled.*

An open, frank public discussion about the IMF's regrettable history and current agenda is sorely needed, in a context where a few honest politicians and officials are belatedly struggling to reverse what is termed "state capture" and return stolen funds to the taxpayer. Undoing a decade of looting by **former President Jacob Zuma** and the Gupta empire (three immigrant brothers plus hundreds of hangers-on) is no small task.

**Tito Mboweni** @tito_mboweni · 19 Dec 2016
French court finds Christine **Lagarde** guilty of negligence ft.com/content/aef242... via @FT

**IMF stands by Christine Lagarde after negligence verdict**
French tribunal forgoes sentence after hearing into Tapie case
ft.com

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**Tito Mboweni** @tito_mboweni · 24 May 2013
IMF's **Lagarde** Averts Being Charged in Sarkozy-Ally Probe bloom.bg/1507c0h via @BloombergNews

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Hence it is perhaps with discomfort that Lagarde will meet one of the main post-Zuma/Gupta leaders, **Finance Minister Tito Mboweni**, who twice (in 2013 and 2016) tweeted about Lagarde's own corruption trial in France. She was found guilty of 'negligence' for gifting $430 million to a tycoon – Adidas founder **Bernard Tapie** – who donated to her Conservative Party when she was finance minister (in 2017 he was forced to pay back the French state).

Retribution for corruption is indeed in the Pretoria air. Two months ago, Mboweni replaced Nhlanhla Nene, who resigned in disgrace over lying about his secret Gupta meetings. But is Mboweni himself arranging a secret bailout deal, as happened in December 1993 when the IMF granted an infamous $850 million loan – a "Faustian Pact" (according to former Minister of Intelligence Ronnie Kasrils) replete with Washington Consensus promises – to outgoing president FW de Klerk, so as to "instil global financial confidence" in the incoming Mandela government?

After five "junk!" denunciations of South Africa by the three most powerful (albeit suspect) credit ratings agencies over the past 18 months, **President Cyril Ramaphosa** has tried hard to restore their trust. However, with the giant energy parastatal agency Eskom now trying to dump another $7 billion in debt onto a severely-stressed national Treasury, does Ramaphosa need a financial back-stop from the Bretton Woods Institutions?

Indeed, more to the point, *is Eskom's foreign debt* again creating havoc, as happened in January with a "pending letter of default from the World Bank" that "could trigger a recall on Eskom's $25 billion debt mountain," as Carol Paton reported in *Business Day*? (Ramaphosa's urgent meeting with Bank officials in Davos the next day was apparently temporarily soothing.)

Lagarde's opaque visit contrasts with World Bank President **Jim Yong Kim**'s high-profile trip earlier this month, amidst a blaze of Global Citizen anti-poverty populism to 90,000 youth at a Soweto stadium:

> "I'm telling you, you can't trust anyone over 30 to determine your future!"

Kim also met Ramaphosa to discuss, he tweeted, urban planning and sanitation (neither of which would need US$-denominated Bank loans). He also lectured at the Wits University School of Governance about human capital investment, at one point jovially criticising another ex-lefty, his host, Vice Chancellor Adam Habib, for being a "student of Trotsky."

Ramaphosa: "We're not looking at the IMF. The New Development Bank has a facility…"

Are loans to South Africa from the IMF and World Bank really needed? On the one hand, their leaders are here in the wake of July's Brazil-Russia-India-China-SA Johannesburg summit, which again raised hopes for the BRICS bloc's international financial governance reform agenda.

For example, notwithstanding angry protests by environmental justice activists at its Africa Regional Centre office, the BRICS New Development Bank (NDB) quickly announced loans to three local parastatal agencies. One of these, Eskom's $180 million, had been "in abeyance" since 2016 due to then-CEO Brian Molefe's second thoughts: he opposed the loan's linkage of privatised renewable energy to Eskom's grid (instead, Molefe wanted to take on more nuclear debt, which Mboweni – then an NDB director – had publicly endorsed in 2015, while in Russia at that year's BRICS summit).

The other credits went to Transnet's Siyabonga Gama (fired for Gupta-related corruption a few weeks later) for $200 million to expand the Durban port-petrochemical complex– a project now frozen due to brazen procurement fraud involving a notorious Italian firm (unrelated to the Guptas) – and the Development Bank of Southern Africa for on-lending $300 million to municipalities (assuming there are any creditworthy ones left, able to pay sufficiently high interest rates to justify a hard-currency loan for local infrastructure).

Explained Earthlife Africa protester **Makoma Lekalakala**, co-winner of the 2018 Goldman Environmental Prize as Africa's leading activist this year,

> "Both Eskom and Transnet are under scrutiny for corruption and mismanagement. No due diligence was done on the Transnet loan. If this is how the [BRICS] bank operates, we have to brace ourselves for accelerated environmental degradation for the pursuit of profit."

But the Bretton Woods Institutions are no better, and just over a year ago, Ramaphosa offered a scathing critique of Washington's bias: "We should not go to the IMF because once we do we are on a downward path, we will be sacrificing our independence in terms of governing our country and sacrificing our sovereignty." He cited the risk of imposed "cuts in social spending" what with anticipated IMF orders to Eskom "to do away with free electricity quotas for the poor and indigent."

Ramaphosa repeatedly denies that the Bretton Woods Institutions will bail out South Africa:

> "IMF, no, we're not looking at the IMF. The New Development Bank has a facility that could be made available to us. And we are exploring that as well. And we want to do it in a way that does not require a sovereign guarantee."

Actually, Ramaphosa probably didn't mean the BRICS NDB, which makes project-specific loans, but instead its $100 billion Contingent Reserve Arrangement (CRA), which offers a $3 billion credit line for South Africa to immediately draw upon, in the event of a balance-of-payments emergency deficit.

**BRICS v IMF – or BRICS-IMF?**

On the other hand, the BRICS look much less coherent today than in July, because Brazil's new leader **Jair Bolsonaro** could drop out of the bloc, and at minimum, will more firmly hitch his regime to Donald Trump's. Yet in spite of oft-expressed Sinophobia, Bolsonaro has just grudgingly agreed to continue the rotation of BRICS heads-of-state summit hosting (although this is likely only to occur in Brasilia next November). There will be much Trump-style geopolitical, economic and especially environmental chaos starting on January 1 when he becomes president, such as paving over the Amazon. But compared to November, fewer insiders I talked to on a visit earlier this month (including former Foreign Minister Celso Amorim) fear that Bolsonaro will reduce the bloc to RICS through a "Braxit," the way he just did to the UN Framework Convention on Climate Change summit. (His predecessor Michel Temer had agreed to host it in Brazil late next year, but Chile will now take over.)

The oft-stated contrast between the agendas of BRICS and Washington, as articulated by Zuma's scribe **Gayton Mckenzie**, for instance, was in any case mainly myth. From 2014, Lagarde has enjoyed the power to co-finance the more desperate of BRICS borrowers (not just SA, but also Brazil and Russia suffer junk status), because the CRA's Articles of Agreement stipulate that if Pretoria (or any other borrower) wants the next $7 billion in BRICS funding within its $10 billion CRA quota range, it must first get an IMF structural adjustment programme.

If Pretoria needs financing to repay increasingly onerous foreign debt tranches in 2019, could this fractured society withstand IMF austerity, given what *Business Day* already termed 2018's "savage fiscal consolidation"? Radically-reduced funding for basic infrastructure left even a confirmed neoliberal, Johannesburg **Mayor Herman Mashaba**, crying foul on Treasury's 65% budget cut to the city's housing program last week.

At the global scale, the BRICS financial institutions are not up to the massive bailout requirements necessary if financial meltdowns similar to 1998 and 2008 reappear in coming weeks, for instance due to Britain's anticipated "hard crash" from the European Union on March 29. In even the recent weeks' relatively mild economic turmoil, South Africa's currency was the world's most volatile (out of the 31 most traded). The Rand continues to zigzag in part because of then Finance Minister Malusi Gigaba's February 2018 relaxation of exchange controls on $43 billion worth of local institutional investor funding that can now depart South Africa. (That puts into context the oft-remarked $7 billion exit threat from Citibank's World Government Bond Index once Moody's finally drops the junk axe on the domestic-denominated securities rating.)

However, while we continue to pay close to a 9% hard-currency interest rate on 10-year state bonds (even higher than does Venezuela), there will be willing buyers – until the next world financial melt ratchets rates even higher. And in spite of BRICS babble about IMF reform so as to lessen the load of borrower conditionalities, there have been no changes in economic philosophy under Lagarde. Worse, Africa lost substantial voting power in the last quota restructuring, in 2015, including Nigeria by 41% and South Africa by 21%. The main countries that raised their respective IMF shares were China (35%), Brazil (23%), India (11%) and Russia (8%).

**An alternative strategy: repudiation of corrupt bankers**

IMF reform that leaves most Africans with less voice is better considered deform, Ramaphosa himself seemed to concede in a speech to the United Nations in September, complaining that the IMF and other multilateral institutions still "need to be reshaped and enhanced so that they may more effectively meet the challenges of the contemporary world and better serve the interests of the poor and marginalised."

Because their interests are not served by either Washington's or the NDB's lending to corrupt parastatal elites, the "poor and marginalised" need another strategy. Just as in the days of the Jubilee 2000 debt-repudiation movement, which was led in South Africa two decades ago by the late poet Dennis Brutus and Anglican Archbishop Njongonkulu Ndungane, it's overdue we talk about, and indeed *audit,* South Africa's foreign debt.

Including parastatal and private borrowers (for whom the state ensures hard currency is available for repayment), foreign debt stood at $171 billion as of mid-year (up from $25 billion in 1994). That figure, the SA Reserve Bank announced last week, is down nearly 8% from March 2018's $183 billion, but only as a result of "non-residents' net sales of domestic rand-denominated government bonds as well as valuation effects."

The main foreign debtors remain Eskom and Transnet. They have contracted, over the past eight years, South Africa's three largest-ever loans:

- in 2010, $3.75 billion from the World Bank, mainly for the Medupi coal-fired power plant (a deal for which Eskom chairperson Valli Moosa was criticised by the public protector for 'improper' conflict of interests since he sat on the ANC Finance Committee, during the notorious Hitachi corruption of the ruling party);
- in 2013, $5 billion from the China Development Bank, mainly for Transnet's purchase of imported infrastructure inputs, especially for corrupt port-petrochemical expansion in Durban and a coal export rail line to Richards Bay (hundreds of millions of dollars were illicitly directed via China South Rail to the Gupta empire, as well as loan "success fees" from the Chinese loan); and
- in 2016, $5 billion again from the China Development Bank, mainly for Eskom's other coal-fired mega-generator, Kusile, initially arranged by Molefe and renewed at the BRICS Sandton summit last July.

None of these loans can be justified, especially on ecological grounds – since they all rapidly increase the climate debt we South Africans owe both future generations and, more urgently, contemporary African victims of worsening droughts and floods. Moreover, with state procurement corruption costing in the range of 35-40% per contract, according to the lead Treasury official in 2016, there is a strong case for a full debt audit, followed by the demand that the World Bank, China Development Bank, BRICS Bank and other lenders also assume liability.

After all, the Hitachi deal with the ANC's investment wing Chancellor House led the U.S. government to fine the Japanese firm nearly $20 million in 2015 – for Foreign Corrupt Practices Act violations at Eskom – and hence when Public Enterprises Minister Pravin Gordhan (responsible for borrowing the $3.75 billion in 2010) last week blamed Hitachi incompetence for recent load-shedding, that alone should invoke World Bank debt repudiation.

Jim Kim should not only have addressed this largest – and perhaps worst – loan in his institution's history. The Bank's portfolio also includes the largest share in the notorious CPS-Net1 "financial inclusion" strategy to rip off millions of poor South Africans, and a $150 million debt+equity stake in Lonmin which until just before the 2012 Marikana massacre (not long after Kim became president) the Bank was celebrating as a best-case for corporate social responsibility.

Add to all this the new threat of Faustian Pact 2.0 from the ethically-challenged Lagarde. The need for a new Jubilee movement is obvious. All existing anti-corruption initiatives should be pursued forthwith, but our ever lower expectations mean that a genuine 'Ramaphoria' – which if serious would include repudiation of the Gupta and ANC fraudsters' financial facilitators, such as the World Bank, China Development Bank and BRICS Bank – is simply a fantasy. Instead, the meme best describing our current state of governance is, indeed, Ramazupta.

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