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INTERNATIONAL FINANCIAL INSTITUTIONS' COVID-19 LENDING IN SOUTH AFRICA: CONTEXT, CONTENTIONS AND POLICY IMPLICATIONS

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Acknowledgements

This Research Report draws on documentary analysis and primary data collection. The latter includes over a dozen interviews, meetings, and discussions with members of the South African Parliament, the Executive, multilateral institutions, bankers, lawyers, academics, and civil society groups. This Report's purpose is to call attention to key insights emerging from the recent pandemic-related lending in South Africa, but with lessons applicable more widely. We ask vital questions to facilitate a constructive, and informed engagement between Parliament, National Treasury, civil society, and communities/constituencies affected by the interactions between International Financial Institutions and the South African state. We sincerely thank all who engaged with this research in that spirit. In particular, the authors would like to thank Chiara Mariotti, Marianne Buenaventura, Karen Hurt, Joshua Rosenburg, Gary Van Vuuren, Joao Braga, Mila Harding, and Azminah Jhetam for their insights and comments. The content of this Report is in no way a reflection of their views with any error being the sole responsibility of the authors.

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EXECUTIVE SUMMARY

The purpose of this Report is to understand how International Financial Institutions (IFIs) lent during the Covid-19 pandemic, in order to understand what future lending might look like. Importantly, not all IFIs behave in the same way, and many have transformed their lending practices over time. IFIs have an important role to play in ensuring that there is adequate macroeconomic and financial stability, countercyclical lending, and patient capital financing for high-risk research and long-term development projects. The need for condition-free, low-interest capital is urgent, particularly to overcome the multiple challenges of pandemic recovery and the climate crisis.

South Africa, the focus of this Report, has increased its borrowing from IFIs meaningfully since 2018 due to a combination of deliberate scaling up of New Development Bank (NDB) projects, and a proliferation of emergency financing from the African Development Bank (AfDB), NDB, World Bank, and the International Monetary Fund (IMF) in response to the Covid-19-induced economic crisis. The Covid-19 loans were disbursed with varying interest rates, maturities, grace periods, and in different currencies. Most loans were in US dollars given the need for foreign currency during the pandemic. However, this exposed South Africa to foreign exchange volatility risk. Nonetheless, these loans were much cheaper than what the government could access on open markets. The estimated interest rate on the loans varies between the AfDB (8%), the NDB (6.3-6.5%), the World Bank (5.4%), all of which was much higher than the interest rate of the IMF loan that will vary between 1–4%. All of these loans amounted to only 3.5% of total government debt in 2022. We estimate the total interest payments on these loans to total approximately R29 billion.

Importantly, the monetary cost of the loans should be considered in combination with the impact of the loans on policy space. Historically, policy conditionality on IFI loans have undermined policy flexibility that, in South Africa, should be determined by citizens democratically. By imposing on the sovereignty of national policy making and enforcement systems, conditionality undermines the democratic design of the social contract between the state and citizens.

The Covid-19 loans to South Africa were not conditionality free. The World Bank's Development Policy Operation (DPO) loan agreement stated that "no withdrawal shall be made of the Single Withdrawal Tranche unless the Bank is satisfied: (a) with the Program being carried out by the Borrower; and (b) with the adequacy of the Borrower's macroeconomic policy framework". These conditionalities were binding, and the loan was only disbursed in July 2022, more than two years after the onset of the pandemic. The 'Program' is a set of 'prior action' conditions, otherwise referred to as conditionality or structural adjustments. Some of the World Bank's conditions were related to the pandemic, such as the temporary continuation of the SRD grant, the introduction of an electronic vaccination data system, and ensuring direct payment of unemployment cash payments as part of the government's direct response to the pandemic. Despite fashioning this loan as being in response to the pandemic, the other half of the conditions were completely unrelated to the pandemic, for example, requiring the government to approve the National Climate Change Bill and the updated national greenhouse gas emission targets, and to open the electricity sector up to private players.

The IMF loan did not come with legally binding conditionalities in the same sense as the World Bank loans. However, the government was obliged to sign a 'Letter of Intent' that identified the policy recommendations that the government intends to follow. The letter of intent from the Reserve Bank Governor and the Minister of Finance affirmed a commitment to austerity and liberalisation, aligning the government's plans with the IMFs recommendations to reduce debt and fiscal expenditure. The alignment of the World Bank and IMF

Our Report finds that all the South African loans from IFIs were approved and passed through cabinet in an opaque manner, without adequate consultation with Parliament and civil society

policies, in what it describes as a common policy framework, jointly with the AfDB, was encapsulated in the World Bank's binding conditionality for an 'adequate' macroeconomic framework. This common framework was followed through on by government when it embarked on fiscal consolidation, targeting and reducing public expenditure on social protection schemes, and cutting the public sector wage bill.

The National Treasury officials and the Minister of Finance have argued that commitments made and prior actions undertaken to secure IFI financing did not unduly impinge on policy autonomy as they were in line with the government's existing policy positions. This, however, is concerning for four reasons. First, even if not legally binding, agreed actions influence capital markets' expectations of government action with governments feeling bound to follow through in order to avoid negative reactions. Second, the letters of intent and loan agreements are used to justify policies in public discourse and internally within government. Third, non-binding conditionalities could have binding implications for future loans, if a government is unable to repay the original loan. Fourth, the World Bank loan did have binding conditionalities that, by their nature, undermine the sovereignty of the state.

The New Development Bank (NDB), otherwise known as the BRICS Bank, was not a part of the common policy matrix between the IMF, World Bank, and the AfDB. There has been no policy conditionality on their lending as the NDB aims, as a matter of principle, to support and respect country systems. It also offers loans in local currencies and since inception 40% of its loans to South Africa have been in rands (Covid-19-related loans were an exception) with the lending agenda being to provide 'sustainable' infrastructure projects faster than other development banks.

However, NDB lending raises two concerns. First, the claim of speed and flexibility comes at the cost of habitually time-intensive accountability processes that ensure transparency, democratic participation, and environmental sustainability standards are met. Comparatively, the NDB has less transparency and weaker reporting mechanisms than the World Bank. The NDBs loan agreements are not available online, and cannot be accessed through the bank's systems of transparency. Second, contention arises in South Africa's support of a bank that supports other country systems. If the NDB follows country standards, then South Africa becomes a major shareholder and implicit supporter of NDB operations that may, for example, finance environmentally unsustainable, extractivist projects in the other borrower countries if their standards are low, or weakly enforced.

Our Report finds that all the South African loans from IFIs were approved and passed through cabinet in an opaque manner, without adequate consultation with Parliament and civil society. This was justified by perfunctory presentations at NEDLAC and post-hoc Q&As in Parliament. Transparency is a crucial first step to ensure the checks and balances are in place for accountability, to avoid corruption, to prevent the state from falling into a foreign debt crisis, and to ensure that policy space is not lost to external institutions. The lack of transparency was compounded by weak reporting on the use of the loans, corruption, and mismanagement. Implementing agencies are understaffed when dealing with emergency funding and country systems are not supported adequately.

Further, various arms of the state, like Parliament and the National Treasury, do not appear to hold IFIs to account for weaknesses in their transparency, or the potential human rights impacts of the programmes their

borrowing funds. The Independent Expert on the Effects of Foreign Debt on Human Rights in the United Nations Human Rights Council, outlines the legal and economic imperative for human rights to guide economic reform programmes and criticises structural adjustment programmes for the negative impact of austerity on the realisation of human rights. A rigorous and transparent human rights impact assessment was not forthcoming by any of the IFIs despite the fact that "states and international financial institutions have a duty to assess the impact of proposed and implemented economic reform measures, in particular, when significant adverse human rights impacts are expected" (UNHRC, 2017:10).

Similarly, IFIs are compelled to have strong policies and practices to ensure gender equality in line with South Africa's Constitution and various international laws and conventions. However, we found most IFIs to have weak gender policies that, for different reasons, were not consistent with South Africa's Gender Responsive Planning, Budgeting, Monitoring, Evaluation and Auditing Framework (approved by the South African cabinet in 2019). This resulted in unequal treatment of men and women in loan-funded programmes. In the early disbursement of the Social Relief of Distress Grant (SRD) between May 2020 and April 2021, for example, the SRD grant, partly financed by the IFI loans, were 'targeted' to excluded caregivers, who are predominantly women. As a result, only 32% of the initial recipients of the SRD grant were women, which meant that caregivers and a single child were expected to survive off the R450 Child Support Grant (below the food poverty line of R585). Subsequent austerity measures, committed to in the loans, are shown in the Report to have potentially devastating socio-economic consequences.

It should not be taken for granted that economic emergencies automatically make IFIs necessary to manage crises, especially if local institutions and resources can be mobilised. Democratic institutions should always consider the short- and long-term implications by asking if the loans are necessary and whether they affect South Africa's constitutional commitments and policy space? Without adequate checks and balances on IFI lending, and its potential influence on critical policies, the evidence illustrates that the impact on South Africa's democratic processes, national sovereignty, and human rights, are substantial.

The analysis of this report has informed a number of policy considerations.

Policy conditionalities or commitments negotiated, as well as project appraisals, need to be tabled in Parliament before a loan agreement is made. This should include projected costs to taxpayers through fees and interest payments over the lifetime of the loans. Democratically elected representatives need to have greater oversight to ensure the executive consults meaningfully with the legislature. Oversight mechanisms should not be solely reliant on the National Treasury. Legislative reforms may be necessary to strengthen oversight and citizen participation in this process.

No IFI lending should take place before a long-term impact assessment of a loan on the country's debt profile and human rights obligations is conducted. A human rights impact assessment should be made to inform the executive and legislature on their decision to incur IFI loans, and promote transparency by permitting the public to see the potential effects of budgetary decisions on human rights. All loan agreements and impact assessments must be made public and accessible on the websites of IFIs and National Treasury to make the work of oversight and accountability less time consuming, expensive, and exclusionary. This should include publicly available calculations of the cost of the loans to the state over the duration of their lifetime, and how that affects the state's overall debt sustainability.

Sovereign, democratic decision-making and political responsibility for economic policy must remain in the hands of the South African state. In line with the South African Constitution and international law, policy recommendations and conditionality of IFI loans should not be allowed to undermine the progressive realisation of human rights as a result of unjustified austerity policies. The government should ensure that economic policy conditionality comes to an end across all IFIs, and that IFIs are not permitted to push a policy agenda for the financialisation and privatisation of public services through financial tools that reduce access to public service delivery.

IFIs must adopt gender budgeting in line with gender mainstreaming policy in South Africa to ensure that their financing reduces disparities. Prior to entering into agreements, IFIs and the National Treasury should present a gender budget statement, gender expenditure tagging, performance monitoring of relevant indicators, ex-ante or ex-post gender impact assessments, and spending reviews with all IFI loans to Parliament.

Institutional reform is necessary to ensure IFIs uphold and strengthen country systems regarding oversight, implementation, and reporting on their projects to National Treasury, Parliament, and affected communities. Practically this would need to start with improvement of the failing systems of information disclosure and dissemination. An additional, independent, project-specific, dedicated official mandated to oversee spending of each emergency loan would be beneficial.

The state needs stronger oversight of IFI loans to improve accountability. Parliament should improve access to information for parliamentarians, in this instance members of the Standing Committee on Finance in particular, to strengthen their oversight role. The executive should institute more meaningful consultation with a wider range of stakeholders, including communities affected by projects, civil society organisations, and trade unions in order to improve transparency, stakeholder engagement, and strengthen democratic processes. This could entail an 'engagement group' as an independent accountability mechanism that would allow the government to learn about concerns of affected groups and communities before it finalises its borrowing plans.

IFIs need to be held accountable at acceptable standards of consultation, accountability, and information disclosure. Parliament and National Treasury should reject any IFI loan that does not involve meaningful consultation and transparency in order to hold IFIs to these obligations. In practice, for example, the NDB and IMF should present detailed accounting of their loan agreements on their website, while the World Bank should provide fuller information on key elements, such as interest rates, of their loan agreements.

Burnt out South African parliament after a fire with Mandela statue.
(Photo: Tim Wege / Alamy Stock Photo)

ACRONYMS AND ABBREVIATIONS

ADB	Asian Development Bank
AfDB	African Development Bank
AIIB	Asian Infrastructure Investment Bank
BRICS	Brazil, Russia, India, China, and South Africa
BWIs	Bretton Woods Institutions
CSOs	Civil society organisations
DPF	Development Policy Financing
DPO	Development Policy Operation
ECF	Extended Credit Facility
EFF	Extended Fund Facility
ICESCR	International Covenant on Economic, Social and Cultural Rights
IDA	International Development Agency
IFI	International Financial Institution
IFC	International Finance Corporation
IMF	International Monetary Fund
JIBAR	Johannesburg Interbank Average Rate
LIBOR	London Interbank Offered Rate
MDBs	Multilateral Development Banks
MEFP	Memorandum of Economic and Financial Policies
NDB	New Development Bank
NEDLAC	National Economic Development and Labour Council
OHCHR	Office of the United Nations High Commissioner for Human Rights
PAIA	Promotion of Access to Information Act
PRGT	Poverty Reduction and Growth Trust
RDBs	Regional Development Banks
RFI	Rapid Financing Instrument
SALs	Structural Adjustment Loans
SARB	South African Reserve Bank
SASSA	South African Social Security Agency
SDRs	Special Drawing Rights
SECALs	Sectoral Adjustment Loans
SOEs	State-Owned Enterprises
SOFR	Secured Overnight Financing Rate
SRD	Social Relief of Distress
UIF	Unemployment Insurance Fund

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INTRODUCTION

In the context of the recent Covid-19 pandemic, South Africa took on foreign debt from International Financial Institutions (IFIs) to the tune of R141 billion, with approximately R29 billion worth of interest payments in the long term. This Research Report interrogates those loans – their cost and implications. It does so in the historical context of IFIs, and the issues that surround their lending to the South African government, illustrating the approaches, strengths, and the policy implications of various IFIs and their lending practices.

IFI lending during the pandemic had a meaningful impact, with low financing costs relative to that available on the markets. However, weak transparency, accountability, and parliamentary oversight of these loans call into question their impact on democracy, sovereignty, and human rights. This Report finds, for example, that programmes supported by IFI lending contributed to unequal treatment along gender lines in the receipt of social grants and that the austerity measures encouraged by some IFIs were inconsistent with the South African Constitution and international law.

In Section 1 we look at the differences between the Bretton Woods Institutions (BWIs) and newer banks, like the New Development Bank (NDB). This context explains differences in the lending during the Covid-19 pandemic from different IFIs as part of broader shifts in lending practices and the shifting nature of the international financial architecture. Section 2 interrogates the costs of Covid-19 IFI loans to South Africa, including modelling of the interest costs, interrogating variables that affect the costs to the government, and comparing these to other sources of financing. The difficulty of transparency and ensuring accountability of the crisis-related budgetary support is discussed. Section 3 assesses the impact of IFI lending on the programmes that they financed, looking at the effects on gender inequality, democracy, sovereignty, and human rights. Finally, Section 4 summarises the main findings and provides relevant policy implications.

Inside view of an office building of the BRICS New Development Bank (NDB) in Shanghai, China. (Photo: Imaginechina / Alamy Stock Photo)

SECTION 1

INTERNATIONAL DEVELOPMENT FINANCE IN CONTEXT

1.1 Historical background

The Covid-19 pandemic was a historic crisis that had many governments clamouring in early 2020 to find cheap capital to resource their crisis response, budget, and current account deficits. Many countries turned to multilateral development banks (MDBs), as South Africa did to the African Development Bank (AfDB), NDB, and World Bank. The International Monetary Fund (IMF), as an international financial institution with the mandate to promote global macroeconomic and financial stability and to provide policy advice, capacity development support and financial assistance to countries, is included in this Report because it is the lender of last resort for countries facing balance of payment problems and economic crisis, especially during the pandemic, where it lent to countries in similar ways to other international development banks. This section details the role and past-practices of IFIs that lent to South Africa during the recent pandemic, to frame the context of their most recent lending.

Generally, development banks play a role in the economic development and structural change of a country through four important functions. These are: (1) countercyclical lending in recessionary times; (2) long-term capital provision for financing development projects; (3) novel venture capital injections into high-risk innovation research and development; and (4) the promotion of mission-oriented investments (Mazzucatto and Penna, 2016). The first international development bank has its origin in the post-World War II settlement at the Bretton Woods conference in 1944. This is where the International Bank for Reconstruction and Development (IBRD) was conceived (Helleiner, 2014). The IBRD's mandate was to support reconstruction in war-torn Europe. The IBRD, along with the creation of the International Finance Corporation (IFC) in 1956, and the International Development Agency (IDA) in 1959, made up the World Bank Group. The IMF and the World Bank constitute the BWIs. While these were among the first, they were not to be the last modern IFIs.

Following the birth of the BWIs came a string of Regional Development Banks (RDBs) with lending activities that evolved over three distinct periods (Clifton, Díaz-Fuentes and Howarth, 2021). These three periods are outlined in Table 1.

TABLE 1

Selected MDBs in the phases of multilateral development banking by region and their current assets, millions of 2022 dollars

Year	Bank Name	Region	Total Assets
WWII–1960s — Bretton Woods Institutions			
1944	World Bank	Global	536,625
1956	International Finance Corporation	Global	105,264
The first Regional Development Banks — regional integration and development			
1964	African Development Bank	Africa	50,912
1967	East African Development Bank	Africa	376
1970	International Investment Bank	Inter-Regional	1,982
1973	Banque de Développement des Etats de l'Afrique de l'Ouest	Africa	5,979
1975	Banque de Développement des Etats d'Afrique Centrale	Africa	1,199
1975	ECOWAS (Economic Community of West African States) Bank for Investment and Development	Africa	1,019
1985	Trade and Development Bank	Africa	7,248
1990s–2000s — Regionalism and market led development, global vertical funds, trust funds hosted by MDBs			
1991	European Bank for Reconstruction and Development	Inter-regional	85,318
1993	African Export and Import Bank	Africa	19,307
2010 onwards — Regionalism and the rise of the South, the return of industrial policy			
2014	New Development Bank	Inter-regional	18,844
2016	Asian Infrastructure Investment Bank	Asia Pacific	32,082

(Source: Adapted from the Institute of New Structural Economics, 2022)

In the first period (1950–1980), the RDBs' mantra was regional integration and development. Officially, the aim was to correct market failures at a regional level. Political elites defined the objectives. Integration was encouraged through common rules, infrastructure, and a focus on public goods; overcoming barriers to integration was supported by eliminating tariff and non-tariff barriers. The AfDB was formed during this period following the decolonisation of many African states at the time.

The second period began in the 1990s. It was part of a Washington Consensus[1] era that the BWIs strongly supported. The scope of RDBs narrowed to promote market forces and reduce states' intervention in national economies. During this time, a new wave of support for promoting privatisation and supporting a market-led, Washington Consensus developmental model affected the policies of all RDBs.

The third period of RDBs (2010s onwards) has seen the emerging prominence of Southern-led development banks that are both regional and inter-regional (Barrowclough, Gallagher and Kozul-Wright, 2020). Following the 2008 financial crisis there are new players on the block: the NDB and the Asian Infrastructure Investment Bank (AIIB). South Africa is a founding member of both (Standing Finance Committee, 2022).

1. The Washington Consensus was defined by ten principles (Serra, Stiglitz and Spiegel, 2008): (i) fiscal discipline in order to eliminate public deficits; (ii) a change in the priorities of public spending: withdrawal of subsidies and increased spending in health and education; (iii) tax reform: broadening tax bases and reducing tax rates; (iv) positive real interest rates, determined by the market; (v) exchange rates determined by the market, which must guarantee its competitiveness; (vi) liberalization of trade and opening of the economy; (vii) no restrictions on foreign direct investment; (viii) privatization of public enterprises; (ix) deregulation of economic activity; (x) a solid guarantee of property rights.

Both banks are geo-politically ambitious, with inter-regional programmes. There has been geographic expansion of member states, greater multipolarity, and strategic market interventionism using market-shaping instruments, such as industrial policy.

These new-comers are considered by many to be a response to the previous Washington Consensus era of IFIs and the resistance to power sharing within BWIs. They reflect the shifting economic power in the world economy, including the emergence of China as a global economic power (Barrowclough et al., 2020). While the balance of economic power in the world economy has shifted since the BWIs were established, the internal power structure of the BWIs remain relatively unchanged. In the IMF, the wealthier industrialised[2] countries retain over 60% of voting rights, and the USA has veto power over some key decisions in the management of the IMF, such as admission of new members, increases in quotas, allocations of Special Drawing Rights (SDRs), and amendments of the Articles of Agreement. During the Trump presidency the USA even abandoned the Fifteenth Quota Review that would update countries quota allocations which would, among other things, have increased China's share given the size of its economy and reserves (Burgisser, 2020).

The RDBs' approach in this third period is critical of the previous Washington Consensus era policy prescriptions. Instead of continuing to push for reforms within the BWIs, the AIIB and the NDB have set out to create alternatives that either complement existing BWIs, or replace their functions by offering developing countries financing for much-needed sustainable infrastructure (Wang, 2019). Unlike the AIIB, Asian Development Bank (ADB), Inter-American Bank, and the AfDB, the NDB is an inter-regional multilateral development bank that traverses continents. Another distinguishing feature is that, unlike the AfDB, AIIB, and World Bank, all NDB borrowers and lenders are emerging economies.

In official statements, the NDB does not frame its relationship to traditional BWI as being either competitive or conflictual. On the contrary, they frame their relationship as complementary. It supports projects that the World Bank is neither willing nor able to execute. Both the AIIB and the NDB acknowledge they are young banks in their early stages and they often rely on BWIs' technical support and co-financing of projects.

The NDB takes pride in its omission of 'prior action requirements,' that is, its loans do not come with the burden of policy conditionalities that, like structural adjustment, impose Washington Consensus-type economic policies on borrowers (NDB, 2022a). It aims to uphold the country's economic policies and systems. Conditionalities have historically been a point of contention for many countries in post-colonial Africa. Nonetheless, both the AIIB and the NDB have engaged in partnerships with other banks, including the World Bank.

The World Bank remains an influential partner to both the AIIB and the NDB. Officials from these newer banks say that they continue to grow their technical capacity and expertise from this partnership. An example is their co-financing of Covid-19 pandemic relief and recovery programmes. During the pandemic the AfDB, IMF, and World Bank all worked closely together on a common policy matrix, technical assistance, the coordination of their lending, and held joint discussions with South Africa's National Treasury (World Bank, 2021; IMF, 2020d). Furthermore, the NDB's newly released five-year strategy says that they aim to continue partnerships with other multilateral development banks, including the World Bank. This has led critics to question how distinct the 'new' NDB is from the BWIs. Nonetheless, the NDB stands by its claim to be innovative. It aims to 'lead by example' within a shifting international financial architecture (Ramburuth, 2022). As the NDB loan to South Africa was greeted with mixed reactions we spend some time interrogating this claim and contrasting this to the approach of the IMF and World Bank.

2. All OECD countries.

1.2 Assessing the New Development Bank's claims of originality

The Brazil, Russia, India, China, and South Africa (BRICS) alliance conceived the NDB in 2014 to provide the basis for sustainable development cooperation in supporting public and private projects through loans, guarantees, and equity participation (BRICS, 2015a). BRICS countries that form the NDB generally reject market fundamentalism and promote state-centric approaches to development as an approach to the bank's lending (Abdenur and Folly, 2015). These countries from the Global South also see the NDB as part of expanding their influence in the international financial architecture. The NDB aims to innovate vis-à-vis existing MDBs by applying the principles of mutual benefit, solidarity, and non-conditionality to their reformist agenda (Rosero and Rosero, 2018). The Bank is argued to be the BRICS' most concrete institutional success for sustainable development cooperation (Braga, 2022; Deus, Terra and Conti, 2019).

The NDB has three claims of originality (NDB, 2017a and 2022): (1) the principle of member equality; (2) the aim to increase the proportion of loan disbursements in local currency-denominated green bonds; and (3) focus on sustainable infrastructure investment (Cooper, 2017). We interrogate these claims through the lens of South Africa's borrowing, starting with the principle of member equality.

Member equality is not generally a hallmark of IFIs. Multilateral development banks like the World Bank can easily become split between borrower and non-borrower shareholders that leads to risk-aversion and credit-rating concerns among richer, non-borrowing countries. The result can be conservative policy impositions on developing countries, which often counters national development strategies (United Nations Conference on Trade and Development, 2019). To avert this problem, the NDB's founding members have equal voting shares (19.2%) despite the differing sizes of their economies. Comparably, South Africa's voting share in the NDB is 19.2%, while South Africa's share of total voting power is significantly smaller in other IFIs, such as the AfDB (5.3%), the World Bank Group average (0.6%), and the IMF (0.6%). However, this principle of equality does not apply to newer members. A resolution prescribes that the combined share of the founding BRICS countries should not be less than 55%, with 25% available to other emerging countries, and 20% available to governments from advanced economies. The founding BRICS member countries therefore maintain dominance in relation to new members such as Bangladesh (1.8%) and the United Arab Emirates (1.1%) (NDB, 2023).

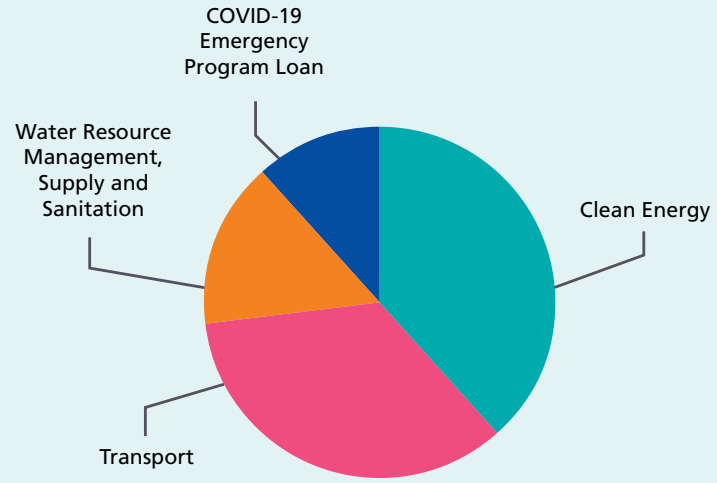
The second claim of originality of the NDB is that they will offer at least 30% of their financing in the local currency of the borrower. Developing countries often pay a high price for development financing issued in US dollars that constrains their balance of payments, exposing them to the risk of currency fluctuations and the need to service external debt in US dollars. 40% of all NDB loans to South Africa are denominated in rands (NDB, 2022b).

The third claim of originality is the bank's intention to build its capital base by issuing green bonds to finance green projects. Figure 1 shows how lending is distributed in the case of South Africa, with clean energy and water resource management accounting for more than half of the total loan values. The bank is mandated to commit a minimum of two-thirds of its financing toward "infrastructure that incorporates economic, environmental and social criteria in its design, building and operation" (NDB 2017a: 12). However, there are questions around the auditing of "sustainable infrastructure." The concern about greenwashing is not dealt with sufficiently by IFIs generally, nor by the South African state in accounting and reporting standards. The NDB's overall approach relies heavily on country systems, however a reliance on country systems in cases where these systems are weak or do not exist, has negative consequences for environmental and human rights.

Generally, critiques of IFIs stem from problems in corporate governance that take the shape of long approval times, heavy bureaucracy, and policy conditionalities (Humphrey, 2015). The NDB's approach aims to be fast

FIGURE 1

Loans from the NDB to South Africa, 2016-2021, millions of 2020 dollars



(Source: Author's calculations from project reports of all NDB loans to South Africa as of October 2022)

and flexible, allowing adaptations to its business model that reduce project review, implementation, and disbursement delays (NDB, 2017a). The bank also imposes no conditionality, or policy advice on their lending. In the face of the Covid-19-induced economic crisis, this claim held true when the NDB turned from funding long-term infrastructure projects to being the first IFI to offer South Africa budget relief without conditionalities under their Fast-track Emergency Response to Covid-19 (NDB, 2020).

Two key contentions arise from the NDB's approach. Firstly, the claim of speed and flexibility comes at the cost of habitually time-intensive accountability processes that ensure transparency, democratic participation, and environmental sustainability standards are met. Comparatively, the NDB has less transparency and weaker reporting mechanisms than the BWIs. The NDBs loan agreements are not available online, and cannot be accessed through the bank's systems of transparency. If the state and lenders do not collectively make their dealings more open to scrutiny by parliamentarians, the media, and civil society, they effectively create a barrier to upholding democratic decision making in the sphere of economic management and development. The second contention arises in South Africa's support of a bank that supports other country systems. If the NDB follows country standards, then does South Africa want to be part of supporting a bank that, for example, finances environmentally unsustainable, extractivist projects in the other BRICS countries if their standards are low, or weakly enforced?

1.3 The question of conditionalities

The absence of conditionalities by the NDB marks a key difference from the *modus operandi* of the BWIs that have a long history of imposing on the policy space[3] of the developing countries that they lend to (Serra *et al*. 2008). The first 30 years of World Bank lending, from 1944, was supported by technical assistance that would aid the formulation and execution of *project* loans. In the 1970s the World Bank launched a new form of *programme* lending because the Bank felt that the success of their projects was being undermined by the economic systems of countries in which their projects were based. Programme lending did not take the form of investment in infrastructure projects, but rather financed general budget support (like the loans analysed in this Report).

The World Bank considers the instrument of change of the programmatic lending to be a set of economic policy reforms that the borrowing country would need to implement to see growth (Toye, 2014). Programme lending of this sort is also known as 'structural adjustment' or 'sector adjustment' loans. These reforms were

3. Defined by the United Nations as "the freedom and ability of a government to identify and pursue the most appropriate mix of economic and social policies to achieve equitable and sustainable development that is best suited to its particular national context," (United Nations Conference on Trade and Development, 2014:45).

The combination of growing debt and fiscal consolidation puts many developing country governments at the coal face of major debt challenges that threaten to undermine their ability to realise their human rights obligations.

generally based on a set of underlying Washington Consensus policies promoted by the BWIs in the 1980s and early 1990s as a set of *one-size-fits-all* principles applied consistently to encourage a neoliberal agenda for privatisation and liberalisation of all developing economies.

Amid a major debt crisis in Africa in the 1980s, structural adjustment programme loans accounted for a third of the Bank's new lending in response to the debt crisis (Toye, 2014). Incredibly quickly, loans in foreign currency were disbursed that were supposed to both assist the debt crisis at the time, and deal with macroeconomic imbalances, such as fluctuating oil prices, high inflation, inflexible exchange rates, and import restrictions. The aim of these loans was to foster economic recovery but they failed dismally, and in many cases deepened the crisis (Toye, 2014). Those countries that followed Washington Consensus policies saw limited economic growth at best, as the outcome of the privatise and liberalise mantra unsurprisingly benefited those at the top disproportionately (Serra et al. 2008). Countries that did experience growth, off the back of these policies, often did not have growth that significantly reduced poverty (Serra et al. 2008).

By reducing governments' policy space these structural adjustments based on Washington Consensus principles obliged countries to adopt policies that disarmed their ability to respond to crises, and hamstrung their ability to use state incentives to industrialise in the long term. A similar trend exists today in current lending practices of the BWIs that encourages privatisation, liberalisation, and austerity (see Section 1.5).

Development Policy Operations (DPOs) were created in 2004 by merging Sectoral Adjustment Loans (SECALs) and Structural Adjustment Loans (SALs), which were in line with the Washington Consensus. DPOs were established as a response to the failure of structural adjustments and mounting criticism of World Bank conditionality. DPOs come in the form of budget support that require the adoption and implementation of policies in the form of 'prior actions' – which are a form of policy conditionality – often aligned with the recommendations and conditionalities of IMF loans (Mariotti, 2021). DPOs, accompanied by prior action conditions, typically entail large disbursements of foreign exchange loans at concessional terms on the condition that reforms are implemented by the borrowing country.[4]

BWIs conditionalities have been proven to undermine policy space (Kentikelenis, Stubbs, and King, 2016) that, in South Africa, should be made by citizens democratically. Conditionality on loans between IFIs and the state impose on the sovereignty of national policy making and enforcement systems, and in doing so, undermine the democratic design of the social contract between the state and citizens.

1.4 Conditionalities during Covid-19, internationally

The history above is particularly relevant for developing countries today that have been increasing their programmatic borrowing with similar conditionalities from the World Bank and IMF. Reviews of lending by the IMF and World Bank during the pandemic found that the World Bank encouraged heavy borrowing (Wheatley, 2020) while the IMF encouraged countries to continue spending (IMF, 2020e). Both BWIs pushed for a post-pandemic return to fiscal consolidation, privatisation, and liberalisation reforms globally (Mariotti, 2021). The combination of growing debt and fiscal consolidation puts many developing country governments at the coal face of major debt challenges that threaten to undermine their ability to realise their human rights obligations and reduce inequality as elaborated upon in Section 3.4 (United Nations, 2020; Stubbs, Kentikelenis, Ray, and Gallagher, 2022; Lusiani and Chaparro, 2018).

4. This Report will use the terms 'conditionality', 'prior action', 'structural adjustment', and 'policy condition' interchangeably.

1.4.1 The World Bank

An initial study of World Bank lending during the pandemic found that few of their Covid-19 projects globally (8 out of 71) supported the removal of financial barriers to access healthcare, such as user-fees, while only a third planned to increase the number of healthcare workers (Seery, Marriott, Bous and Shadwick, 2020). Another study found that the Bank continues to rely on policy conditionality as an instrument for influencing national policies without adequately accounting for the impact of those policies on poverty, inequality, and human rights (Mariotti, 2021). Most DPOs studied included prior actions that encouraged private sector development and business support. Prior actions for countries around the world aimed to enhance the private sector's role in public utilities and ownership of state assets.

The study found that "the measures most commonly prescribed included: the adoption of new (higher) tariffs and the debt restructuring of the public utility, with the government absorbing the losses; the granting of concessions and licences; the adoption of competition policies; and reforms to promote the use of Public Private Partnerships," (Mariotti, 2021:3) This review found that the DPO programs were "no break with the past in the policies promoted by the World Bank in the Covid-19 response and recovery, which are in fact geared towards promoting fiscal austerity and pro-market and business first reforms, and do little to support human rights and the achievement of a just transition," (ibid:6). The DPO was therefore argued to be "a major channel for implementation of the World Bank's agendas in support of the private sector; it argues that it does so while maintaining a patchy and incoherent approach to transparency and accountability, while undermining countries' policy space and democratic ownership" (ibid:6).

1.4.2 The IMF

Taking a global view, the IMF's lending initially supported large increases in healthcare and cash transfer expenditure during the Covid-19 pandemic, often on a temporary basis, even when it meant higher fiscal deficits and public debt in the wake of the immediate crisis (Razavi, Schwarzer, Durán Valverde, Ortiz, and Dutt, 2021; IMF, 2020a; IMF, 2020b). However, this initial response did not mark a break with past approaches because the IMF subsequently supported fiscal and public debt consolidation for the majority of countries shortly after (Razavi et al., 2021; Tamale, 2020; Munevar, 2020; Ambrose and Archer, 2020; Oxfam 2021). This has been criticised for undermining social spending, including healthcare and education, stemming from the binding conditions on fiscal balances attached to its lending programmes (Mariotti, 2022a). What this means in practice is that "the IMF is explicitly forcing countries to shift the cost of the crisis, in terms of weaker fiscal positions and larger debts, onto the shoulders of the most vulnerable" (Munevar, 2020:10).

According to an Oxfam International review of IMF lending agreements, most loans to low- and middle-income countries during the pandemic require fiscal consolidation or other austerity measures (Oxfam, 2022a). The review notes: "conditions in recent IMF loans include regressive tax measures, such as the application of Value Added Taxes (VAT) to food staples, and the phasing out of electricity and fuel subsidies, among other measures. Kenya, under the Extended Fund Facility (EFF) and the PRGT's [Poverty Reduction and Growth Trust] ECF [Extended Credit Facility], was required to increase taxes on food and cooking gas, even though three million Kenyans face acute hunger" (Vasic-Lalovic, 2022:13; see also Oxfam, 2022b and Mariotti, 2022b).

In addition to the range of lending facilities employed during the pandemic, the IMF also approved the largest allocation of SDRs in history, in August 2021, worth US$650 billion to boost global liquidity in order to address the long-term global need for reserves, to build confidence, and to support liquidity-constrained countries to address the impacts of the pandemic (IMF, 2021a). The IMF reported that the August 2021 SDR allocation to South Africa of $4.2 billion "increased official reserves by as much and is expected to be used to repay maturing debt obligations in the medium term" (IMF, 2022c:14). Notably, SDR allocations come without conditionalities.

Transparency, accountability, and participation "should be observed in the lending and borrowing decisions by States, international financial institutions and other actors as appropriate," (United Nations Human Rights Council).

The IMF loan to South Africa were granted under the IMF's Rapid Financing Initiative (RFI) – one of the loan programmes used to supply loans during the pandemic. These did not come with legally binding conditionalities in the same sense as the World Bank loans discussed above. However, the government was obliged to sign a "letter of intent" identifying the sort of policies it intended to follow, and to commit to various reporting requirements under the RFI. The policy recommendations contained therein could be used to inform policy conditions attached to other potential future loans to South Africa, such as, under the Extended Credit Facility and the Stand-By Arrangement instruments. As one report finds, the conditionality on IMF loans can increase significantly after a programme has been approved from conditionalities added during reviews, and that the IMF is increasingly using 'hidden' forms of *de facto* conditionality by way of policy measures embedded in the narrative of IMF programme documents (Brunswijck, 2018).

The letter of intent from the government to the IMF outlines an intention to adopt the policies recommended by the IMF. Fund staff have been found to be heavily involved in the drafting process of programme documents and the designing of conditionality in the past (IMF, 2018). One Independent Evaluation Office report in 2007 found 84% of IMF staff admitted that they prepared the first draft of the Memorandum of Economic and Financial Policies (MEFP) that accompanies the letter of intent (IMF, 2007). The fact that there is no evidence to suggest that this has changed (Brunswijck, 2018), and that the South African government has embarked on several economic policies consistent with both the letter of intent and the trend of the IMFs economic policy prescriptions in other parts of the world, should be of deep concern. This raises red flags for those invested in the principle of democratic, sovereign economic policy making in South Africa.

1.5 Lack of human rights and gender considerations in IFI lending

Human rights offer important normative and legal paradigms through which international financial governance can be assessed. The long-standing International Covenant on Economic, Social and Cultural Rights (ICESCR) provides a legal framework, while the UN Guiding Principles on Foreign Debt and Human Rights provide guidelines to be followed by financial institutions in the decision-making and execution of loan agreements, debt repayments and associated policies. The purpose of these legal instruments is to ensure foreign debt does not undermine obligations for the realisation of fundamental economic, social, and cultural rights.

The findings of this Report detail several ways in which IFIs have failed to meet their human rights obligations with regards to Covid-19 lending. Four relevant clusters of issues stand out. For one, transparency, accountability, and participation "should be observed in the lending and borrowing decisions by States, international financial institutions and other actors as appropriate," (UNHRC, 2011:14). Transparency requires the full disclosure of all relevant information regarding loan agreements; participation requires effective and meaningful input from all stakeholders; and accountability necessitates that decision makers are answerable to their external debt policies. These elements allow representative bodies and civil society organisations to exercise oversight through a transparent and participatory process before the decision to borrow is made. These processes are equally important to ascertain whether there is genuine need for new loans, and to ensure that borrowed funds are not wasted through corruption or mismanagement.

"States should ensure that their rights and obligations arising from external debt agreements […] do not hinder the progressive realization of economic, social and cultural rights" or "do not lead to the deliberate adoption of retrogressive measures," (United Nations Human Rights Council).

Secondly, both states and lenders are enjoined to ensure associated lending programmes do not hold back the realisation of rights. The Guiding Principles note that "International financial organizations […] have an obligation […] to refrain from formulating, adopting, funding and implementing policies and programmes which directly or indirectly contravene the enjoyment of human rights," (ibid:12). Further, "States should ensure that their rights and obligations arising from external debt agreements […] do not hinder the progressive realization of economic, social and cultural rights" or "do not lead to the deliberate adoption of retrogressive measures," (ibid:13).

Third, any planned retrogression is subject to strict conditions and prior human rights impact assessments. Fourthly, policies or programmes attached to IFI lending should not hinder the country's ability to implement national development programmes. Governments should be free from pressure, influence or interference coming from IFIs in their national development plans. Disappointingly, none of the IFIs analysed adopted a rights-based approach to their lending practices beyond policy rhetoric.

Development finance flowing from IFIs tends to be especially blind to the gendered implications of its funding, again in violation of human rights obligations. The structure of relief measures (as discussed further in Section 3) can be gender blind, and thus reproduce inequalities that undermine the right to gender equality enshrined in both South African and international law. During the pandemic women, in particular, carried a heavy load, constituting 70% of frontline workers as health professionals like doctors, nurses, pharmacists, and community health workers (OHCHR, 2020). Patriarchal norms meant that outside of the workplace and inside households, the burden of caregiving fell disproportionately on women (Casale and Posel, 2020; Casale and Shepherd, 2021). As such, finance should be allocated by governments and IFIs with the guidance of gender-responsive budgeting. We thus summarise the gender policies of the NDB, AfDB, IMF and World Bank and critique their conceptual approaches to gender equality.

The NDB does not have clear principles and practical channels for gender mainstreaming[5] in their allocation of capital to guide its lending, project implementation, and operations. The 2022-2026 NDB General Strategy narrowly focuses on gender targeting the number of female employees, instead of adopting gender transformative financing to change the power structures and roots of gender inequalities and discrimination through their projects. Even with these weaker, more-internal metrics, the NDB is performing poorly. According to NDB annual reports, by the end of 2021, only 32% of the Bank's professional and managerial staff were women. While there is a commitment to increase women's representation in professional and managerial staff to 40% by 2026, this commitment to improve gender equity is not applied to projects that the bank disburses capital towards (NDB, 2022b).

The AfDB adopts a broader, more coherent policy stance on gender equality, with the aim to improve women's technical skills, access to funding, support, and social services. The AfDB aims to finance infrastructure that is gender-responsive and has established initiatives that include: (i) mainstreaming gender issues into national and regional development plans; (ii) integrating gender issues into all aspects of the

5. Gender mainstreaming refers to the integration of gender equality considerations in all policy, law, plans, programmes, administrative and financial activities, organisational procedures, processes and decision making, in order to effect profound organisational, and ultimately, societal transformation towards the realisation of de jure and de facto equality between women and men. This is the definition as per the South African Department of Justice and Constitutional Development (2007:8).

Policy conditionality disproportionately impacts women because they generally carry the unpaid burden of replacing public services in times of austerity by collecting water, wood, and providing healthcare and other care for the young and elderly.

Bank's operations throughout the project lifecycle; and (iii) enhancing the skills of its staff and putting in place support for gender mainstreaming (AfDB, 2021). The strategy states that the AfDB will work with national governments to improve labour standards which is likely to protect both men and women, but especially those in the informal sector, where women are the majority.

Even so, the AfDB's gender policy still lacks coherence given their interrelation with other IFIs. The AfDB strategy fails to account for the Bank's partnerships with IMF and World Bank on programmes that require a common macro-economic framework with conditionalities that undermine gender equality. In the pandemic-related lending in South Africa the common macroeconomic framework entailed conditionality of austerity, privatisation, or targeted social protection that has a disproportionately negative impact on women, low earners, and vulnerable groups (Mariotti, Galasso, and Daar, 2017; Munevar, 2020; World Bank, 2020; Mariotti, 2021; Oxfam, 2021). Policy conditionality disproportionately impacts women because they generally carry the unpaid burden of replacing public services in times of austerity by collecting water, wood, and providing healthcare and other care for the young and elderly.

Despite the encouraging move towards gender mainstreaming, weaknesses in the IMF and World Bank's strategy revolve around their conceptualisation of gender inequality in relation to growth, austerity and privatisation. For the IMF, addressing 'gender gaps' can result in higher economic growth, financial stability, and improved national performance due to increased female leadership and participation. This is much like the World Bank's 'Gender Equality as Smart Economics' approach that makes a 'business case' for gender equality and women's empowerment but fails to identify patriarchal structural discrimination against women that materialises in cultural and social norms (Chant and Sweetman, 2012).

Without adequate evidence, this market-orientated approach argues that, by encouraging gender equality there will be more economic growth (Robles and Berlanga, 2020). In doing so, it adopts a gender politics that is instrumentalist, favouring women's participation in the economy for the sake of economic growth, instead of for the goal of equality as a human right, in and of itself (Bexell, 2012). Economic growth is not inconsistent with gender inequality and in some cases, it is indeed enabled by it, through the unpaid social reproduction and care work undertaken by women.

1.6 Conclusion

IFI lending practices vary. Informed by their unique historical contexts, these institutions are not only unique in their mandates for economic development and financial stability, but also have varying conceptions of how that is achieved through differing approaches to how projects or programmes are financed. The institutions have different approaches to policy conditionality and gender equality, as two clear examples of how the institutional values and conceptualisation of development inform how, and where, capital is disbursed by different IFIs. As we will discuss in the following section, there are key differences in practices of transparency between the IFIs, in addition to variation in the cost of loan interest rates and interest payments.

SECTION 2

COVID-19 PANDEMIC LOANS TO SOUTH AFRICA: COSTS, TRANSPARENCY, AND ACCOUNTABILITY

This section turns to consider IFI lending to South Africa during Covid-19. It establishes the historic context and unpacks the details of the loans. It then compares the various IFI loans against one another and assesses the cost of the Covid-19 IFI lending, comparing this with what the government was able to raise through other means. The calculations made puts the lending into perspective and allows us to quantify the cost in order to explore – from a financial point of view – the wisdom of these loans. The section then proceeds to discuss the issue of transparency and accountability as another critical aspect, finding that these are very weak across all IFIs.

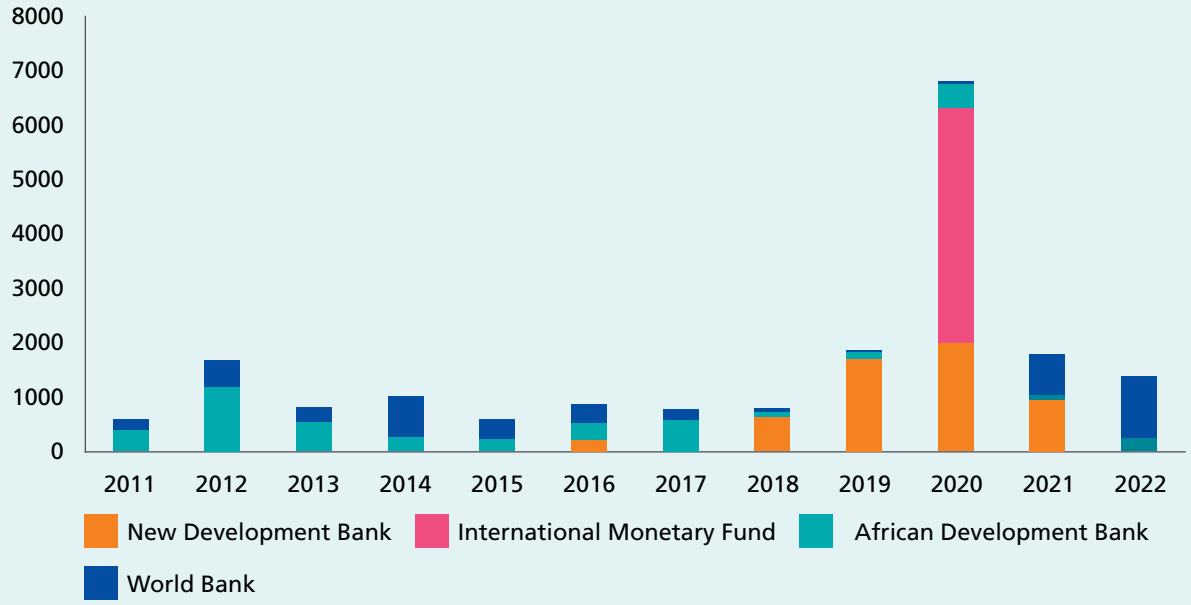
2.1 IFI lending in South Africa 2011-2022

IFI lending to South Africa, and historically, has been relatively limited, with Covid-19-related loans marking a sharp increase. This is shown for Figure 2, where we see the disbursements rise substantially. Over the period, the AfDB and the IMF made contributions of a similar weight, although the AfDB was more consistent in disbursing $4.6 billion than the IMF that only made one large loan disbursement of $4.3 billion in 2020 during the pandemic. Lending over this period reflects the growing role of the NDB. Between 2016 and 2021, the NDB financed $5.5 billion of projects in South Africa. This is more than any other IFI and in much less time. The relative rise of

Empty streets of Cape town during the lock down.
(Photo: Tim Wege / Alamy Stock Photo)

FIGURE 2

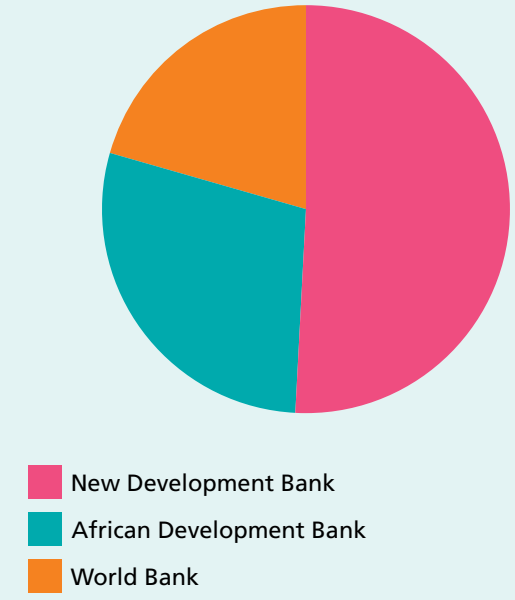
Disbursements by International Financial Institutions to South Africa, 2011-2022, millions of 2020 dollars



(Source: Authors' consolidation of disbursements accounted for by Creditor Reporting System (CRS) data, 2022; International Debt Statistics (IDS) data, 2022; IFI websites, NDB project reports, and the NDB annual reports, 2016–2022).

FIGURE 3

Sum of all disbursements by International Financial Institutions to South Africa, 2015-2019, billions of 2020 dollars



(Source: Institutions websites; National Treasury, 2022; OECD CRS System)

Note: *OECD Creditor Reporting System data are used for the years 2011-2021 for the World Bank and AfDB. Project reports from all institutions are used for the year 2022. NDB data represent commitments from project reports as a proxy for disbursements given as the CRS system had not updated NDB disbursements at the time of writing of this report. The AfDB 2022 figure was missing a data point and thus represents a projected amount using the average of the previous five years.*

The IMF disbursed a pandemic-related loan of $4.3 billion in 2020 ... these loans do not come with legally-binding conditionalities but are accompanied by policy recommendations from the IMF.

lending from IFIs since 2018 is a combination of deliberate scaling up of NDB projects in South Africa, and emergency financing in response to the Covid-19-induced economic crisis. Figure 3 shows the sum of disbursement by IFIs between 2015 and 2019 before the pandemic lending ensued. The World Bank made the smallest cumulative disbursement of loans to South Africa out of all IFIs, to the value of $1 billion, between 2015 and 2019.

2.1.1 The IMF Rapid Financing Instrument

The IMF disbursed a pandemic-related loan of $4.3 billion in 2020, under the RFI, the Fund's third largest disbursement in the world in 2020 (Razavi et al., 2021). As noted above, these loans do not come with legally-binding conditionalities but are accompanied by policy recommendations from the IMF and a letter of intent from the South African government, stating the government's spending and policy priorities.

The IMF's RFI loan recommendations to South Africa advised the government to:

1. Reduce government expenditure in general (fiscal consolidation);
2. Limit or dismantle subsidies and social protection by targeting or ending them, specifically including the elimination of the lifeline Social Relief of Distress (SRD) grant after Covid abated and limiting tertiary education subsidies;
3. Cut and contain recurrent operational expenditures like public sector compensation in the public sector wage bill; and
4. Limit expenditure on State-Owned Enterprises (SOEs).

The associated letter of intent by the Minister of Finance and Governor of the Reserve Bank to the IMF (July 15, 2020) affirmed a commitment to austerity and liberalisation, aligning the government's plans with the IMFs recommendations (IMF, 2020c; 2021b; 2022). It states that "some of the expenditure cuts implemented to make room for the relief measures will either become permanent or be replaced by other cuts. From 2021/22 onwards, once the impact of the pandemic subsides, we will take action to reverse the upward trajectory of the public debt-to GDP ratio. To facilitate this effort, we are open to introducing a debt ceiling in addition to the nominal spending ceiling currently in place … We intend to take measures that include further reductions in the wage-to-GDP ratio, rationalization of transfers to SOEs, and streamlining of subsidies." (IMF, 2020c:46). Although these commitments do not have legal force, they indicate the policy paradigm advanced by National Treasury and are of serious concern given that the government followed through on these commitments (see Section 3).

2.1.2 The World Bank Development Policy Operation

The World Bank loan to South Africa was the first DPO in the country. The loan was only disbursed by the World Bank in July 2022, more than two years after the onset of the pandemic, upon the implementation of the prior actions that were negotiated in the first half of 2020. Tied to the $750 million DPO loan was a second $480 million loan called a Covid-19 Project Loan which is reported by the Bank to have retroactively financed the procurement of vaccines. The DPO loan agreement is a legally-binding document that requires the government to commit to the prior actions and their implementation (Article III). The Bank can suspend the loan if it is unhappy with the government's macroeconomic policy framework, or if it is improbable that the prior actions will be carried out. Specifically, Article IV states that "no withdrawal shall be made of the Single Withdrawal Tranche unless the Bank is satisfied: (a) with the Program being carried out by the Borrower; and (b) with the adequacy of the Borrower's macroeconomic policy framework" (World Bank, 2022, Section II.C.).

In his letter of intent to the World Bank, the Minister of Finance Enoch Godongwana committed the South African government to a macroeconomic framework of fiscal consolidation, the prior actions outlined by the World Bank, and reforms that include cutting red tape, crowding in private sector players into network industries, decommissioning coal-fired power stations, and increasing private sector procurement by municipalities (World Bank, 2021). Much like World Bank lending in other parts of the world (Section 1.4.1), and much like the failed structural adjustment prescripts during the Washington Consensus era (Section 1.3), the World Bank's emergency loan to South Africa included a set of policies of austerity, liberalisation, privatisation, and other reforms.

Most of the prior actions that the government agreed to were completely unrelated to the pandemic. These included requirements for the government to approve the Financial Sector Laws Amendment Bill, which establishes a resolution regime and enables provisions for the Corporation of Deposit Insurance; approve the National Climate Change Bill and its submission to Parliament; approve the updated First Nationally Determined Contribution, which sets more ambitious greenhouse gas mitigation targets for 2025 and 2030; and to exempt from licensing embedded generation with a nominal installed capacity below 100 megawatts as per Schedule 2 to the Electricity Regulation Act that opens the electricity sector up to private players. In addition to the specific policy-orientated prior actions, the World Bank required the government to enforce an "adequate" macroeconomic framework that includes austerity.

A positive element of the prior actions necessitated the continuation of the SRD grant, the introduction of an electronic vaccination data system, and ensuring direct unemployment cash payments as part of the government's direct response to the pandemic. While there may be debate around whether these conditionalities are necessary structural adjustments for the economy, the National Treasury relegated South Africa's policy autonomy in exchange for cheap finance from the World Bank.

2.1.3 The NDB and AfDB Covid-19 Emergency loans

The World Bank DPO was coordinated with the AfDB, the NDB and the IMF to exchange information, avoid duplication and align internal processing and delivery timelines (World Bank, 2020). The Bank has a joint policy matrix with the AfDB (World Bank, 2020), and worked closely with the IMF on the macroeconomic framework (described in the previous Section 1.5.1) (World Bank, 2021). This is clear in the letter of intent from the South African government to the president of the AfDB that mirrors the commitments made to the World Bank and IMF (AfDB, 2020). The AfDB loan had described a set of existing policies that were in place before the loan agreement was reached which do not necessarily constitute prior actions. This was implicit approval of the direction of governments policy but did not have conditionalities to act upon. There is no evidence that policy commitments were made by the government to the NDB in any of the loan documents and reports.

2.2 The cost projections of each Covid-19 emergency loan

Policy conditionality is one axis along which the loans can be analysed, another is the question of their cost and their wisdom from a financial point of view. Table 2 summarises this, showing that each of the IFI loans is structured in a slightly different manner, with different maturities, repayment periods, and interest rates.

One aspect covered in Table 2 is the interest rates associated with each loan. Projecting the exact interest cost of the loans is tricky for several reasons. Most notably, rates used will vary over the repayment term of the loan. In particular, interest rates often vary against variable market rates – pegged to benchmarked rates like the London Interbank Rate (LIBOR) – preceding or on the day of interest payments. LIBOR is calculated based on banks' self-reported interbank borrowing costs. Thus, offering a benchmark interest rate at which major global banks lend to one another. This means that interest rates benchmarked against LIBOR contractually fluctuate due to changes in LIBOR. These will vary at each repayment date. This means the interest rate is not constant.

TABLE 2

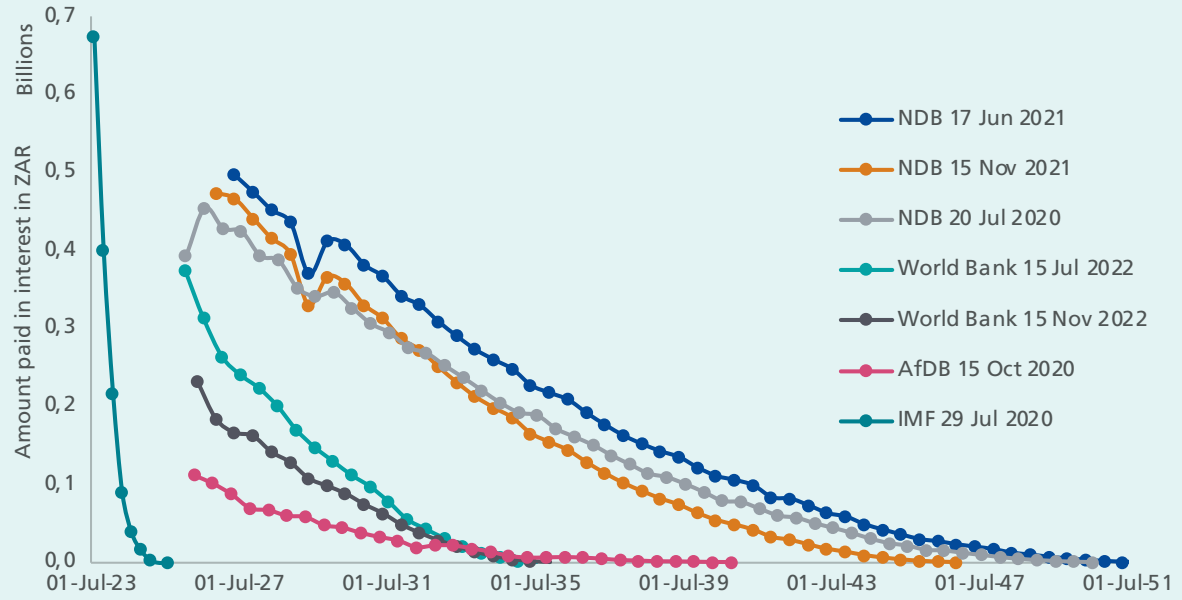
IFIs' Covid-19 emergency lending to South Africa, July 2020–2022, billions

Institutions	Disbursement	Interest rate	Term (years)	Grace period[6] (years)	Amount $USD (billions)	Amount ZAR (billions)
New Development Bank	20-Jul-2020	6-month LIBOR[7] + 1.25%	30	5	$1	R16.7
International Monetary Fund	29-Jul-2020	1.066%[8] or SDR interest rate[9]	5	3	$4.3	R71[10]
African Development Bank	15-Oct-2020	3-month JIBAR[11] + 0.8%	20	5	$0.29	R5
New Development Bank	17-June-2021	6-month LIBOR + 1.25%	30	5	$1	R14.1
New Development Bank	15-Nov-2021	6-month LIBOR + 1.05%	25	4.5	$1	R15.2
World Bank	01-Mar-2022	6-month SOFR[12] + 0.75%	13	3	$0.75[13]	R11.2
World Bank	14-July-2022	6-month SOFR + 0.75%	13	4	$0.48[14]	R8.2

(Source: National Treasury, 2022; AfDB, NDB, and World Bank loan contracts)

FIGURE 4

Estimated paid-in interest from the South African Treasury to IFIs, millions of rands



(Source: Authors estimations based on available loan agreements and National Treasury (2022))

Note: *Interest rate forecast projections use a standard Vasicek model with mean reversion, beta, alpha, and volatility parameters calibrated using current data (on 20 December 2022). USD-ZAR FX rates use a linear projection with historical data dating from 2003. Cash flow discounting was performed to estimate present values using relevant currency rates (JIBAR for ZAR and SOFR/LIBOR for USD). All repayments are made bi-annually in equal installments, except for IMF payments that are made quarterly. Grace periods are interpreted to mean that no interest is charged and no repayments need to be made during that period. On each payment date, the 6-month interest rate on that day is recorded and used to calculate the payment required on the payment date (in six months' time).*

6. A period after the disbursement where no capital repayments are required, in years.
7. LIBOR (London Interbank Offered Rate).
8. As presented by National Treasury (2022; 2023).
9. As presented by the IMF (2023).
10. Exchange rate of R16.5 to US$1.
11. JIBAR (Johannesburg Interbank Average Rate).
12. SOFR (Secured Overnight Financing Rate).
13. Year average for 2021 used an exchange rate of R14.9 to US$1.
14. Originally disbursed as Euros.

Similarly, all loans except for the AfDB loan are given in foreign currency and the exchange rate will fluctuate over the length of the loan, affecting the value of the repayments. The issue of foreign currency denomination is unpacked more technically in Textbox 1. While there are a range of risks and developmental constraints that arise from foreign currency loans, they are sometimes necessary within the current international financial architecture in order to meet international balance of payments demands.

These concerning exogenous factors emphasise the importance of local currency denominated debt, and the potential role of SDR allocations by the IMF (with revised charges), to create stability and overcome sharp increases in loan costs and potential balance of payments problems (where a country cannot acquire the necessary foreign exchange to service the loan). The considerable risk also highlights the importance of making these calculations transparent, publicly available, and presenting them to Parliament for oversight.

These caveats aside, we have estimated the interest costs of each loan. For the exchange rate we have made linear projections using the average based on data since 2003. For the variability of the benchmark rates, we used a standard Vasicek interest rate model using five years of historical data spanning December 2018 to December 2022. This estimation forecasts future benchmark rates (Johannesburg Interbank Average Rate (JIBAR), LIBOR, and SOFR), considering interest rate volatility, yield long run averages (equilibria), mean-reversion speeds and current spot rates. For the IMF loan we utilise an interest rate of 1.066% as reported by the National Treasury in the Budget Review (this is discussed further below). The trajectory of interest payments is shown in Figure 4, which forecasts the estimated paid-in interest from the South African Treasury to each IFI based on the individual Covid-19 related loans over the lifetime of the loans. The total interest costs incurred from each loan comparable in Figure 5, as discussed in subsections on each loan to follow.

TEXTBOX 1

The implications of borrowing in foreign currency

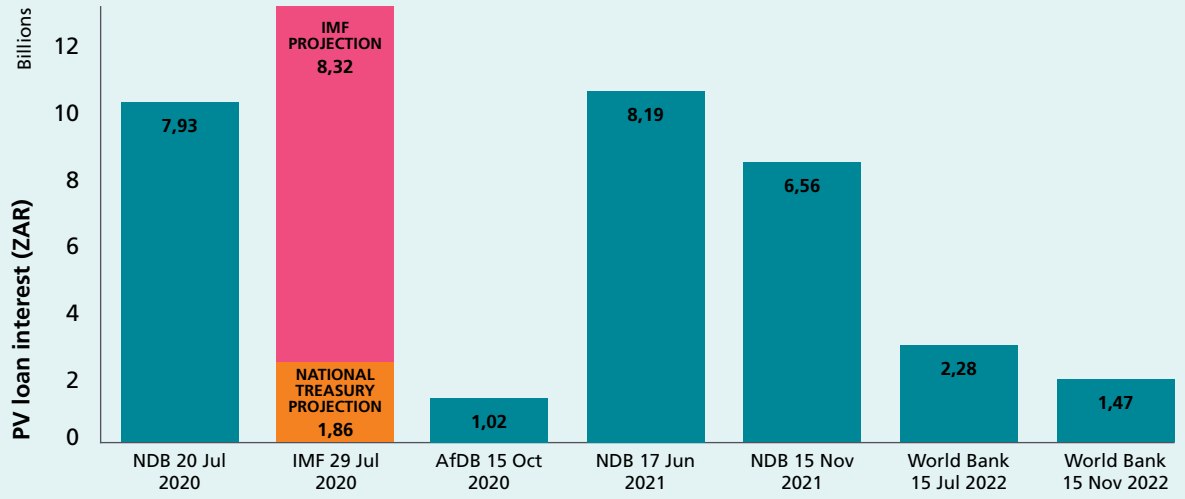
Except for the AfDB loan, which was denominated in South African rands (ZAR), the interest costs will vary over time for all the other loans because of at least four variables related to their foreign currency denomination.

1. The foreign exchange (FX) rates between the US dollar (USD) and the rand (ZAR) (USD-ZAR) over the lifetime of the loan fluctuate, impacting future cash flows. Given that the USD-ZAR foreign exchange rate is among the most volatile in the world, repayments on USD denominated IFI loans are impacted heavily by rand devaluation when the forex market swings in the wrong direction (Schoeman, 2022).
2. The FX rate is largely determined by interest rates in the US (the impact of the shape of the US yield curve) which means that the amounts payable at each interval are based on particularly volatile, current market expectations. High inflation in the US, and rising interest rates that the US Federal Reserve has employed in response, is likely to increase the cost of USD denominated loans. If the Federal Reserve continues to hike interest rates, South Africa's foreign debt will continue to increase significantly.
3. Inflation expectations influence the interest rate parity assumption between the US and South Africa. Disparities between inflation expectations in the two countries will influence the movement of interest rates and FX rates.
4. Political (sovereign) or policy uncertainty also influences the FX rate. Other variables include risks of default of the loan issuer and deterioration of the loan issuer's credit rating.

The National Treasury reserves the right to negotiate a fixed rate if the screen rate, like LIBOR or Secured Overnight Financing Rate (SOFR), fluctuates rapidly, however, there is no *prima facie* indication at this point that this will happen. What is worth stressing is that risks and events outside of South Africa have a massive impact on the cost of the loans — and therefore the costs to citizens.

FIGURE 5

Total interest to be paid for each Covid-19 loan from IFIs to South Africa, billions of 2022 rands



(Source: Authors estimations based on available loan agreements National Treasury (2022), and IMF projection (2023)

New Development Bank

The NDB loan agreements stipulate a front-end fee of 0.25%. This increases the total loan amount of each NDB loan by about US$2.5 million (R42 million). The loan agreements stipulate that the principal amount plus interest is to be paid over a period of 30 years in equal installments on each bi-annual payment date. For the first five years, there is a grace period during which the capital amount is not repaid. The interest rate on the loan is the 6-month LIBOR plus a 1.25% spread. The estimated sum of interest payments on all NDB loans is estimated to be R22.67 billion, with the estimated interest rates on the two NDB loans averaging 6.46% and 6.26% over the duration of the loans. However, due to scandals associated with LIBOR credibility and its associated risks for financial stability, it is being phased-out (Financial Stability Board, 2022). The LIBOR screen rate is likely to be replaced by another benchmark used to calculate the interest rate, and therefore, the estimated cost of the NDB loan may change in the future.

African Development Bank

AfDB disbursed a R5 billion ($288 million) loan, notably in South African rands, shielding the loan from risks associated with dollar exchange rates that could increase the cost of interest payments (as elaborated upon in Textbox 1). The loan had a front-end fee of 0.25% which increased the total loan amount by R12.5 million. This fully flexible loan is to be paid back bi-annually with interest benchmarked against the 3-month JIBAR plus 0.8% over a period of 20 years. JIBAR is a benchmark or screen rate, much like LIBOR, used in South Africa. The loan comes with a grace period of five years. The estimated sum of interest payments on the AfDB loan is estimated to be R1 billion based on an estimated average 8.06% interest rate.

International Monetary Fund

The IMF's RFI loan had the lowest interest rate, but the shortest pay-back period with no up-front fee. It is not linked to a screen rate like LIBOR or SOFR. National Treasury (2022; 2023) reports that the interest rate of this loan is fixed at 1.066%. This is used in our simulation (labelled "National Treasury Projection" in Figure 5). This estimates the interest payments on the IMF loan to be R1.86 billion. However, the National Treasury's presentation of this is erroneous. According to the IMF, the rate charge on RFI loans is based on the IMF SDR interest rate. This SDR interest rate fluctuates based on interest rates and exchange rate of the currencies included in the IMF SDR "basket" (the Chinese yuan, Euro, Japanese yen, UK pound and U.S. dollar)[15]. The

15. The IMF notes: "The interest rate on the SDR is based on the sum of the multiplicative products in SDR terms of the currency amounts in the SDR valuation basket, the level of the interest rate on the financial instrument of each component currency in the basket, and the exchange rate of each currency against the SDR."

IMF offers its estimated repayment schedule using the SRD interest rate on its website which it updates on an ongoing basis (IMF, 2023). It also appears that during the IMF 'grace period' South Africa is still required to make interest payments.

Effectively, the interest paid on the IMF loan depends on the monetary policies in largest economies, most of whom have increased interest rates in response to inflation (in the wake of the pandemic and the Russia-Ukraine war). This has increased the SDR interest rate, thus increasing the cost of South Africa's IMF loan. The SDR interest rate increased to as much as 3.8% in May 2023 from 1.066% at the end of July 2020 (IMF, 2023). The difference is meaningful, with the IMF estimating the total interest payments on their loan to be as high as R8.6 billion, compared with R1.86 billion estimated in our model based on the 1.066% fixed rate as presented by National Treasury (2022). The utilisation of variable SDR interest rates therefore poses a similar risk to borrowing in foreign currency - lending costs can be driven up drastically based on dynamics in major economies that neither South Africa, nor the IMF, has control over.

In this instance, the IMF loan will be far more expensive than the National Treasury has depicted - up to four times more by the IMF's calculations. Why it has misrepresented the cost of this loan is unclear.

World Bank

Effective March 2022, the World Bank disbursed the DPO loan of $750 million, and shortly after in July 2022 another loan of €454.4 million (R7.6 billion or $480 million). Both have a front-end fee of 0.25% and are to be paid back bi-annually with an interest of 6-month SOFR plus 0.75% over a period of 15 years. The SOFR is a benchmark rate used to price loans, as an alternative to the no longer reliable LIBOR. The loan comes with a grace period of up to three years. The estimated sum of interest payments on the World Bank loans is estimated to be R3.75 billion based on an estimated average interest rate of 5.44%.

Summary of interest charged

As shown in Figure 5, the total paid-in interest on all three NDB loans for Covid-19 response are estimated to cost R22.67 billion over their lifetime. Interest payments to the IMF are estimated to be between R1.86 and R8.32 billion. The cumulative paid-in interest to the World Bank from the pandemic related loans is estimated to be R3.75 billion, with the corresponding amount for the AfDB loan estimated to cost the government R1 billion. In sum, we estimate the total interest cost of all the Covid-19 emergency loans from all IFIs to be R29 billion by the end of their lifetime.

2.3 Market comparison

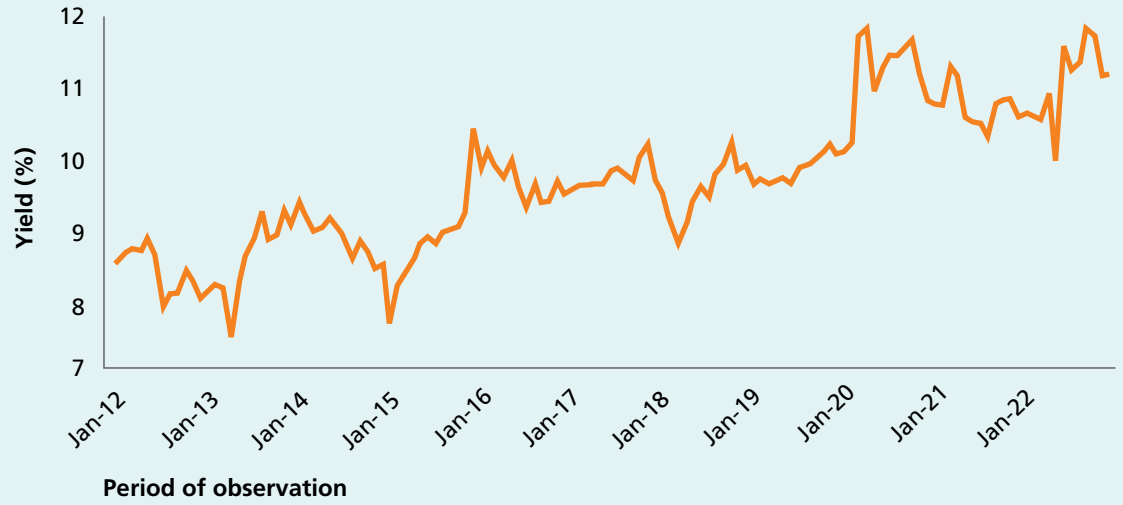
A critical issue which arises is whether these loans were comparably cost effective to other borrowing options, thus necessitating a comparison of the interest rates charged by various IFIs and the rates available on the market. Naturally, the National Treasury had the option to raise medium- and long-term funds in the domestic bond market during the pandemic. Figure 6 shows the cost of government bonds over a period of 30 years.

In the last 30 years, the lowest interest rate was 4.8% and has gone up as high as 18.3% with an average of 10.5%. In the last ten years, as shown in Figure 6, the coupon yields for a South African 30-year government bond have been going up, starting from 8.6% in 2012 to 10.4% at the end of 2015. From the beginning of 2016, coupon yields have been consistently below 10.4% until the Covid-19 shock. In February 2020, the bond yield was 10.1% and it has been on an upward trajectory ever since. With the announcement of the lockdown rules, we saw a jump from 10.13% in February 2020 to 11.8% in April 2020 and to the highest of 11.9% in September 2022. The local markets were highly volatile in 2020 in comparison with international peers, which was dampened by the intervention of the South African Reserve Bank (SARB) in the government bond market. The rand exchange rate weakened close to 30% to a historic low and the 30-year government bond yield jumped by 3.5 percentage points, into double digits, in less than a month. South Africa also issues bonds of other maturities, including 5, 12 and 25 years. The associated interest rates

have followed a similar trend but borrowing has tended to be cheaper for shorter maturities, particularly during the pandemic. Over 85% of bonds issued by the South African National Treasury are denominated in South African rands, which reduces risk associated with exchange rate volatility.

FIGURE 6

South Africa 30 Year Bond Yield



(Source: own graph using data from Trading Economics)

Table 3 suggests that borrowing from the IFIs made more financial sense at the time than issuing government bonds if the only thing that is considered is interest repayments, as domestic capital markets had considerably higher interest rates than those offered by the IFI loans at all bond market maturities. The highest interest rate came from the AfDB's at 8% but this was less than the 11.5% interest rate on 20-year market-issued debt at the time. Similarly, the NDB loans that had interest rates between 6.2-6.5% compared with similar maturity borrowing of 10.6-11.5%. The World Bank loans' interest rate will be approximately 5.44% compared to a 11.4/11.5% market rate, and the lowest rate comes from the IMF loan at between 1 and 4%, against a market rate of 7.5%.

TABLE 3

Comparing estimated interest rates on Covid-19-related loans

Loan	Loan Maturity / term	Date	Estimate interest rate[16]	Comparable estimated interest rate on bond market borrowing at time of loan issuance
New Development Bank	30	20-Jul-2020	6.46%	30 year: 11.5%
International Monetary Fund	5	29-Jul-2020	1.066%[17] or SDR interest rate[18]	5 year: 7.5%
African Development Bank	20	15-Oct-2020	8.06%	20 year: 11.5%
New Development Bank	30	17-June-2021	6.46%	30 year: 10.6%
New Development Bank	25	15-Nov-2021	6.26%	25 year: 10.7%
World Bank	13	01-Mar-2022	5.44%	12 year: 11.5%
World Bank	13	14-July-2022	5.44%[19]	12 year: 11.4%

Source: National Treasury, 2022; World Bank, and NDB loan contracts; World Government Bonds, 2023

16. Estimates made using information provided in Table 3. Interest rate forecast projections for the base rate of the AfDB, NDB, and World Bank use a standard Vasicek model with estimated mean reversion, equilibrium long-term mean, and volatility parameters that were calibrated using current data (on 20 December 2022).
17. As presented by National Treasury (2022; 2023).
18. As presented by the IMF (2023).
19. Assumed at the same terms as previous World Bank loans.

These loans did not fundamentally threaten the size of South Africa's sovereign debt either. As a proportion of South Africa's total local and foreign debt, the IFI loans taken out between July 2020 and July 2022 – were to the value of R141 billion (US$ 8.8 billion) – and made up about 3.5% of all sovereign debt.[20] The three loans from the NDB between 20 July 2020 and 15 November 2021 made up just 1% of the total local and foreign debt of the country in 2022. The same ratio of the loans to sovereign debt for the emergency loans agreed upon between 2020-2022 from the IMF, the AfDB, and the World Bank are 1.8%, 0.1%, and 0.5%, respectively.

Borrowing is not the only manner the government could have raised revenue. The pandemic-related IFI loans represent about 8.5% of the R1.56 trillion (US$ 88.79 billion) that the South African Revenue Service collected from taxes in 2022.[21] This illustrates the potential for local resource mobilisation through non-interest-bearing tax increases as opposed to foreign resource mobilisation that incurs debt from IFIs.

While most IFI loans have a low interest rate, shocks to the economy from internal or external events will have an impact on the exchange rate. A depreciation of the rand could be so large that the cost becomes greater than other sources of rand-denominated financing like the local bond market or tax revenue. Fortunately, while South Africa needed financial support during the Covid-19 crisis, the amount that it is drawing from IFIs is relatively small compared to South Africa's ability to raise funds through tax, and relatively small as a portion of total debt. This is not the case for all countries in the region that have shallower capital markets, or smaller pools of revenue to support their fiscal policy.

The comparison here also takes market borrowing rates as given, assuming that they are static and determined independent of government's conventional monetary policy toolkit. Thus, the comparisons above ignore interventions, such as, interest rate caps, targeted capital controls, or prescribed assets that could have lowered market interest rates and made market borrowing cheaper for the South African government.

Despite the rigour of this analysis, it is worth noting a caveat, that comparing the cost of the various loans includes variable risks, time periods, currencies, and interest rates that are not easily comparable. Like regulation in other parts of the world,[22] government calculations on the future cost of all international loans, as outlined in this Report, should be made publicly available and presented to Parliament. Given the cost analysis, and uncertainty surrounding this lending, we should always consider short- and long-term implications by asking: are these loans necessary? Do they affect South Africa's constitutional commitments? Do they undermine sovereignty and shrink South Africa's policy space? How do they interplay with sovereign systems of transparency and values of accountability? This brings us to the important consideration of transparency and accountability in IFI lending.

2.4 Transparency, accountability and IFI lending

To some extent, critiques around transparency, accountability, participation, and oversight can be leveled against all IFIs that lent emergency loans to South Africa during the Covid-19 pandemic as these elements are key to ensuring that IFIs do what they say they will, without undermining human rights. First, the secrecy surrounding these loans and the lack of transparency and oversight. Second, the difficulty in reporting on the use of the loans and their impact and the potential for corruption and mismanagement. Third, the lines of accountability between the South African state and IFIs and whether this enhances or weaknesses democratic policy management.

Regarding the first, South Africa incurred a cumulative debt of approximately $8.8 billion (roughly R141 billion) during this time with neither transparent nor accessible processes of public consultation. Despite the significant improvements they have made on transparency, the World Bank and IMF are still rather opaque, with gaps in access to their information and consultative processes.

20. An estimated ratio of a given IFI loan to the total estimated 2021/22 net (local + foreign) debt of R4,057 trillion as reported by National Treasury in the 2022 Budget Review in Table 7.7 Total national government debt (National Treasury 2022:87). Conversion to dollars made on the date of disbursement.
21. The tax year following the outbreak of the pandemic, between April 2021 and March 2022.
22. Such as the Taux Effectif Global in the European Union.

Consultation on their most recent loans was made through Treasury at the National Economic Development and Labour Council (NEDLAC) which consists of limited, usually elite, representation of government, labour, business, and community constituencies. These consultations tend to be perfunctory with National Treasury presenting plans with little room for constituencies to actually influence those, particularly on issues of macroeconomic policy. No consultation occurred through Parliament beyond a presentation of the debt accrued after the fact.

The IMF has also been criticised for gaps in their transparency (Human Rights Watch, 2021). A lack of centrally available information has also made tracking SDR flows in the context of rechannelling an arduous, untransparent process (Plant and Sala, 2022). The IMF does not release regular transaction data by country nor does it offer data on how individual countries use SDR holdings, which makes it impossible to know the exact usage of the SDR system (Pforr, Pape and Murau, 2022).

The World Bank's Development Policy Financing (DPF) has, in turn, come under scrutiny for weaknesses in transparency and accountability. While DPOs and prior actions are available online, the far-reaching environmental and human rights impacts of its policy advice lacks the more country-specific knowledge and sophisticated analysis that would allow civil society to hold the Bank accountable (Mariotti, 2021). Furthermore, in the case of the World Bank's DPO loan to South Africa, the interest rate of the loans from the World Bank to South Africa during the pandemic is not available on its website.

Regarding the issue of adequate reporting, the auditing of every rand that flowed from the IFIs towards South Africa's Covid-19 response is nearly impossible because all loans were allocated as general budget support or loosely tied to particularly Covid-19 programmatic interventions. In essence, the finance was added to the South African National Revenue Fund as general budget support in a similar process to how market debt is allocated or tax money is collected and spent. This makes it impossible to obtain a project-specific breakdown because the loans were not ring fenced in budget allocations, nor accounted for separately in national financial systems (this is picked up further in the next section on impact).

In the South African government's agreements with both the World Bank and IMF, all parties committed to supporting performance monitoring and evaluation (World Bank, 2021:43) and to supporting the effective and transparent use of Covid-19-related resources (IMF, 2020:49). Nonetheless, allegations of corruption concerning Covid-19 procurements and funds have surfaced. These allegations include the fraudulent distribution of food parcels, social relief grants, procurement of personal protective equipment (PPE), and other medical supplies, and fraudulent claims on the Unemployment Insurance Fund's (UIF) Covid-19 Temporary Employee/Employer Relief Scheme (World Bank, 2021:43). However, there has been no subsequent evidence that country systems are being improved for the prosecution and institutional strengthening necessary to avoid such corruption related to IFI their financing.

The NDB Covid-19 Emergency Program Loan Agreement was not publicly available on the NDB or National Treasury's website, and was only accessed through a formal Promotion of Access to Information Act (PAIA) legal application lodged by Oxfam South Africa and the Centre for Legal Studies. The obtained loan agreement does specifically states that "the Borrower [Government of RSA] shall ensure and cause the Implementing Agencies [Departments of Health and Social Development] to ensure that appropriate procedures and safeguards of utilization of the Loan Amount shall be put in place and the Auditing Requirements shall be followed" (NDB and RSA, 2020). However, there is no evidence of enforcement of this clause of the loan agreement, even following various corruption scandals related to the emergency spending that the NDB partly financed during the pandemic.

The project completion report of the Covid-19 Emergency Program Loan found that in the implementation of the healthcare subprogramme, provinces "were required to report on conditional grant expenditure and performance, but performance reporting has been relatively incomplete," in part due to the absence of a dedicated official to manage the conditional grant (National Treasury, 2021). While IFIs claim to support country

systems where they are weak, this claim did not hold true in their Emergency Program Loan to South Africa, whereby the absence of dedicated officials responsible for funds led to a failure of oversight, implementation, and reporting to National Treasury, Parliament, and affected communities.

The last issue is the complexity of the notion of "accountability" itself. Notwithstanding the need for adequate and transparent reporting, it is questionable whether it is democratically advisable to set up a country's relationship with IFIs as one where the state is 'accountable to' IFIs as this has the potential to cede aspects of sovereignty. This is particularly important with regards to loans that have policy conditionalities, rather than just financial agreements on the line items against which the funds are supposed to be spent. As discussed in depth above, the power of IFIs to demand particular policies has been of detriment to the developmental priorities of borrowing countries. We should therefore be cautious, while demanding transparency and accountability for the spending of the funds, not to set up the IFIs as arbiters of policy oversight.

Further, accountability must, naturally, be applicable both ways. This compels us to ask if the IFIs will be held to account by South Africa's National Treasury and Parliament when they fail to ensure the transparency of their operations. In the early stages of the NDB's relationship with South Africa, for example, the Financial and Fiscal Commission made a submission to South Africa's Parliament arguing that: "while the NDB will likely have benefits beyond existing opportunities, for this benefit to materialise strong oversight and scrutiny [are necessary] to ensure ongoing relevance, project readiness, constitutional values are upheld and fiscal risks are minimised" (Appropriations Standing Committee, 2015).

Unfortunately, without a system to address grievances arising out of its expanding operations, and to collect feedback from clients as well as individuals, communities, and civil society organisations (CSOs), the NDB continues to fall short on its Information Disclosure Policy. While its strategic documents for 2022–2026 claim to create such a system, this has not materialised. For example, the NDB's next five-year strategy 2022–2026 was sent to the National Treasury for comments and contributions without a democratic process of parliamentary debate, review, and guidance (Standing Finance Committee 2022). This is an example of how South Africa's constitutional values of democracy and national sovereignty could be undermined. Stronger legislative oversight and participation is vital.

We must also ask whether it is in the interest of South Africa's democracy for both the decision to incur foreign debt with policy conditionality – and the oversight thereof – to rest solely in the hands of unelected National Treasury officials. The IFIs are capitalised by South African citizens as taxpayers, through resources from the state, and should therefore be more accountable to parliamentary representatives who are vital custodians of South Africa's democracy.

2.5 Conclusion

The intensification of IFI lending since 2018 is the result of a proliferation of NDB projects in South Africa, together with emergency financing in response to the pandemic. Regardless, the spread of debt owed to IFI creditors following the pandemic is relatively even across the AfDB, IMF, NDB, and World Bank. The interest rates from IFIs vary, as do the lending advice and conditionality attached to the lending. While most of the Covid-19-related IFI loans come with foreign exchange risks, they prove to be cheaper than the cost that the government would have incurred had it borrowed on the bond market. The sum of all pandemic-related loans studied represent 8.5% of the taxes collected in 2022 alone and makes up 3.5% of South Africa's total debt in 2022. While this may not reflect huge amounts relative to the size and strength of the economy, it is vital that we consider the effect of using IFI financing in future given how quickly lending from IFIs is increasing. The R29 billion total interest cost of all the Covid-19 emergency loans is not a negligible sum, especially in the context of weak systems of transparency and accountability by IFIs. It should not be taken for granted that economic emergencies automatically make IFIs necessary to manage crises, especially if local institutions and resources are available to be mobilised.

SECTION 3

EXPENDITURE AND THE IMPACT OF THE IFI LOANS

The IFI loans can be argued to have provided a boost to South Africa's pandemic response by relieving balance of payments constraints, financing the current account deficit, and supporting programmes in health and social security. This section assesses the potential impact of the loans, both on a policy level and vis-à-vis the South African government's Covid-19 programmes. This is considered in light of overall economic impacts, gender impacts, international law, and South Africa's constitutional values of democracy, sovereignty, and human rights.

3.1 Programmatic impact of spending

As noted, the funds provided were not ring fenced and were absorbed within the fiscus. This makes assessing their direct impact difficult. Consequently, the IFIs cannot be held directly responsible for mis-management and corruption in the government's pandemic spending. The loaned funds were, however, supposed to support various Covid-19 programmatic interventions that sought to achieve economic, social, and health objectives. The NDB loan agreement, for instance, clearly states that the loan was to support the implementation of the Covid-19 Emergency Program with a focus on healthcare and the social safety net. Here, we consider the success of these interventions to which the IFIs contributed a portion of the overall expenditure by analysing reports on national and provincial systems of allocation, procurement, reporting, and auditing. Specifically, the National Department of Health and the Department of Social Development as the implementing agencies.

The difficulty of this assessment is compounded by poor reporting, mismanagement, and possible corruption within the implementation of South Africa's Covid-19 programmes. The programme completion report for the NDB loan, for example, admits that it is insufficient to assess the expenditure or the impact of the loan. For instance, expenditure reports from Limpopo Province were not audited in time, which is concerning, given the reports of corruption relating to procurement of medical supplies in that province. Lack of reporting mechanisms and transparency of loan information may have opened room for corruption, thereby reducing its overall impact. This is compounded by poor design and implementation within the programme.

Table 4 gives an overview of how the Covid-19 R500 billion rescue package was initially allocated across areas of focus. As wage relief was provided from excess funds within UIF, and credit guarantees and tax relief do not incur direct fiscal expenditure, the relevant areas (also stipulated within some of the loan agreements) are social security, job creation, support to municipalities, and health care expenditure. These were originally allocated R50 billion, R100 billion, R20 billion, and R20 billion respectively. IFI loans were R141 billion compared to this total of R190 billion, although only a small fraction of the R100 billion for job creation has been spent. We briefly use the examples of social security and health care expenditure as illustrative of some of the rescue programmes' weaknesses.

TABLE 4

Allocation of South Africa's Covid-19 R500 billion rescue package

Relief areas	Item
Social security	R50 billion towards new and existing grants
Job creation and protection	R100 billion to job protection and creation schemes
Wage relief	R40 billion to pay wages and avoid job and income losses
Credit guarantee scheme	R200 billion to support SMEs guaranteed through SARB and facilitated by banks
Tax relief	R70 billion in tax deferments
Municipalities	R20 billion to support municipalities in providing relevant public services, for example, expanding water access.
Health	R20 billion to support municipalities with healthcare costs

(Source: National Treasury)

(i) Extending social support

To mitigate the adverse effects of the pandemic, the government allocated R50 billion towards social assistance, increasing existing social grants and introducing two new social grants: the Covid-19 SRD grant and the caregivers' grant. All other grants increased by R250 per month for a period of six months. About ten million South Africans depended on the SRD grants and about 47% of the country was solely reliant on social grants (Ramaphosa, 2022). The introduction of the SRD grant represented a progressive intervention by the government to protect livelihoods during the pandemic that had devastating economic consequences (Kohler and Borhat, 2020).

However, the SRD grant suffered from significant weaknesses. First, the SRD grant was low, at R350, concerningly below the food poverty line (FPL) of R585 (April 2020 prices) and the adjusted FPL of R663 in 2022. Second, inefficiencies from the South African Social Security Agency (SASSA) excluded qualifying recipients. Third, for a period the grant excluded caregivers – overwhelming women – who were argued to receive the child support grant instead, even though the recipient for the child-support grant is the child, not the caregiver. Fourth, stringent qualifying criteria and cumbersome application processes contributed to wilful exclusion of many of those it sought to serve. Fifth, and finally, the SRD grant was suspended by National Treasury on a number of occasions and only reinstated after significant pressure from civil society groups.

(ii) Health interventions

A total of R21.5 billion was reprioritised to provincial health departments to respond to the pandemic. However, the Supplementary Budget 2020 shows that just R2.9 billion of the R21.5 billion was additional expenditure with the other R18.6 billion taken from deductions in existing allocated expenditure (both within health and from other departments and provincial expenditure). The health allocation aimed to support the treatment of those affected by Covid-19, as well as efforts to manage its spread through the population, including mass testing, contact tracing, and the procurement of personal protective equipment (PPE).

In addition to being inadequate, a significant weakness in this regard was corruption and wasteful expenditure. A few months after the provision of PPEs, it was reported that tenders were awarded to politically-connected persons. The Special Investigation Unit report indicated that from April 2020 to September 2021, more than R152.5 billion was spent on Covid-19 procurement and corrupt PPE cases valued at R14.4 billion were under investigation. Beyond this, gaps remain in reporting with the programme completion report missing, for example, expenditure reports from some provinces.

3.2 Policy implications

Assessing the impact of the IFI loans requires analysis not only of the relevant health and social security programmes, but also the effect of policy recommendations on South Africa's policy space. The IMF, World Bank, and the AfDB, all had a common policy matrix reinforcing one another connected to their lending. This includes the World Bank's conditionality (prior actions) to target unemployment benefits, and have a greater liberalisation of the electricity supply (World Bank, 2022); and a set of IMF policy recommendations that to: (a) reduce public expenditure on social protection systems and more narrowly target social safety nets; (b) cut operational expenditures like the public sector wage bill; (c) reduce or rationalise subsidies; (d) reduce public spending on SOEs; and (e) ensure fiscal consolidation once the pandemic subsides (IMF, 2020; 2022). The government has followed through on some of these policy interventions with devastating social and economic consequences.

3.2.1 Fiscal consolidation

As it happened, in the early days of the pandemic, as rescue and relief measures were being implemented, the government was preparing for medium-term budget cuts. The October 2020 MTBPS presented to the IMF by the National Treasury (about half a year before it was passed in Parliament and publicly available) proposed fiscal consolidation measures that reduced public debt and plans to make budget cuts as the pandemic waned (IMF, 2020d:51).

Commitment to fiscal consolidation was renewed in 2022 and 2023 in government's drive for a primary budget surplus. The fiscal strategy aimed at reducing the budget deficit and 'stabilising' debt as a percentage of GDP (National Treasury, 2021; 2022). This has come at the expense of public services expenditure, and the public sector wage bill. For instance, in real terms, in 2021/22 healthcare expenditure declined from R246 billion to R242 billion in 2022/23, and by an average of -2% over the medium term (IEJ, 2022). These reductions in spending occur in a public health system in which there are 39 000 vacant posts (Alternative Information Development Centre (AIDC), 2022) and an education system in which expenditure declined from R20 000 per learner in 2009 to R16 500 in 2021 (Sachs and Ewinyu, 2022).

3.2.2 Targeting and reducing public expenditure on social protection schemes

Evidence from the roll out of the SRD grant in 2022 shows how attempts to narrowly target the grant led to exclusions, a decrease in the number of grants paid, and under expenditure by the Department of Social Development (DSD). In 2022, the National Treasury imposed a budget cap of R44 billion that led the DSD to change the regulations and qualifying criteria, imposing a very low income threshold for eligibility (originally personal income of R350), and introduced a host of new questions to the application form as a way to exclude potential beneficiaries. Subsequently, approved applications dropped from 10.9 million in March 2022 to 7.5 million in January 2023, with beneficiaries paid falling from 10.4 million to 6.3 million. This has led to an underspend in the 2022/23 budget allocation, justifying a reduction from R44 billion in 2022/23 to R36 billion in the 2023 National Budget. There is no allocation to the SRD grant in 2024/25 and 2025/26, undermining the President's commitment to the SRD laying the basis for basic income support (IEJ, 2023).

The increase given in the 2022 National Budget to social grants was 5% for most grants, 4.3% for the child support grant, and 1.9% for the foster care grant. All three grants fell below actual inflation of 7.1%. Even the 2023/24 inflation-linked increases are insufficient as they rely on headline inflation, whereas social grants are meant to help with the subsistence needs of the poorest. Food-price inflation and inflation experienced by the poor and low-income earners is consistently higher than headline inflation; at the start of 2023 food inflation reached a nine-year high (13.4%).

Even while the IMF acknowledges that a driver of gender inequality is unequal access to public services it ignores the fact that austerity and privatisation disproportionately limit women's access to public services and increase the burden of unpaid care work.

In aggregate terms the social protection budget is projected to decrease by R37 billion (compared to if it keeps pace with inflation) over the three financial years 2023/24, 2024/25, and 2025/26 (IEJ, 2023). The National Treasury is therefore clearly acting in line with commitments made by IFI lenders, and is viewed favourably by them. For example, on the SRD grant, the IMF explained that "the [Treasury] authorities agree with staff that there is no fiscal space to accommodate this [SRD] grant" (IMF, 2022c:19).

3.2.3 Cut to the public sector wage bill

Beyond cuts to public services, the government has restrained the growth of the public sector wage bill. In 2021, the government took a decision not to implement wage increases arguing that "rising compensation spending had become unaffordable and was the main expenditure risk to the sustainability of the public finances" (National Treasury, 2021). Between 2020 and 2021, the medium-term compensation of employees was reduced by R300 billion. As part of the measures to reduce the headcount of public sector workers, government offered early retirement without penalisation. This has had a negative impact on the average annual growth of civil servants in police, defence, and correctional services compared to the populations they serve (MTBPS, 2022: 60). The number of police officers and nurses decreased by 10% between 2016 and 2022 (MTBPS, 2022). The wage cuts have led to mass public sector strikes and contribute to increased unemployment.

3.3 IFIs disappointing gender policy application in South Africa's pandemic

In line with the generally poor gender policies among IFIs (see Section 1), there is little evidence that the government worked with IFIs towards gender equity enhancing goals during the pandemic.

The IMF, for example, has a gender and inclusion unit mandated to give advice on the gendered impact of policies as part of its strategy towards Gender Mainstreaming (IMF, 2022). The Fund even made the claim that it offered South Africa technical support during the pandemic through public financial management that included gender-responsive budgeting (IMF, 2022a:32). However, the most recent IMF Article IV review omits a critical reflection on the disproportionately negative impact of fiscal consolidation, and the targeting of the SRD grant, on gender equality. Even while the IMF acknowledges that a driver of gender inequality is unequal access to public services it ignores the fact that austerity and privatisation disproportionately limit women's access to public services and increase the burden of unpaid care work (IMF, 2022b:10; OHCHR, 2021). Despite this, in its lending to South Africa the IMF recommended an "ambitious fiscal consolidation" to "restore fiscal space and maximize the impact of structural reforms by welcoming private investment" (IMF, 2021c).

There is no evidence in the loans, or project reports that any of the IFIs used instruments to structure their allocation of resources to ensure that women benefitted equitably. The absence of gender-responsive budgeting amongst IFIs is in contradiction with South Africa's Gender Responsive Budgeting Guidelines of the Department of Justice and Constitutional Development (2005), and in contradiction to the Gender Responsive Planning, Budgeting, Monitoring, Evaluation and Auditing Framework that was approved by the South African Cabinet in 2019 (Department of Women, Youth and Persons with Disabilities, 2020). By failing

to take concrete steps to gender mainstream their disbursements, IFIs fail to uphold the UN Sustainable Development Goal Five of achieving Gender Equality and the Empowerment of All Women and Girls.

Beyond the empowerment of women as a development strategy, empowerment towards equality has legal foundations. In 1995, South Africa ratified the United Nations Convention on the Elimination of All Forms of Discrimination against Women (CEDAW). Furthermore, Section 9 (2) of the South African Constitution affirms the right to equality (S9(2)), which is rendered unachievable in the absence of commitment to, and implementation of, gender-responsive budgeting.

This was not demonstrated vis-à-vis pandemic-related lending with direct real-world impacts. For instance, between May 2020 and April 2021 the IFI loans that partly financed the SRD grant excluded caregivers. Because most caregivers are women, the 'targeting' of the grant excluded people who received a caregiver's allowance on behalf of their children. Consequently, both the caregiver and the child were expected to survive off the R450 Child Support Grant (CSG) which was, like the SRD grant, also below the food poverty line of R585 at the time. This systematic exclusion of caregivers, meant that only 32% of recipients of the SRD grant were women (Spaul, Daniels, Ardington, et al., 2021). In addition, the SRD grant requirements required applicants to have a bank account in their name, a requirement which is likely to disproportionately disadvantage women, as women are much more likely to perform unpaid care work and often do not have bank accounts in their own name (Sibeko, 2022). The caregiver allowance and the SRD grant requirements that IFIs supported thus resulted in unequal treatment of men and women.

3.4 How do IFI's relate to The Constitution?

Considerations of the normative consequences of IFI lending must be viewed considering a range of binding constitutional obligations on resource raising, allocation, and spending. The Constitution affords sanctity to democracy, national sovereignty principles, and a host of rights, including placing a duty on the state to progressively realise socio-economic rights and a duty on private entities (like IFIs) not to interfere with such rights.[23] In Section 1.5 we summarised four clusters of issues for which IFIs undermined human rights in their Covid-19 lending. In this section we elaborate on some of those issues and interrogate how IFI lending also has a bearing on democracy, and national sovereignty.

3.4.1 Democracy

Democracy is undermined by a lack of transparency and accountability in IFI lending. Sections 1 and 2 of this Report have discussed, in general and in South Africa respectively, the lack of transparency with regard to IFI lending practices, and access to full information. This undermines civil society and legislative oversight and accountability of IFIs that have a direct bearing on national interests. Transparency is a crucial first step to ensure the checks and balances are in place for accountability, to avoid corruption, to prevent the state from falling into a foreign debt crisis, and to ensure that policy space is not lost to external institutions. IFIs also undermine democracy when they use policy conditionality to create structural adjustments to the economy without democratic consensus or oversight, as discussed in Section 1 of this Report.

3.4.2 Sovereignty

IFI policy conditionality not only undermines the democratic process of designing policy – it also undermines the sovereignty of the state to determine its own policy. According to the Founding Provisions of the Constitution, post-apartheid South Africa was founded as a sovereign, democratic state dedicated to the values of dignity, equality, and the championing of human rights.

23. See, as examples, Government of the Republic of South Africa v Grootboom 2001 (1) SA 46; Minister of Health v Treatment Action Campaign 2002 (5) SA 721, AB and Another v Pridwin Preparatory School 2020 (5) SA 327 (CC); and Governing Body of the Juma Musjid Primary School v Essay N.O. 2011 (8) BCLR 761 (CC).

The commitments made, and prior actions undertaken, to secure IFI financing were not considered by National Treasury officials and the Minister of Finance to unduly impinge on policy autonomy as they were in line with the government's existing policy positions. This is of serious concern for three reasons. The first is that even if the policies prescribed are not legally binding, requisite prior actions and letters of intent between governments and BWIs are still highly influential on capital markets' expectations of government action. These expectations create an implicit obligation to avoid changing the country's policy direction after loans have been signed, to avoid negative reactions by private capital markets. Secondly, the letters of intent and loan agreements are used to justify policies in public discourse and internally within government.

Thirdly, the non-binding conditionalities could have binding implications for future loans, if a government is unable to repay the original loan. Some of the countries[24] in other parts of the world that received IMF loans remain in huge debt even after IMF emergency financial assistance. These countries will therefore have to take full IMF programmes with more stringent, binding conditionalities based on earlier recommendations (Munevar, 2020). This is a prospect that should be taken seriously for its implications on a country's sovereign determination of economic policies through democratic processes – as opposed to the imposition of economic policies by an international institution.

3.4.3 Human rights

Even though both the Guiding Principles on Foreign Debt and Human Rights, and the Guiding Principles on Extreme Poverty and Human Rights enjoin States and IFIs to carry out human rights impact assessments in relation to their financing, this was not forthcoming in IFI lending to South Africa, as elaborated upon in Section 3. Consistency of policy recommendations, a letter of intent, or prior actions required by IFIs, and government policy, does not vindicate that set of policies if they are inconsistent with constitutional obligation to protect and advance human rights. Indeed, the Constitution states that any law or conduct that is inconsistent with the provisions of the Constitution is invalid (s2).[25] Economic policy must be embedded within the constitutional framework – not exist outside of it – regardless of the congruence between IFIs and a given government's economic policies.

To disempower the sovereign, democratic processes of economic policy making is also to disempower the ability and responsibility of the government to meet its human rights obligations. It is the government's prerogative to ensure that fiscal policy is not bound by policy conditionalities or recommendations that subvert human rights.

Austerity, in particular, raises a wide range of well-documented human rights issues. It has been shown to reduce access to public services, increase income inequality, lower wages, increase care burdens, and significantly increase long-term unemployment (Ball, Furceri, Leigh, and Loungani, 2013). Fiscal austerity has also been found to undermine economic activity, development objectives, and human rights (IMF, 2012; ILO, 2017; UN, 2017; Brunswijck, 2018).

The BWIs are facing mounting criticism from civil society for the gap between their commitment to the Sustainable Development Goals, and the outcomes of their programmes. In 2023, 94 developing countries representing 85% of the world population are estimated to be living under austerity that has been partly instigated by the IMF and World Bank through their conditionality and lending advice (Munevar, 2020; Mariotti, 2021, 2022b; Oritz and Cummins, 2022; Oxfam, 2021).

24. For example, Costa Rica, Ecuador, Kenya and Cameroon at the end of 2020.
25. The Constitution of the Republic of South Africa, s 2.

The IMF's persistent focus on fiscal austerity following the pandemic ultimately undermines its raison d'être to provide recovery support to countries in distress through countercyclical lending.

Following initial budget support for countries, the IMF continued to prescribe fiscal consolidation, constraints on public sector wages, narrow targeting of social protection, cutting subsidies, increasing VAT and reduction in the size of the public sector and social expenditure that undermine government institutions' ability to provide public services and realise constitutional obligations for human rights (Munevar, 2020; Oxfam, 2020a; Razavi et al., 2021). One estimate is that these austerity measures are worth, on average, 3.8% of GDP that makes up 4.8 times the number of resources allocated in Covid-19 packages in 2020, with front-loaded adjustments that give countries little time to recover (Munevar, 2020).

The IMF's persistent focus on fiscal austerity following the pandemic ultimately undermines its raison d'être to provide recovery support to countries in distress through countercyclical lending (Ostry, Loungani and Furceri, 2016; Gosh, 2021). A Report published by the International Labour Organization succinctly frames this paradox:

"How can countries build national social protection systems, including floors, without the necessary fiscal space? Conversely, how can countries achieve macroeconomic stability and structural transformation of the economy if they do not have a robust social protection system that prevents poverty, contains inequality, builds human capabilities and productivity, and creates a sense of social cohesion, solidarity and fairness that is so critical for social and political peace?" (Razavi et al., 2021).

Such austerity conditionalities or commitments have already been shown to be contained in South Africa's Covid-19 IFI loan agreements, particularly in the common policy matrix established by the AfDB, IMF and World Bank. These run counter to the obligations to realise, or progressively realise, socio-economic rights in both the South African Constitution and the ICESCR,[26] which South Africa has ratified with associated legal standing domestically. Under this covenant, the South African state has a duty to maximise its available resources to progressively realise socio-economic rights. The doctrine of non-retrogression in the ICESCR provides a framework and set of principles that can advance greater accountability for rights-eroding budgetary decisions because retrogressive measures are the converse of the duty of progressive realisation (CESCR, 1990; Liebenberg, 2021).

Within the scope of the non-retrogression doctrine, fiscal consolidation that negatively affects a programme or institution critical to the delivery of socio-economic rights likely constitutes a retrogressive measure. This includes circumstances of erosion of legal protections and fiscal allocations that have a positive bearing on people's access to socio-economic rights (Liebenberg, 2021). In the context of South Africa's socio-economic rights jurisprudence, this framing can be applied because the ICESCR and the South African Bill of Rights have a similar structure, in "a set of socio-economic rights with an internal qualifying duty of 'progressive realisation' in ss 26(2) and 27(2) as well as a general limitations clause (s 36). The Constitutional Court has not to date applied the general limitations clause (s 36) to a breach of the positive duties in ss 26(2) and 27(2) of the Constitution" (Liebenberg, 2021:197).

26. See General Comment No. 3 adopted by the UN CESCR in 1990. Citation: CESCR, (1990). CESCR General Comment No. 3 (Fifth session, 1990) The Nature of States Parties' Obligations (art 2, para 1) of the Covenant, UN doc. E/1991/23

Austere policies, driven by IFIs, hinder the right to social security, education, food, water, medicine, and dignity. In addition to undermining democratic determination of policy and sovereignty, policy conditionality linked to IFI loans that weaken the state's ability to mobilise or administer public services hamstring its ability to meet human rights obligations.

The ICESCR demands that any retrogressive government's spending cuts must have the "most careful consideration and would need to be fully justified by reference to the totality of the rights provided for in the Covenant and in the context of the full use of the maximum available resources," (CESCR, 1990). This means that retrogression of rights must be justified as being temporary, necessary, proportionate, and must still offer protection of the minimum core of rights. The Committee further affirmed governments' obligation to refuse conditionalities from IFIs, like the World Bank or IMF, that result in unjustifiable austerity (CESCR, 2016).

The fiscal austerity that the South African government embarked on – in line with the IFI loan agreements – has not been justified on the bases set out in the ICESCR. In fact, there are no publicly available studies on the expected impacts of the conditions and promises associated with these loans on people's lives, such as the impacts on poverty, public health, job creation, and social welfare that undermine peoples' rights (Bradlow, 2022). The Financial and Fiscal Commission of South Africa (2021), explains that there was no indication that National Treasury – as the executive arm of the state – considered how rights would be protected in the context of falling resource allocations before tabling the budget in Parliament.

It is highly likely that these policies are in violation of the constitutional and international law obligation for the progressive realisation of human rights. In fact, the 2021 National Budget has been criticised for "the substantial reduction in the real value of allocations to public services that undergird [socio-economic] rights" (Fiscal and Financial Commission, 2021). The effect of austerity in South Africa has had negative impacts on the most marginalised because of reductions or reallocation of spending on vital health services, basic education, and other social expenditure (Liebenberg, 2021).

3.5 Conclusion

The intention behind the South African governments' pandemic lending was aimed at supporting the most vulnerable through spending on social protection and healthcare provisioning. Two programs that faced multiple challenges. One critical shortcoming was the weak gender policies among all IFIs that co-financed these government programmes, for instance, in support of the SRD grant which resulted in unequal provisioning to men and women. It is thus unsurprising that there is little evidence to suggest the government worked with IFIs towards gender equity enhancing goals during the pandemic.

The common policy matrix between the IMF, World Bank, and the AfDB, was realised in government policies that followed the borrowing, which included fiscal consolidation, cuts to the public sector wage bill, and targeting and reducing public expenditure on social protection schemes. These austere policies, driven by IFIs, hinder the right to social security, education, food, water, medicine, and dignity. In addition to undermining democratic determination of policy and sovereignty, policy conditionality linked to IFI loans that weaken the state's ability to mobilise or administer public services hamstring its ability to meet human rights obligations or direct resources towards developmental undertakings.

SECTION 4

CONCLUSION AND POLICY IMPLICATIONS

Borrowing by the government from IFIs is growing rapidly. During the Covid-19 pandemic IFI loans from the AfDB, IMF, NDB, and World Bank supported the South African fiscus and were channelled toward government-implemented social and health programmes. These programmes, however, have been found to have been implicated in corruption and were deeply flawed in terms of their effectiveness and transparency. Furthermore, the loans from the World Bank included policy conditionality akin to Structural Adjustment Loans that threaten to undermine constitutional obligations to protect human rights. The National Treasury effectively traded South Africa's policy autonomy for cheaper finance. Without adequate checks and balances on IFI lending, and its potential influence on critical policies, the evidence illustrates that the impact on South Africa's democratic processes, national sovereignty, and human rights, are substantial. This does not take away from the fact that, recent global crises have reaffirmed the imperative to improve access to international liquidity. Grants and low-interest capital are urgent in order to address the multiple challenges of development, pandemic recovery, and the climate crisis. However, these must be condition-free, carefully overseen, and deployed in a rights-enhancing manner.

Policy considerations:

- **Policy conditionalities or commitments negotiated, as well as project appraisals, need to be tabled in Parliament before a loan agreement is made.**
  - » This should include projected costs to taxpayers through fees and interest payments over the lifetime of the loans.
  - » Democratically elected representatives in Parliament need to have greater oversight to ensure the Executive consults meaningfully with the Legislature. Oversight mechanisms should not be solely reliant on National Treasury.
  - » Legislative reforms may be necessary to strengthen oversight and citizen participation in this process.

- **No IFI lending should take place before a long-term impact assessment of a loan on the country's debt profile and human rights obligations is conducted.**
  - » A human rights impact assessment should be made to inform the Executive and Legislature on their decision to incur IFI loans, and promote transparency by permitting the public to see the potential effects of budgetary decisions on human rights.
  - » All loan agreements and impact assessments must be made public and accessible on the websites of IFIs and National Treasury to make the work of oversight and accountability less time consuming, expensive, and exclusionary.
  - » This should include publicly available calculations of the cost of the loans to the state over the duration of their lifetime, and how that affects the state's overall debt sustainability.

- **Sovereign, democratic decision-making and political responsibility for economic policy must remain in the hands of the South African state.**
  - » In-line with the ICESCR, and the South African Constitution, policy recommendations and conditionality of IFI loans should not be allowed to undermine the progressive realisation of human rights as a result of unjustified austerity policies.
  - » The government should ensure that economic policy conditionality comes to an end across all IFIs, and that IFIs are not permitted to push a policy agenda for the financialisation and privatisation of public services through financial tools that reduce access to public service delivery.

- **IFIs must adopt gender budgeting in line with gender mainstreaming policy in South Africa to ensure that their financing reduces disparities.**
  - » Prior to entering into agreements, IFIs and the National Treasury should present a gender budget statement, gender expenditure tagging, performance monitoring of relevant indicators, ex-ante or ex-post gender impact assessments, and spending reviews with all IFI loans to Parliament.

- **Institutional reform is necessary to ensure IFIs uphold and strengthen country systems regarding oversight, implementation, and reporting on their projects to National Treasury, Parliament, and affected communities. Practically this would need to start with:**
  - » Improvement of the failing systems of information disclosure and dissemination.
  - » An additional, independent, project-specific, dedicated official mandated to oversee spending of each emergency loan.

- **The state needs stronger oversight of IFI loans to improve accountability.**
  - » Parliament should be funded better, particularly the Standing Committee on Finance to improve access to information for parliamentarians in service of their oversight role.
  - » The executive should institute more meaningful consultation with a wider range of stakeholders, including communities affected by projects, civil society organisations, and trade unions in order to improve transparency, stakeholder engagement, and strengthen democratic processes. This could entail an 'engagement group' as an independent accountability mechanism that would allow the government to learn about concerns of affected groups and communities before it finalises its borrowing plans.

- **IFIs need to be held accountable at acceptable standards of consultation, accountability, and information disclosure.**
  - » Parliament and National Treasury should reject any IFI loan that does not involve meaningful consultation and transparency in order to hold IFIs to these obligations.
  - » For example, the NDB and IMF should present detailed accounting of their loan agreements on their website, and the World Bank should provide fuller information on key elements of their loan agreements such as interest rates.

Anti globalization protest against the IMF and Worldbank in Washington D C, on April 16 2000.
(Photo: Jeremy Hogan / Alamy Stock Photo)

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