INSTITUTE FOR ECONOMIC JUSTICE
RESEARCH POLICY ADVOCACY

STATEMENT

National Treasury's unchecked power leaves the public at the mercy of global capital

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The recent announcement of yet another World Bank loan signed by National Treasury, to the tune of US$1.5 billion, is just the latest instance where National Treasury's unilateral action threatens to compromise the sovereignty of the country and the realisation of socioeconomic rights for people in South Africa.

The scramble to obtain 'cheap' foreign currency during the height of the Covid-19 pandemic provided the perfect pretext for International Financial Institutions (IFIs), like the World Bank and the IMF, to dive into South Africa's public finances and policymaking space. Since then, these IFIs have supplied billions, often in dollar or euro-denominated loans, that are conditioned on the dismantling of state control over key economic resources, such as electricity and rail.

Unfortunately, as detailed in the IEJ's recent policy brief, the country's legal framework and institutional processes around taking on more IFI debt have facilitated this problem. In particular, the Public Finance Management Act (PFMA) grants the Minister of Finance nearly complete discretion on taking on international loans. The PFMA lacks provisions for full disclosure, extensive consultation, or consideration of how these loans will affect the livelihoods of ordinary citizens. This approach is counter to the principles of our participatory democracy and disempowers the public from seriously challenging the extent of South Africa's debt burden and the conditionalities that come with it.

Now more than ever, it is imperative that Parliament acts quickly by changing the law to provide for greater supervision on the acquisition of IFI loans in the interest of protecting national sovereignty, socioeconomic rights, and debt sustainability.

The public must not be duped into seeing this loan as simply an alternative, 'cheaper' way of financing infrastructure spending. It carries significant risks. First, the World Bank loan, denominated in foreign currency, could lead to far higher repayment costs if the rand declines relative to the dollar. Similarly, since the interest rate is not fixed, and instead depends on the dynamics of the market for US-issued bonds, changes in the monetary policies of major economies could hike repayment costs. Meanwhile, National Treasury continues to impose severe restrictions on government spending. Which means that if these risks materialise, spending growth on education, healthcare, and development will inevitably be sacrificed, all to appease foreign lenders.

Perhaps the most insidious effect of this and similar loans is the erosion of the country's ability to pursue policies independently. The World Bank's Development Policy loans traditionally carry policy conditionalities (termed 'prior actions') that the country must abide by. Failure to adhere to these, often undisclosed, conditionalities could undermine South Africa's ability to acquire international finance on reasonable terms, as we have seen in countries such as Kenya and Argentina. Notably, South Africa has struggled to follow through on prior actions, with the World Bank scolding the government for its "past failures to reform" despite receipt of finance.

Furthermore, these conditionalities are geared towards the further commodification of basic services. The policy document linked to the loan emphasises the need to incentivise municipalities to collect revenue from the largely impoverished population. This is complemented by the call for private sector participation in the provision of electricity, port, and rail services. The Minister of Transport is already moving to entrench some of these proposals through law. Future democratic governments may fear reversing these policies if doing so violates IFI lending conditions. These loans lock us into policies that promote private accumulation of profit over people.

Until the uptake of sovereign loans follows a wide, consultative process, as is done in more than 50 countries around the world, and as has been recently proposed by the EFF, as well as recommended by Parliament's Standing Committee on Finance in 2023, IFIs will continue to pull the strings on economic policy, to the detriment of a pro-poor, nationally-owned development paradigm.

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