INSTITUTE FOR ECONOMIC JUSTICE
RESEARCH POLICY ADVOCACY

POLICY BRIEF

MAY 2025

INTERNATIONAL FINANCIAL INSTITUTION LENDING

Problems and solutions

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SUMMARY OF FINDINGS

- South Africa is increasingly using IFI loans, especially for climate finance.
- IFI loans carry risk, including interest rate and currency fluctuations; constraints on constitutional rights, including on human rights and sovereignty, and constraints on Parliament's powers.
- There is inadequate parliamentary oversight of IFI loans, and this is compounded by excessive Executive discretion in the PFMA.
- There is no requirement of public disclosure of loan terms, and Treasury has not been transparent.
- The Constitution, South African law, and international law require parliamentary oversight of all finances.
- International standards and trends are moving towards greater parliamentary oversight.
- UNCTAD has established 15 principles to guide sovereign lending and borrowing which we should follow.
- There is broad public support in South Africa for greater oversight of IFI lending.

CONTENTS

SUMMARY OF KEY RECOMMENDATIONS

- Implement a five-step procedure before any loan is agreed:
  - A debt sustainability analysis;
  - A human rights, gender, and environmental impact assessment;
  - A development assessment;
  - A national sovereignty report; and
  - Submission for public consultation and majority vote.
- In the short-term, while the above is put in place, Parliament can use its powers to question National Treasury about the presence and nature of policy conditionalities and commitments in loan agreements.
- National Treasury and the Presidency must accelerate the development of a loans register.
- Amend the PFMA to constrain Executive power over loans.
- Pursue a multilateral approach to climate finance to mitigate lender power.
- Link foreign currency loans to projects that boost exports.

INTRODUCTION

South Africa's increased usage of finance from International Financial Institutions (IFIs) should be a cause of unease for the public. Between 2020/21 and 2023/24, the South African state borrowed over R211.7 billion from IFIs,[2] and plans to borrow roughly the same amount over 2024/25 to 2026/27.[3] The increased borrowing from IFIs has raised an outcry from civil society and labour, who warn that IFI lending could, among other things, undermine sovereignty.[4]

Multiple fiscal pressures have arisen in the past few years which have prompted the National Treasury to increasingly use bilateral and multilateral creditors. The Covid-19 pandemic, and the subsequent deterioration in global bond market conditions, made borrowing from the market far less attractive.[5] Meanwhile, the Just Energy Transition Partnership (JET-P) climate financing deal features IFIs, such as the African Development Bank (AfDB), World Bank, and other bilateral, official creditors.

The use of IFI loans may appear justifiable, since this debt is often offered on concessional terms, at below-market interest rates. In addition, loan terms are sometimes accompanied by grace periods, allowing the government to defer interest payments.[6] These 'concessional terms', however, can come at an often-overlooked price — IFIs attach non-financial terms to their loans. These can include policy conditionalities, commitments, or recommendations. This policy brief argues that the current legal framework and institutional practices of public borrowing do not account for the risks that come with the terms and conditions of loan agreements. Conditional lending poses risks to sovereignty[7] and human rights.[8] With South Africa's increasing use of these IFIs, these risks are likely to be amplified.

The most effective way to address these risks is greater transparency, widespread consultation, and accountability in the taking up of loans from IFIs. We propose a parliamentary process of scrutiny and approval as one way to achieve this. We recall that the demand for greater democratisation of the process of borrowing from IFIs dates back to at least the early 1990s.[9] The onus remains on our elected parliamentarians to ensure that the requisite legislative and institutional infrastructure is put in place to protect the country's sovereignty, democracy, and human rights.

Section two of this brief examines examples of recent loans from IFIs that the South African government has committed itself to. Section three outlines a range of arguments for greater accountability. Section four identifies deficits in the current framework. Section five and six presents recommendations and conclusions, respectively. The appendix in section seven briefly details three case studies from countries that have recently increased parliamentary supervision on IFI loans.

EXISTING LOANS: EXAMPLES OF THE PROBLEM

In this section, we assess the risks from recent IFI borrowing in South Africa, through an evaluation of the financial and non-financial terms of two Covid-19-linked IFI loans and two JETP-related IFI loans which South Africa has taken up since 2020.

We find that inadequate transparency, consultation, and accountability in the borrowing phase has weakened South Africa's bargaining position with the relevant IFIs. This could lead the country to obtain finance at much stricter terms in the future. In turn, this has placed unnecessary pressure on an already fragile fiscus. The result may compromise the potential to re-industrialise the country.

TWO COVID-19 LOANS

South Africa took two loans, in 2020 and 2022, from the IMF and the World Bank. Transparency from the National Treasury about these loans has been limited. In fact, National Treasury misled the public about the presence and nature of policy conditionality, when it claimed in the 2022 Budget Review that "no conditions are attached to the [World Bank] loan".[10] In fact, as we see in Table 1, the loan contained a long list of policies which the country agreed to either continue with or embark upon.

Table 1: Terms of two IFI Covid-19 loans

	LOAN 1	LOAN 2
Lender	IMF	World Bank
Date of agreement	27 July 2020 (IMF board approval)	20 January 2022 (World Bank board approval)
Instrument	Rapid Financing Instrument (draw down on IMF quota)	Development Policy Loan
Purpose	"To meet the urgent balance of payment (BOP) needs stemming from the outbreak of the COVID-19 pandemic".[11]	"To protect the poor and vulnerable from the adverse socio-economic impacts of the COVID-19 pandemic, and to pave the way for a resilient sustainable recovery".[12]
Principal amount	SDR[13] 3 051.2 million, equivalent to US$4.3 billion[14]	US$750 million
Disbursement	Single disbursement	(unclear)
Currency denomination	Special Drawing Rights	US dollar
Nominal Interest rate (%)	1.066% or SDR interest rate	6-month Secured Overnight Financing Rate (SOFR) plus 0.75%
Term (years)	5 years	13 years
Payment schedule	(undisclosed)	(undisclosed)
Grace period (years)	3.5 years	3 years
Conditions for disbursement / drawdown(s)	1. Signing of 'Letter of Intent', which includes commitments to: a. introducing a debt ceiling; b. reduce public sector wage bill as a share of GDP; c. 'rationalization' of transfers to state owned entities; d. streamlining of subsidies; e. enhancing tax compliance through strengthening; enforcement; f. fiscal consolidation; and g. debt stabilisation.	1. World Bank's satisfaction with South Africa's macroeconomic policy framework. 2. Completion of prior actions: a. the continuation of Covid-19 grants (in particular the Social Relief of Distress grant); b. job protections; c. 'digital social protection' which includes the use of electronic means of applying and disbursing grants; d. 'digital health' which includes the use of digital tools to capture and verify Covid-19 patient records, e. financial resilience; f. 'climate change response' which entails "development of an effective climate change response and the long-term, just transition to a climate-resilient and lower-carbon society"; g. greenhouse gas mitigation which implores the state to pursue more ambitious greenhouse gas reductions; and h. energy expansion through opening up the sector to greater competition from the private enterprises.

Source: National Treasury and South African Reserve Bank[15]; National Treasury[16]; The World Bank[17].

Consultation: The process of borrowing from IFIs, during the height of the Covid-19 pandemic, featured a relatively wide, though superficial, process of consultation compared to later IFI borrowing. The loans were presented to the National Economic Development and Labour Council (NEDLAC), but constituencies have limited room to influence issues of macroeconomic policy, which formed an integral part of the loans.[18] Lastly, the loan agreements were also presented to, and approved by, Cabinet. However, the public has no access to information relating to Cabinet deliberations on loans. While presentations to Cabinet and NEDLAC are a step in the right direction, this is ultimately futile if these constituencies are not given room to make recommendations for more favourable loan financial terms and policy conditional terms.

National Treasury and the SARB have monopolised the fiscal strategy and monetary policies followed by the country, with alternative frameworks presented by constituencies such as civil society and labour receiving little consideration.

Conditions: The conditions for disbursement of the two loans present two immediate concerns. First, loan conditionalities do not appear to be in harmony with the purpose of the loans, and do not seem necessary in carrying out the objective of loan. Instead, there seems to be an overreach by the creditors in prescribing policies that have little relevance to the loan. Whereas the purpose of the World Bank loan is for post-Covid-19 recovery, it is not clear how greater private sector participation in the electricity market advances this. Similarly, while the IMF loan is designed to assist the country with balance of payment problems, the set of commitments, which include reducing the public sector wage bill (as a share of GDP), go far beyond this.

Second, there is the risk that conditionalities are imposed but not followed through, which could have its own negative ramifications. The World Bank loan is conditioned on the World Bank's satisfaction with South Africa's macroeconomic policy framework. The loan agreement itself however does not address what a satisfactory macroeconomic policy entails. Moreover, Parliament, with its powers to approve or make amends to the national budget also contributes to shaping macroeconomic policy. However, as we have outlined, Parliament was not involved in the process of approving this loan, and therefore is unlikely to have incorporated the policy conditionalities in its decision making. Furthermore, the World Bank loan contract contains a commitment to reducing greenhouse gas emissions.[19] But the government has shown resistance to undertaking the necessary measures to achieve this timeously.[20 21] Similarly, the National Treasury has repeatedly attempted to remove the social relief of distress grant. There are likely to be failures in adhering with the conditions on emissions and grants.

This lack of assessment of policy conditions is a threat to future finance,[22] as well as risking present penalties. It may be associated with a negative reaction from capital markets, due to the undermining of investor expectations built from the agreement by the government to follow a particular policy direction. In the case of Kenya, which has failed to fulfil key IMF recommendations, such as increasing taxes, and subsequently skipped an IMF review that would have enabled the final loan disbursement, credit rating agency Standard and Poor indicated "since IMF funding often serves as a catalyst for other official and private flows, we expect there might be delays to World Bank (about $800 million) and United Arab Emirates (UAE; $1.5 billion) funding in first-half 2025".[23] The Kenyan example further underscores how conditionalities and commitments could be devastating for the fiscus even where they are not legally binding.

Significantly, there may be dire consequences even when a loan or programme is not suspended. Countries such as Costa Rica and Kenya received IMF financing but failed to satisfy the accompanying recommendations. They thereafter had to face "more stringent, binding conditionalities".[24]

TWO JET-P LOANS

The JET-P is a long-term programme for financing the transition of the economy from high dependence on carbon-based sources of power to renewable energy. All loans taken by the government from IFIs from December 2022 onwards have been linked to the climate and energy transition. IFIs are central to the Just Energy Transition Investment Plan (JET-IP) element of the Just Energy Transition Partnership (JET-P), which is largely based on securing concessional financing, through bilateral and multilateral loans. Over the medium term, 2025 to 2028, National Treasury plans to raise US$14.6 billion (R267.7 billion) from IFIs under the banner of climate finance.[25] Even where JET-P financing is not a loan from IFIs, they have already been acting as conduits for loans and guarantees from private funders.[26]

We focus on two JET-P loans to demonstrate how IFI financing for JET-P exhibits many of the problems we highlighted with Covid-19 borrowing, as well as the borrowing experiences of many developing countries around the world. Table 2 outlines the terms of the loans.

Table 2: Terms of two JET-P loans

	LOAN 1	LOAN 2
Lender	Agence Française de Développement (AFD)	KfW, Frankfurt am Main (KfW)
Date of agreement	4 November 2022	4 November 2022
Instrument	Credit facility	Loan
Purpose	Financing of national budget deficit for use on expenditures related to JET-P	To support the implementation of the JET
Principal amount	Maximum of €300,000,000 [27]	€300,000,000
Disbursement	(unclear) – 20 January 2023	Single disbursement – 22 December 2022[28]
Currency denomination	Euro	Euro
Nominal Interest rate (%)	6-month Euribor + 1.29% In November 2022, the 6 month Euribor stood at 2.168%. As of 17 March 2025, it stands at 2.422%	6-month Euribor + 0.69% In November 2022, the 6 month Euribor stood at 2.168%. As of 17 March 2025, it stands at 2.422%
Term (years)	15 years (1st repayment: November 2027; last repayment: May 2042)	15 years (1st repayment: 15 November 2027; last repayment: 15 November 2042)
Payment schedule	30 semi-annual payments	31 semi-annual payments
Grace period (years)	5 years (November 2022 – May 2027)	5 years (November 2022 – May 2027)
Other loan costs	Commitment fees, appraisal fees	Commitment fees, management fees
Conditions for disbursement / drawdown(s)	Completion of six prior actions: (i) Develop; an effective, long-term just transition to a climate-resilient, low carbon society; (ii) Closely align South Africa with Paris Climate Agreement regarding mitigation of GHG; (iii) Increase competition and power generation capacity in the energy sector; (iv) Provide a holistic planning tool for achieving a just transition in South Africa; (v) Reinforce the achievements of the National determined contributions (NDC); and (vi) Reinforce the Presidential Employment Stimulus.	Completion of six prior actions: (same as the AFD) They note that (i), (ii), and (iii) are based on World Bank Development Policy Operation (DPO) while (iv), (v), and (vi) have been made together with the AFD.

Source: Agence Française De Développement[29] and KfW[30]

The JET-P financing has been shrouded in secrecy, including:

- JET-P IFI loans were not tabled before parliament, leading Members of Parliament to express concern about the conditionalities which the Executive agreed to.[31] Nor were they even tabled at NEDLAC.
- There is no centralised, publicly available repository for JET-P-related loans and guarantees, which are likely to make up the lion's share (63%) of initial finance in the JET-IP.[32]
- Grant funding for the JET-P, on the other hand, is captured in the database 'Just Energy Transition grants register',[33] which tells us the actors involved in the financing, the implementation of the project, and its focus areas and prospective duration.[34] Notably, the Just Energy Transition Project Management Unit's latest report highlights that "deployment of JET concessional loans is a challenge".[35] However, due to the lack of a loans register, the public is unable to keep track of this.
- Moreover, the terms and conditions of two of the IFI loans were only uncovered through a Promotion of Access to Information Act (PAIA) request.

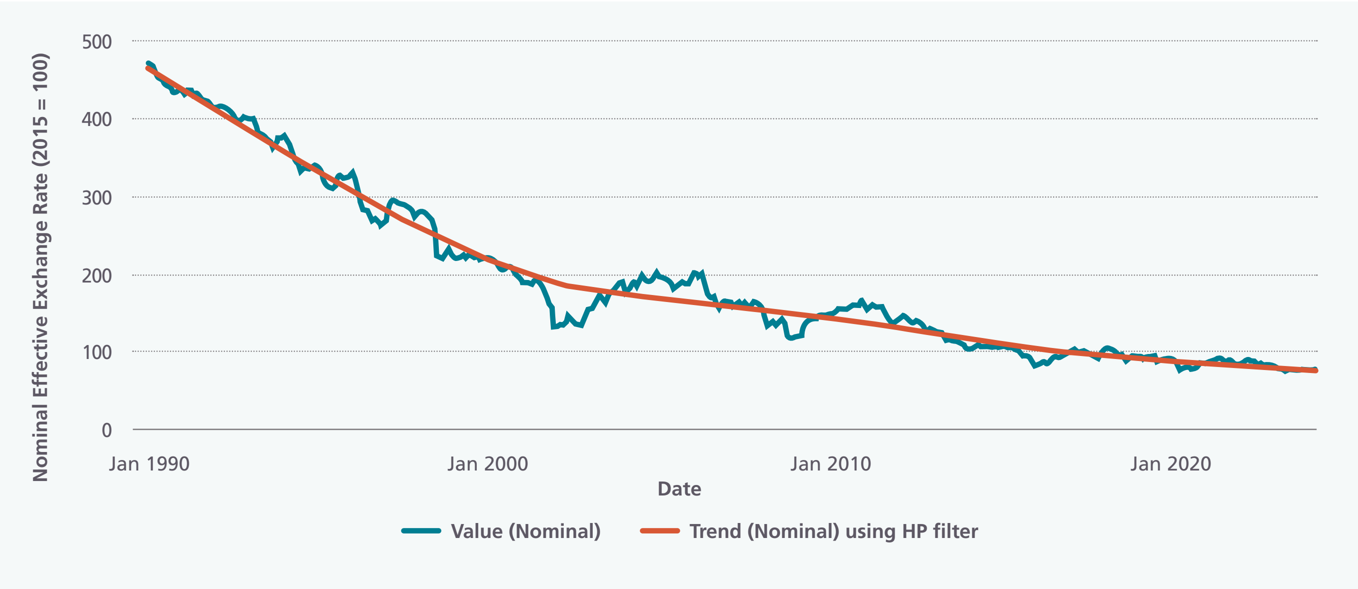
LESSONS FROM THESE LOANS

IFI coordination: IFIs have historically lent in a coordinated manner. They collectively devise a common policy matrix, and provide technical assistance to each other. This can weaken the government's bargaining position, and therefore should be a matter of concern for Parliament. This was what happened in the Covid-19 IFI lending to South Africa,[36][37] with the AfDB, the IMF, and the World Bank collectively developing a common policy matrix. Similarly, the development of a common policy matrix has occurred with other IFIs who have lent as part of the JET-P, wherein policy conditionalities are nearly identical across the board. These IFIs include the African Development Bank, World Bank, Kreditanstalt für Wiederaufbau (KfW), and the Government of Canada.[38] Similar deals are being brokered with countries such as Indonesia and Vietnam.[39] Given the over-reliance on concessional loans to finance the JET-P, the government may find it difficult to object to policy conditionalities as this may delay the acquisition of finance in a timeous manner.

This leads to a climate financing model in which developing countries 'take what they can get', instead of what they need or what is sustainable.

Foreign currency: The risk of foreign debt default is limited by the cap on foreign debt at 15% for all outstanding debt,[40] and the buffer of foreign exchange deposits at the South African Reserve Bank (SARB). But the rand's volatility and long-term nominal decline heighten the uncertainty of computing repayment costs. Such loans place unnecessary pressure on the fiscus. Figure 1 shows the values and trend of the weighted exchange rate of the rand against the currencies of South Africa's top twenty most important trading partners from 1990 to 2024.

Figure 1: Nominal weighted exchange rate of the rand against a basket of currencies of South Africa's top 20 most important trading partners

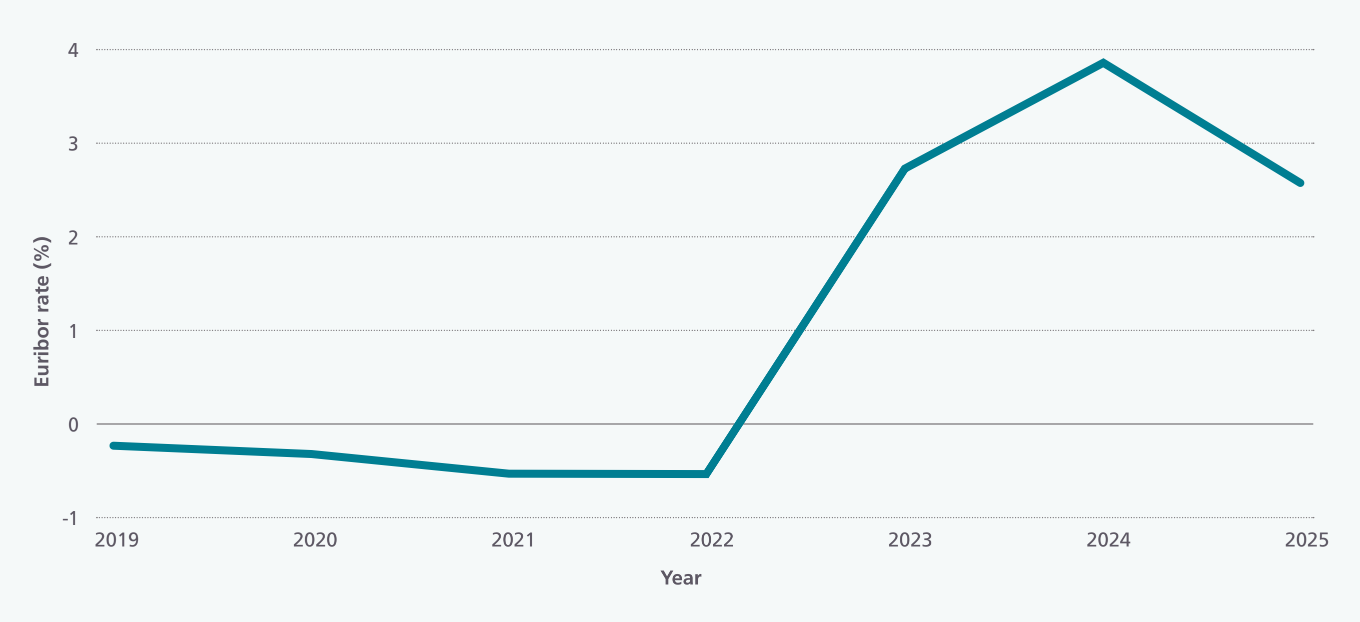


Source: Author's own calculations based on SARB nominal effective exchange rate data[41][42]

This shows that, since 1990, the rand has weakened in nominal terms, and, according to the IMF, the rand's volatility between 2010 and 2019[43] was one of the highest among advanced and emerging economies.[44] A continuation of this trend would mean higher costs when repaying foreign-currency-denominated debt from IFIs. In addition, high currency volatility makes it difficult for the government to get a good idea of the cost of upcoming interest payments. Higher-than-expected interest payments erode fiscal space, as National Treasury argues happened in 2022/23.[45] In the context of fiscal consolidation and binding fiscal rules, higher-than-expected interest payments mean – as has been the standard practice – public money has to be reprioritised from social spending to service debts.

Interest rate: In addition to currency risk, the interest rate risk on JET-P loans remains. The interest rate on both loans is variable.[46] As Table 2 shows, the interest rates are linked to the Euribor, which is the average interest rate at which European banks borrow from one another.[47] This dependence on international rates carries unforeseeable risks from international conditions outside the control of the South African state. For example, debt service costs in 2022/23 were revised upward by R5.4 billion due to the SARB's policy rate increase in response to rate hikes by the central banks of major economies.[48] Moreover, the European Central Bank's aggressive interest rate hikes since 2022 have led to a significantly higher Euribor rate (see Figure 2).

Figure 2: Euribor rate 2019 to 2025



Source: Euribor Rates[49]

As at 17 March 2025, the Euribor rate, at 2.422%, is 0.254 percentage points higher than at the date of the agreement of the two JET-P loans. Based on a simple amortized loan repayment schedule (fixed debt service payments until maturity), the latest Euribor rate would mean the government pays roughly R6.5 billion more over the loan's duration compared to the signing date of the agreement.[50] While loan repayments only begin in November 2027, the spike in the Euribor since early 2022 highlights the uncertainty the South African government faces with respect to repayment costs.

Loans spent in Global North: Large portions of the grant and equity financing that has been disclosed has been awarded to Global North entities,

> "in most cases to entities from the donor countries… more than a third of the total grant financing, and … all the grant financing given by Germany, goes straight back into its own development agencies and bank (and a handful of German research institutions)".[51]

The same is the case with the United Kingdom's US$1.8 billion commitment to the JET-P, where Globeleq, a company owned by the UK government through British International Investment, received a portion of the commitment.[52]

WHY IFI FINANCE SHOULD HAVE PARLIAMENTARY SCRUTINY AND APPROVAL

In this section, we argue that mandatory parliamentary scrutiny of IFI loans is essential. Firstly, we explain why IFIs, as lenders, are a special case. We then outline Parliament's duty to protect human rights and sovereignty, before identifying the oversight requirements imposed first by South Africa's Constitution and its laws, and then by international law. We observe that international standards and trends are moving clearly in the direction of greater oversight. We note the irony that market borrowing is subjected to more transparency and oversight than IFI loans. Finally, we observe a general support in South Africa for greater oversight of loans.

IFI IS A SPECIAL CASE

All sovereign loans, whether from private or official lenders,[53] have predetermined conditions,[54] the purpose of which is to guarantee the repayment of the loan.

They can range from the repayment schedule to the macroeconomic policies of the borrower (such as the budget deficit or central bank rates).[55] In this sense, all sovereign lending is 'conditional'.

In addition, at least two aspects of IFIs are unique to official lenders and warrant careful consideration by borrower countries.

- Official lenders are overtly political institutions. Bilateral creditors are wholly owned by governments. Their mandates and operations are a result of internal political processes which recipient countries may not be party to. Multilateral lenders are made up of member states, which also influence the policy and structure of these institutions in line with members' foreign policy stances. The two preeminent IFIs, the World Bank and the IMF, have governance structures which favour the interests of Western nations,[56] in particular, the United States.[57] This is expressed in the voting power percentages of member countries in the World Bank and IMF.
- IFI lending often contains conditions that do not appear necessary to guarantee loan repayment. These can include conditions around the ownership and operation of key economic resources such as electricity, and trade policy.[58] We use the term 'policy conditionality' to distinguish this kind of conditionality from loan terms regarding interest rates, instalments, and repayment schedules.

HUMAN RIGHTS AND SOVEREIGNTY

Parliament has a constitutional duty to ensure that all state organs guarantee and protect human rights,[59] and safeguard national sovereignty.[60] This further amplifies the need for accountability. The state has a constitutional duty to take reasonable measures that ensure citizens realise their socioeconomic rights, including education,[61] healthcare, social protection,[62] and housing.[63] Therefore, Parliament must design oversight procedures and measures to ensure that citizens are not hindered from exercising their rights and that actions by the Executive do not have the potential to violate them.

The Preamble to the Constitution identifies the objective to "build a united and democratic South Africa able to take its rightful place as a sovereign state in the family of nations".[64] Should executive action potentially contravene national sovereignty, parliamentary processes should be well-designed to prevent this.

THE SOUTH AFRICAN CONSTITUTION AND LAW

The policy conditionalities which accompany IFI loans to South Africa need to be scrutinised for their alignment with the Constitution, national and international law, and established government policies. Constitutional supremacy requires that any law or conduct inconsistent with the Constitution be deemed invalid.[65]

Parliament and the Executive: South Africa's Constitution establishes that Parliament must "provide mechanisms to ensure that all Executive organs of state in the national sphere of government are accountable to it".[66] An example of such a mechanism is the Budget vote, which allows Parliament to evaluate whether the Ministry of Finance and government departments "kept the promises of the previous year and spent taxpayers' money properly".[67]

Parliament enjoys oversight power over the National Revenue Fund (NRF)[68] and exercises this through budget approval and appropriation.[69] It scrutinises public expenditure through the Standing Committee on Public Accounts (SCOPA),[70] reviewing Auditor-General reports,[71] and questioning the Executive in parliamentary sessions.[72] In addition, the Constitution requires Parliament to facilitate public debate in its legislative and oversight process, including oversight of the NRF.[73]

Conditions constrain Parliament: Policy conditions directly impact Parliament's work: some conditions may limit its ability to enact legislation promoting specific socioeconomic rights. For instance, lawmakers in the future may want to enact legislation that further prioritises the provision of education, healthcare, or social security. They could have their efforts limited by the National Treasury's pre-existing commitments to cut public spending to acquire a loan from an IFI.

Prior actions: The nature of conditionality has evolved, with institutions such as the World Bank attempting to affirm on-going policies, instead of simply making prescriptions.[74] This is termed 'prior actions',[75] and has been copied by other official lenders such as the French Development Bank (AFD), as seen in table 2. According to the World Bank, prior actions are "policy and institutional actions deemed critical to achieving the objectives of a program supported by the development policy operation".[76] While prior actions are compulsory,[77] they do not have to be accomplished at the time of initial loan disbursement, contrary to what the term 'prior action' suggests. However, the loan may be suspended (disbursements stopped) if the World Bank views that prior actions are unlikely to be completed. The Presidential Climate Commission (PCC)[78] claims that prior actions "do not have the danger of dictating policy change going forward".[79] This position can be challenged on at least two bases:

- Policy conditions may reinforce or entrench harmful policies. Prior actions may impinge on Parliament's ability to enact legislation that aims to realise the public's constitutional rights. For example, part of South Africa's commitment in its Letter of Intent with the IMF is the establishment of a binding debt ceiling.

While this has not yet materialised, in the absence of strong economic growth, this tool would lock-in the government's decade long policy of budget cuts,[80] which have negatively affected the provision of public services such as education and health.[81] So even an agreement to continue an existing policy via a prior action commitment can unduly tie Parliament's hands.

- The very nature of policy making within a democracy entails the possibility of diversions from initially agreed-on policies. Yet, policy conditionalities create a policy lock-in that could restrain the policy space of a democratically-elected government. As an example, the pace at which South Africa's decarbonisation is proceeding is still hotly contested within the government. Whereas the country has committed, in multiple loan agreements, to adhere to the Paris Climate Agreement, the Minister of Department of Mineral Resources and Petroleum indicated that South Africa will "burn coal for a very long time".[82] It is however unclear whether the Minister's declarations can be realised given that many of the concessional loans were taken for the purpose of decommissioning coal power stations.[83] This might seem desirable for a policy that a particular constituency agrees with (like burning less fossil fuels) but will invariably be used to place as 'off limits' other policies too.

INTERNATIONAL LAW

The standards of international law make it an imperative for the state to involve the public or Parliament in the acquisition of IFI debt. The integrity of international agreements on the realisation of human and socioeconomic rights as well as the need to protect national sovereignty – aspects which could be undermined by IFI borrowing – oblige parliament (as representative of the public) to participate in the IFI borrowing process.

Economic sovereignty: International law also embraces the right to economic sovereignty. The Charter of Economic Rights and Duties of States adopted by the UN General Assembly on 12 December 1974 clearly states that:

> Every state has the sovereign and inalienable right to choose its economic as well as its political, social and cultural systems by the will of its people, without outside interference, coercion or threat.[84]

This is reinforced by Article 1 of the ICESCR and by a resolution of the United Nations General Assembly on external debt and development, which says that the advancement of finance or other forms of assistance to developing countries should not come at the expense of "national ownership, strategies and sovereignty".[85] Consequently, sovereign lenders and borrowers have a responsibility (as is captured in table 3) to put up mechanisms or systems that ensure that IFI finance does not intrude on the ability of countries to internally develop their own policies and strategies with a great deal of independence from foreign influence. Parliamentary scrutiny and approval of IFI loans is one such mechanism.

IFI discretion: Critics argue that, while IFIs derive their mandate from international law, they do not observe it.[86] IFIs were born from international treaties, with these treaties giving their executive directors broad discretion on how to govern them.[87] This allows the persistence of conditional lending and provides the international legal framework with limited ability to balance these conditionalities against state obligations to respect and promote international human rights. Scholars such as Chumni have noted that, because IFIs also act in the interest of dominant states (who have the largest voting rights in these IFIs), they are often allowed to ignore the "purpose and principles of the UN system and international human rights".[88]

INTERNATIONAL STANDARDS AND TRENDS

Both international standards and trends are moving towards the direction of greater parliamentary and/ or public participation in the uptake of IFI debt. As we outline below, a broad range of countries (through the United Nations) attempted to establish standards for international borrowing that emphasised transparency, consultation, and accountability. At the same time, many countries, primarily developing countries have adopted laws which obligate the Executive to receive parliamentary ratification for all debt.

Loan principles: Following UN General Assembly resolutions that emphasise the importance of responsible lending and borrowing, The United Nations Conference on Trade and Development (UNCTAD) established agreed principles to guide sovereign lending and borrowing.[89] These principles are shown in Table 3.

Table 3: UNCTAD principles of promoting responsible sovereign lending and borrowing

LENDERS	BORROWERS
Agency: lenders should recognise that government officials are responsible for protecting public interest.	**Agency**: governments have the responsibility to protect the interests of their citizens when taking on debt.
Informed decisions: lenders must provide information to ensure that borrowers are making informed credit decisions.	**Binding agreements**: governments must recognise that a loan agreement is a binding obligation that must be honoured, absent exceptional circumstances.
Due authorisation: lenders must ensure that the credit extended has been appropriately authorised.	**Transparency**: governments must put in place arrangements to ensure proper approval and oversight of sovereign borrowing.
Responsible credit decisions: lenders must provide a realistic estimation of a borrower's capacity to repay	**Disclosure and publication**: Relevant terms and conditions of a loan should be disclosed by the state, be universally available, and be freely accessible in a timely manner through online means to all stakeholders, including citizens.
Project finance: lenders involved in financing a project must conduct their own investigation to ensure that financing is used as intended and lenders must be aware of the socio-economic implications of their lending.	**Project finance**: borrowers must conduct an investigation into the financial, social, and environmental implications of its borrowing to finance a project.
International cooperation: lenders must comply with UN sanctions imposed against a government.	**Adequate management and monitoring**: the borrower must put in place a debt sustainability and management strategy, and have an auditor independently assess recent borrowed money.
Debt restructuring: where borrowers cannot repay, lenders must act cooperatively and in good faith to reach a consensual rearrangement for the payment	**Avoiding incidence of over-borrowing**: sovereign states should borrow if it will spur additional private or public investment, with the social return at least as great as the loan interest rate
	Restructuring: if a restructuring of sovereign debt obligations becomes unavoidable, it should be undertaken promptly, efficiently and fairly.

A common thread in these 15 principles is the understanding that the sovereign – which is the state – is only acting on behalf of its citizens. Thus, before a loan agreement is concluded there should be mechanisms put in place – initiated by both the lender and borrower – to ensure that (1) citizens, through public representatives, agree to take on the loan, and (2) all of the details of the loan are publicly available through an online debt registry. Parliament is the most appropriate institution to determine public approval.

Oversight trends: The requirement of parliamentary approval in the acquisition of IFI loans is established globally, although there are differences in the authority given to Parliament. A survey jointly conducted by the Inter-Parliamentary Union and the World Bank in 2013 found that:

- Among the 99 selected countries,[90] 59% had laws that required parliament to ratify loan agreements with IFIs before they became effective.[91]
- In 83% of the countries that require ratification by parliament, the Executive has, in effect, no ability to override parliament's ratification authority.[92]
- However, in some countries (such as Ethiopia and Tonga), parliamentary ratification is required only for loans above a certain threshold.[93]
- In 47% of countries where parliamentary ratification is a legal requirement, Parliament can only accept or reject an IFI loan, while in 29% parliament can request amendment to the loan agreement.
- Only in 58% of countries, where parliaments are given authority to ratify, are they also involved at some stage in the loan approval process.[94]
- 46% of parliaments that are involved in the loan approval process are also consulted with before loan negotiations.[95]

Need for skills: CSOs can demand a structured parliamentary engagement around IFI borrowing. However, the Inter-parliamentary and World Bank joint study into parliamentary oversight on IFI loans found that low technical competency and institutional issues (such as lack of structured engagements) lead to weak parliamentary oversight even where the legal structure exists. Training has been done with some degree of success in other African countries that have recently faced even more pressing problems of debt distress.[96] Members of Parliament who participated in the training however still reiterated the salience of greater transparency from the Executive, to enable more effective oversight.[97]

Following the domestic example of market borrowing: By contrast with the IFI process, the market borrowing process affords the public much greater transparency. The South African Reserve Bank (SARB) publishes a readily available government document (Rules and Code of Conduct in respect of the Primary Dealers in Government Bonds of the Republic of South Africa).[98] This explicitly prescribes that bonds will be offered through an auction, where a group of publicly known primary dealers have to place minimum bids, competitively. The results are published by the SARB and the National Treasury in the week following the auction. These results detail the value of bonds on offer across the yield curve, for different instruments, along with the market demand, and the market clearing interest rates.

GENERAL SUPPORT

There is evidence that there is general support for greater transparency:

- The Presidential Climate Commission (PCC) called for greater transparency, noting with concern that, without greater disclosure by the Executive, the PCC's stakeholders (youth, labour, business, and CSOs) are unable to assess whether loans are sufficiently concessional and what their conditionalities are.[99]
- Civil society (including labour unions) have rejected the undemocratic uptake of loans from IFIs, culminating in a set of recommendations to the Finance Select and Standing Committees in November 2023. Among other things, civil society and labour unions have called for: (i) Policy conditionalities and project appraisal to be tabled in Parliament before a loan agreement is signed; and (ii) No IFI lending to take place before a long-term impact assessment of a given loan (and its conditionalities) on the country's debt sustainability and human rights obligations is conducted and presented to parliament.
- The Parliamentary Finance Committee has in-principle endorsed this approach, with the 2023 report noting:

  "7.38 It is imperative that the details of any funds acquired from these institutions, including the preconditions that had to be met, and how these preconditions were met, are communicated openly to the public.

  7.39 legislation [should] be introduced within three years to provide for parliamentary oversight of all IMF and WB loans in South Africa by the relevant parliamentary committees".

DEFICITS IN STATUS QUO

The calls for greater democratisation of the IFI borrowing process come from an observation of the deficiencies in the current system. Whereas the Constitution and other statutes place a general obligation on the Executive to be transparent in its operations, and for it to be held accountable by Parliament, the current laws which govern public finance arguably do not make provisions for this in the case of IFI borrowing. This section details the legal and institutional shortcomings that allow National Treasury to effectively monopolise the process of IFI borrowing.

Discretionary powers: Parliament has limited room to scrutinise IFI loans or hold the government accountable. Interestingly, the South Africa Revenue Act of 1997 (SARS Act), the Tax Administration Act 28 of 2011 provide a clear accountability framework of SARS to Parliament within the legislation. Yet no framework guides the Minister of Finance as to the principles to be observed when negotiating loans. Section 72 of the PFMA says, "[t]he Minister, on conditions determined by the Minister, may authorise another person to sign a loan agreement when the Minister borrows money in terms of section 66 (2) (a)".[100] This unfettered discretion results in a process where only the National Treasury (and occasionally the Cabinet) is involved in acquiring IFI loans.

So, Members of Parliament can exercise scrutiny over taxes collected, but are disempowered from tangible scrutiny of loans, and the implications they may have for the public. Both forms of revenue collection, however, contribute to the same National Revenue Fund.

Public disclosure: Once the National Treasury concludes loan agreements with IFIs, there is neither a standard procedure for making public announcements, nor a full disclosure of loan terms. Shockingly, it is often the IFIs that are more forthcoming on loan details — the World Bank publishes full loan agreement documents on its own website. On occasion, only the financial terms of the loans, such as the interest rate and the principal amount, are disclosed.[101] But this practice leaves it up to the public and Parliament to speculate on the presence and nature of policy conditionalities.

Parliament disempowered: The Money Bills Amendment Procedure and Related Matters Act of 2009 ('Money Bills Amendment Act') empowers Parliament to assess and, where necessary, make amendments to the three proposals that accompany the budget — the fiscal framework, the Division of Revenue Bill, and the Appropriations Bill.[102] The government's annual borrowing plan forms part of this fiscal framework. However, the Money Bills Amendment Act only stipulates that the fiscal framework cover estimates of borrowing,[103] excluding details on the sources and conditions of debt. This creates a situation whereby Parliament is unable to assess whether policy conditionalities (if they exist) could potentially clash with the State's constitutional duties.

Lack of transparency: The National Treasury has consistently failed to be transparent on conditionalities, even when Parliament has attempted to hold it to account and elicit this information. After Parliament's Standing Committee on Finance expressed concerns about conditionality in the Covid-19 loans described above, the National Treasury Deputy Director-General of the Budget Office assured them that "[t]here are no conditions attached to the loan. It is a budget support loan."[104] Table 1 shows that this is false.

Prior permission: Importantly, the process of assessing planned spending happens before the National Treasury distributes money to departments. This allows them to evaluate whether allocating a certain amount of money to a department or programme is justified. By contrast, Parliament is only informed after the loans have been taken. In addition, legislation currently does not compel the National Treasury to be forthcoming with the full terms and conditions of IFI loans.

RECOMMENDATIONS

IMPLEMENT A FIVE-STEP PROCEDURE

We propose that the loan principles we have identified should be operationalised through five steps which should take place before any loan is agreed:

DEBT SUSTAINABILITY ANALYSIS

The National Treasury, alongside the Fiscal and Financial Commission and the Parliamentary Budget Office, should conduct a debt sustainability analysis, which not only considers the state's ability to repay, but also the implications of additional debt for the government's ability to meet climate finance targets and public goods. This debt sustainability analysis should be presented to the Parliament's Portfolio Committee on Finance. This would give the committee an opportunity to mitigate the likelihood of debt distress.

HUMAN RIGHTS, GENDER AND ENVIRONMENTAL IMPACT ASSESSMENT

The National Treasury, alongside relevant government departments, should conduct and submit an assessment of the potential impact of a loan and related servicing costs on the realisation of human rights, availability of resources to realise human rights, gender equity, and the implications for women, children, and the environment. These assessments should be submitted to the Portfolio Committee on Finance.

DEVELOPMENT ASSESSMENT

National Treasury should demonstrate that taking on the loan will advance, and will not be detrimental to, South Africa's long-term development agenda:

- The loan should not contain conditionalities which would lead to socially, economically, or environmentally regressive outcomes, either in the short- or long-term.
- Foreign currency loans should only be contemplated if they support an activity that generates international currency income.

NATIONAL SOVEREIGNTY REPORT

National Treasury should submit a written report to the National Assembly on every IFI loan which:

- Demonstrates that any conditionalities do not violate the Constitution, or other existing laws, or current national policy;
- Assesses the impact of departing from these conditionalities.

The Portfolio Committee would have an opportunity to recommend that the National Assembly rejects the loan.

SUBMISSION FOR PUBLIC CONSULTATION AND MAJORITY VOTE

The terms and conditions of all loans should be made publicly available on the National Treasury website and should be included in National Treasury's annual Debt Management Reports. These terms and conditions should include: maturity, interest rate, principal amount, interest payments and their timing, currency, policy recommendations/commitments or conditionalities, transaction costs (such as the commitment and appraisal fees), and purpose.

- The Portfolio Committee on Finance should allow for a three-week period for public comment online.
- The Portfolio Committee should summon the National Treasury and use these public comments to scrutinise the loan.

- The Portfolio Committee should compile this scrutiny and National Treasury's response and submit it to the National Assembly. The report should include a DSA and cover assessments of human rights, gender, environmental impact, national sovereignty, and development.
- The National Assembly should be given adequate time to evaluate the report. Following this, the loan should be approved or rejected through a simple majority vote.

Short term interventions

In the short term, where the requisite legal framework has not yet been established, we recommend that National Treasury presents the loans acquired over the course of a fiscal year to Parliament's Standing Committee on Finance. This presentation should uncover both the financial and non-financial terms of the loans. The loan agreement contracts should be made available on the National Treasury's website. If National Treasury is not forthcoming with this information, Parliament must continue to use its powers to summon and compel National Treasury to disclose all financial and non-financial terms of the contracts. The JET Project Management Unit (PMU) has already indicated that a loan register is in the process of development. This must be accelerated.

Amendments to the PFMA

Parliament should consider amendments to both the PFMA and possibly the Municipal Finance Management Act (Act 56 of 2023) to qualify the powers of the relevant authorities to enter debt arrangements which contain policy conditionalities. Currently, sections 66, 70 and 71 of the PFMA afford the Executive the power to enter into debt arrangements which are binding on the state and to grant the creditor a direct charge against the National Revenue Fund.

A multilateral approach

The government should pursue a systemic, multilateral approach to climate finance that includes all developing countries on universally favourable terms. This would mitigate the power of lender countries.

Loans need to boost exports

To limit pressure on resources, foreign loans borrowed as part of the JET-P should be linked to projects that boost the country's export volumes, capacity to export, or the ability to import fixed capital. This would enable the foreign loan funding to, in effect, pay for itself.

CONCLUSION

Conditionality in and of itself may not necessarily be bad. After all, conditionalities can function to assure creditors that loans are used for their intended purpose. It is the manner in which these loans are processed which risks undermining the policy-making space in South Africa. Researchers within the World Bank itself acknowledged that "while conditionality can be a useful commitment device, it cannot substitute for country ownership".[105] Indeed, World Bank researchers have pointed out that conditionality may be improved by applying the Bank's ethos of multi-stakeholder partnership between government, the private sector, and civil society to conditionality; an ethos it has advocated for in its "Comprehensive Development Framework".[106] This would be in line with the standard for law and policy making in South Africa.

We have argued that South Africa needs a process for the Executive to obtain parliamentary approval to contract financing from IFIs. This is indispensable as the current public debt management framework does not account for the risk to policy sovereignty and human rights posed by conditional lending. We have also shown that civil society and labour unions have demanded greater parliamentary involvement in IFI lending, through conducting research and engaging with incumbent parliamentarians. And we found numerous examples of countries around the world that have legislation that require their parliament to vote on the acquisition of IFI financing. Parliament needs to act quickly and decisively to safeguard democracy, sovereignty, development, human rights, and debt sustainability.

To facilitate this, there is a need to strengthen Parliament's power and capacity to enable greater oversight of loans. While we acknowledge the Executive's evasive behaviour, Parliament has arguably failed to use its powers to scrutinise borrowing fully.[107] [108] Legislation or regulation which specifically addresses this issue may therefore be an appropriate intervention. Training will also be required.

APPENDIX: BRIEF CASE STUDIES

In this appendix, we summarise the key legislative changes that have been implemented in Argentina, Mozambique, and Zambia. Since 2010, these countries have each defaulted on their external debt. The objective is to draw out potential lessons for South Africa, by looking at the design of the laws, and at the way in which specific clauses and articles in the laws address the concerns about debt sustainability, national policy sovereignty, human rights, gender equity, environmental sustainability, economic democracy, and development.

ARGENTINA

The rules for state borrowing in Argentina are codified in the country's constitution and various statutes. Article four of Section 75 of the Argentine Constitution empowers Congress to contract debt on behalf of the state. However, in effect, the power to contract debt was delegated to the Minister of Finance, who could take on foreign currency debt without the explicit approval of Congress. Congress implicitly approved most state debt through their approval of the annual budget.

In 2021, Argentina passed the Law on Strengthening the Sustainability of Public Debt. Among the key provisions was empowerment of the legislature to set an annual limit to foreign currency borrowing, with special legislative approval needed to exceed that amount.

This came on the back of the country's struggles to cope with its foreign debt burden. Since the 1970s, Argentina had experienced a period of extreme build-up of foreign-currency debt.[109] In 2020, Argentina went through yet another debt restructuring programme, seeking to amend the terms of its foreign currency denominated debt with international lenders.[110] Both the Argentine government and the IMF assessed Argentina's public debt to be unsustainable on account of its size (above 90% of GDP)[111] and its high refinancing costs.[112]

The law is particularly cautious about IMF lending. Article 2 of the law says:

> "It is provided that any financing program or public credit operation carried out with the International Monetary Fund (IMF), as well as any increase in the amounts of such programs or operations, shall require a law of the Honorable Congress of the Nation that expressly approves it".[113]

Only foreign currency debt that is greater than the amount initially agreed on in the budget and all IMF programmes has to be specially and explicitly approved by Congress. With the latter provision, the Executive initiates negotiations with the IMF. This agreement is then passed on to the Chamber of Deputies (one of the houses in Congress), who can pass the loan with a simple majority. It is then up to the Senate to ratify this decision. Thus, in Argentina, Congress is the ultimate authority on the contracting of IMF debt.

Oversight is provided by both Congress and the IMF. The Permanent Bicameral Commission for Monitoring and Control of the Contracting and Payment Management of the Nation's Foreign Debt – which consists of 10 Senators and 10 Deputies – monitors the evolution, management, and payments of the nation's foreign debt. This Commission essentially guards against debt distress. Meanwhile the IMF conducts quarterly audits.

So Argentina serves as both a blueprint and a cautionary tale. It demonstrates the imposition of a measure to make loans accountable. And it also shows that, where the Executive is allowed free reign to accumulate debt – especially foreign currency debt – there are huge risks for the fiscus.

Despite the new legislation, the Argentine public has continued to be highly critical of the IMF loans taken by the government. One commentator – a member of the Argentine congress – viewed them as a "New Colonial Pact".[114] In 2022, thousands of protestors marched to Congress in disapproval of the IMF agreement taken on by the country. The protestors said they were not convinced that the new IMF deal was different to those of old, which brought about hyperinflation and a huge social crisis.[115]

MOZAMBIQUE

The rules for state borrowing in Mozambique are codified in the Constitution and in statutes. Clause (p) in Article 179 of the Constitution empowers the Parliament to "authorise the Government, while defining the general conditions, to contract and make loans and to carry out other credit transactions, for periods exceeding one financial year, and to establish the upper limit for guarantees that may be given by the State".

Approval of the contracting of state debt and guarantees mainly involves three stakeholders– the Minister of Finance, Parliament, and the Bank of Mozambique (the country's central bank). Parliament approves loans implicitly through their approval of the budget. Aside from parliamentary oversight, borrowing is further constrained by the imposition of limits on debt and issuances of state guarantees.

Mozambique employs a variety of strategies to monitor debt. The Minister of Finance is supposed to publish, on an annual basis, a medium-term debt strategy and a debt sustainability analysis. The government, on a quarterly basis, is supposed to inform parliament of state debt contracted and guaranteed, and the specific conditions of the loans must be included in the Budget Execution Report. The Finance Ministry must publish an annual public debt management report, its stage of implementation and deviations from the medium-term strategy.

What happened in Mozambique highlights the inadequacy of the simple presence of a legal framework. In 2013 and 2016, it was revealed that the Minister of Finance had agreed to guarantee loans from European Banks (Credit Suisse and VTB) that were ostensibly to develop the country's marine economy. This, however, was done in complete secrecy, without the knowledge of either the legislature or other state organs, and thus was not accounted for in the state balance sheet. Furthermore, the borrowed amount, $2 billion, was largely squandered by the beneficiaries.[116]

The legislature was bypassed, despite Mozambique's Constitution empowering the parliament to "authorise the Government… to contract and make loans… and to establish the upper limit for guarantees that may be given by the State".[117] Unsurprisingly, the country's Constitutional Council concluded that taking on the loans was unconstitutional.[118] The revelation of these loans led to economic decline, multiple defaults on sovereign debt, and difficulty in accessing foreign capital.

While the case of Mozambique involved the loans from private banks rather than from IFIs, the lack of effective oversight could just as easily permit IFI funds to be syphoned from the state and wasted. Essentially the constitutional provision was not a sufficient deterrent to corrupt behaviour. This indicates the necessity both of the establishment of a legislative framework that mandates the approval of IFI loans in parliament to ensure oversight, along with strong judiciary and auditing institutions that will punish the Executive and disincentivise similar, unconstitutional action.

ZAMBIA

The rules that govern state borrowing in Zambia are also codified in the country's Constitution and statutes. Section 114(e) of the Zambian Constitution designates the national parliament as the final authority on the contracting of state loans and guarantees. The supporting statute, the Public Debt Management Act, which was signed into law in 2022, also sets out some of the key measures for oversight.

The first thing to note is that all public debts and guarantees by the state have to be ultimately approved by parliament. The Debt Management Office prepares the Annual Borrowing Plan, which contains information on:

- The total amount to be borrowed;
- The purpose of the loans;
- The debt instrument to be used;
- The broad terms of the borrowings;
- The indicative timings of the borrowing operations;
- The maximum amount the government is willing to borrow in the financial year; and
- The overall net change in public debt.

The Zambian legislature can then either approve or not approve the entire Annual Borrowing Plan. This vote is an implicit approval of all loan agreements, as, unlike Argentina, Zambian legislators cannot vote on individual loan agreements. Furthermore, parliament is not even provided with the information of the interest rates, conditionalities, and repayment periods of the loan agreements.

The Public Debt Management Act also allows the government to guard against debt distress. For this, the Minister of Finance and National Planning is mandated to produce statistics on debt accrued, and a debt sustainability analysis that is provided to parliament and made available to the public annually. In addition to these mandates, the Minister of Finance must give updates on the implementation of the Annual Borrowing Plan twice a year. Lastly, the Office of the Auditor-General is required by law to audit all public finances, which include public debt, and submit these audits to the Parliament.

In practice, many of the promises offered by the new legislation have not materialised. Transparency remains low, as the Ministry of Finance does not conduct regular, publicly available updates on the execution of the Annual Borrowing Plan. The Executive also sometimes bypasses the parliamentary oversight process with few repercussions. Zambian parliamentarians report that the Minister of Finance has in the past negotiated and contracted debt on behalf of the state while on international travel.

SUMMARY

In summary, all three countries have formally codified the rules for borrowing in their constitutions and statutes. Nominally, parliament is made an integral part of the process of approval. There are variances across the countries about whether parliament approves IFI loans individually or does so as part of the process of approving all borrowing.

A big focus of the law in all countries is to ensure that any prospective debt will not lead to debt distress. This focus is unsurprising, as these countries have all recently undergone debt defaults. Democratic decision making – including public participation – are implied by the inclusion of parliament in the process of approval. Meanwhile, for Argentina and Mozambique, an important step in the protection of national sovereignty is taken through requiring that the Executive discloses the conditionalities attached to the loans. It is in the other principles that the legislation in the three countries is found wanting. Within their statutes, there are no clauses or articles which explicitly provide that the taking on of debt must be cognisant of development and human rights.

ENDNOTES

1. With special thanks Ben Cronin, Andile Zulu, Matshidiso Lencoasa, Alex Lenferna, Matthew Grant, and Tengo Tengela for their contributions. In addition, we would like to express gratitude to a panel of experts – Ariella Scher, Busi Sibeko, Bruno Tinel, Daniel Bradlow, Gilad Isaacs, Jerome Lange, Kenneth Creamer, Marianne Buenaventura-Goldman, Michael Sachs, Nicola Soekoe, and many other – for their comments on an earlier version of this policy brief.
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