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## ***South Africa Searches for a Financial Parachute, Now That a \$170 Billion Foreign Debt Cliff Looms***

This week's hush-hush visit by International Monetary Fund Managing Director Christine Lagarde to Pretoria (between stops in Accra and Luanda) will raise eyebrows. In contrast to last week's IMF press briefing claim – “Madame Lagarde will hold meetings with the authorities, as well as fairly extensive meetings with the private sector, civil society, academia, women leaders, and of course the media” – there's a complete information void, and no public events scheduled.

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



**Tito Mboweni** @tito\_mboweni · 19 Dec 2016

French court finds Christine Lagarde guilty of negligence [ft.com/content/aeef242...](https://ft.com/content/aeef242...) via @FT



**IMF stands by Christine Lagarde after negligence verdict**  
French tribunal forgoes sentence after hearing into Tapie case  
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**Tito Mboweni** @tito\_mboweni · 24 May 2013

IMF's Lagarde Averts Being Charged in Sarkozy-Ally Probe [bloom.bg/1507c0h](https://bloom.bg/1507c0h) via @BloombergNews

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

Retribution for corruption is indeed in the Pretoria air, for two months ago, Mboweni replaced Nhlanhla Nene, who resigned in disgrace over lying about his secret Gupta meetings. But is Mboweni himself arranging a secret IMF bailout deal, as happened 25 years ago when the IMF granted an infamous \$850 million loan – a “Faustian Pact” (according to former Minister of Intelligence Ronnie Kasrils) replete with Washington Consensus promises – to outgoing president FW de Klerk, so as to “instil global financial confidence” in the coming Mandela government?

After five “junk!” denunciations by the three most powerful (albeit suspect) credit ratings agencies over the past 18 months, President Cyril Ramaphosa has tried hard to restore

their trust. However, with Eskom now trying to dump another R100 billion in debt onto the Treasury, he now appears to need a financial back-stop from the Bretton Woods Institutions.

Indeed, more to the point, is electricity parastatal agency Eskom's foreign debt again creating havoc, as happened eleven months ago with a "pending letter of default from the World Bank" that "could trigger a recall on Eskom's \$25 billion debt mountain," as Carol Paton reported in Business Day (prior to Ramaphosa's urgent, apparently soothing meeting with Bank officials in Davos)?

Lagarde's opaque visit this week contrasts with World Bank President Jim Yong Kim's high-profile trip earlier this month, amidst a blaze of Global Citizen anti-poverty populism to 90,000 youth at FNB Stadium: "I'm telling you, you can't trust anyone over 30 to determine your future!" Kim met Ramaphosa to discuss, he tweeted, urban planning and sanitation (neither of which would need US\$-denominated Bank loans to finance imports). He also lectured at the Wits School of Governance on human capital investment (jovially criticising another ex-lefty, his host former Vice Chancellor Adam Habib, for being a "student of Trotsky").

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

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

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

The other credits went to transport parastatal agency Transnet's Siyabonga Gama (who was fired for Gupta-related corruption a few weeks later) for \$200 million to expand the Durban port-petrochemical complex – a project now frozen due to brazen procurement fraud involving a notorious Italian firm (unrelated to the Guptas) – and to the Development Bank of Southern Africa for on-lending \$300 million to municipalities

(assuming there are any creditworthy ones left, able to pay sufficiently high interest rates to justify a hard-currency loan for local infrastructure).

Explained Earthlife Africa protester Makoma Lekalakala, co-winner of the 2018 Goldman Environmental Prize as Africa's leading activist, "Both Eskom and Transnet are under scrutiny for corruption and mismanagement. No due diligence was done on the Transnet loan. If this is how the [BRICS] bank operates, we have to brace ourselves for accelerated environmental degradation for the pursuit of profit."

But the Bretton Woods Institutions are no better, and just over a year ago, Ramaphosa offered a scathing critique of Washington's bias: "We should not go to the IMF because once we do we are on a downward path, we will be sacrificing our independence in terms of governing our country and sacrificing our sovereignty." He cited the risk of imposed "cuts in social spending" what with anticipated IMF orders to Eskom, "to do away with free electricity quotas for the poor and indigent" (an inadequate 50kWh/household/month, about three days' use).

Ramaphosa repeatedly denies that the Bretton Woods Institutions will bail out South Africa: "IMF, no, we're not looking at the IMF. The New Development Bank has a facility that could be made available to us. And we are exploring that as well. And we want to do it in a way that does not require a sovereign guarantee." Actually, Ramaphosa probably didn't mean the BRICS NDB, which makes project-specific loans, but instead its \$100 billion Contingent Reserve Arrangement (CRA), which has a \$3 billion credit line for South Africa to immediately draw upon in the event of a balance-of-payments emergency deficit.

### **BRICS v IMF – or BRICS-IMF?**

On the other hand, the BRICS look much less coherent today than in July, because Brazil's new leader Jair Bolsonaro could drop out of the bloc, and at minimum, will more firmly hitch his Brasilia to Washington. Still, in spite of his oft-expressed Sinophobia, Bolsonaro has just grudgingly agreed to continue the rotation of BRICS heads-of-state summit hosting (although this is likely only to occur in Brasilia next November). There will be much Trump-style geopolitical, economic and especially environmental chaos starting on January 1 when he becomes president, such as paving over the Amazon. But compared to November, fewer insiders whom I talked to (including former Foreign Minister Celso Amorim) – while visiting earlier this month – fear that Bolsonaro will reduce the bloc to RICS through a 'Braxit,' the way he just did to the UN Framework

Convention on Climate Change summit. (His predecessor Michel Temer had agreed to host the it in Brazil late next year, but Chile will now take over.)

The old, oft-stated contrast between the agendas of BRICS and Washington, as articulated by Jacob Zuma's scribe Gayton Mckenzie, for instance, was in any case mainly myth. From 2014, Lagarde has enjoyed the power to co-finance the more desperate of BRICS borrowers (e.g. Brazil and Russia are also junk-status), because the CRA's Articles of Agreement stipulate that if Pretoria wants the next \$7 billion in BRICS funding within its \$10 billion quota range, it must first get an IMF structural adjustment programme.

If Pretoria needs financing to repay increasingly onerous foreign debt tranches in 2019, could this fractured society withstand even more austerity, given what Business Day already termed 2018's "savage fiscal consolidation" that radically reduced basic-infrastructure grants, which in turn led even Johannesburg's neoliberal mayor, Herman Mashaba, to cry foul on Treasury's 65% budget cut to the city's housing programme last week?

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

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

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

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

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

Including parastatal and private borrowers (for whom the state ensures hard currency is available for repayment), foreign debt stood at \$171 billion as of mid-year (up from \$25 billion in 1994). That figure, the SA Reserve Bank announced last week, is down nearly 8% from March 2018’s \$183 billion, but only as a result of “non-residents’ net sales of domestic rand-denominated government bonds as well as valuation effects.” (More painfully in Rand terms, foreign debt increased from R2.165 trillion in March to R2.347 trillion at end-June.)

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

+ in 2010, \$3.75 billion from the World Bank, mainly for the Medupi coal-fired power plant (a deal for which Eskom chairperson Valli Moosa was criticised by the public protector for ‘improper’ conflict of interests since he sat on the ANC Finance Committee, during the notorious Hitachi corruption of the ruling party);

+ in 2013, \$5 billion from the China Development Bank, mainly for Transnet’s purchase of imported infrastructure inputs, especially for corrupt port-petrochemical expansion in Durban and a coal export rail line to Richards Bay (billions of rands were illicitly directed via China South Rail to the Gupta empire); and

+ in 2016, \$5 billion again from the China Development Bank, mainly for Eskom’s other coal-fired mega-generator, Kusile, initially arranged by Molefe and renewed at the BRICS Sandton summit last July.

None of these loans can be justified, especially on ecological grounds – since they all rapidly increase the climate debt we South Africans owe both future generations and, more urgently, contemporary African victims of worsening droughts and floods. Moreover, with state procurement corruption costing in the range of 35-40% per contract, according to the

lead Treasury official in 2016, there is a strong case for a full debt audit, followed by the demand that the World Bank, China Development Bank, BRICS Bank and other lenders also assume liability.

After all, the Hitachi deal with the ANC's investment wing Chancellor House led the U.S. government to fine the Japanese firm nearly R300 million in 2015 – for Foreign Corrupt Practices Act violations at Eskom – and hence when Public Enterprises Minister Pravin Gordhan (responsible for borrowing the \$3.75 billion in 2010) last week blamed Hitachi incompetence for recent load-shedding, that alone should invoke World Bank debt repudiation.

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

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