UNITED
NATIONS

General Assembly

Distr.
GENERAL

A/37/568
25 October 1982

ORIGINAL: ENGLISH

Thirty-seventh session
Agenda items 32 and 99

186
13
7-7

QUESTION OF NAMIBIA

IMPLEMENTATION OF THE DECLARATION ON THE GRANTING OF INDEPENDENCE TO COLONIAL COUNTRIES AND PEOPLES BY THE SPECIALIZED AGENCIES AND THE INTERNATIONAL INSTITUTIONS ASSOCIATED WITH THE UNITED NATIONS

Letter dated 13 October 1982 from the President of the United Nations Council for Namibia to the Secretary-General

In keeping with a decision adopted by the United Nations Council for Namibia at its 388th meeting, held today, I wish to request that the enclosed report be reproduced as a document of the General Assembly under agenda items 32 and 99.

(Signed) Paul J. F. LUSAKA
President of
the United Nations Council for Namibia

82-27956 0354s (E)

/...

Annex*

INTERNATIONAL MONETARY FUND RELATIONS WITH SOUTH AFRICA

by

David Gisselquist**

---

* At the request of the Chairman of the Fourth Committee, copies of the study were distributed to the members of the Committee on 27 October 1981 in connexion with the Committee's consideration of item 95 of the agenda at the thirty-sixth session of the General Assembly (Implementation of the Declaration on the Granting of Independence to Colonial Countries and Peoples by the specialized agencies and the international institutions associated with the United Nations).

** Dr. David Gisselquist, an assistant professor of economics at the University of Maryland, Baltimore County, has done extensive research on the international monetary system.

/...

INTERNATIONAL MONETARY FUND RELATIONS WITH SOUTH AFRICA

CONTENTS

/...

Appendices

Tables

I. INTRODUCTION

A. BRIEF OUTLINE OF THE STRUCTURE AND OPERATIONS OF THE INTERNATIONAL MONETARY FUND

The International Monetary Fund (IMF) is run by member governments, of which there are currently more than 140.1/ It is an international financial intermediary, taking in money and passing out foreign currency loans to member governments. The IMF, like the World Bank, was designed during World War II, began operations in Washington, D.C., shortly after the war, and made its first loans in 1947. The behaviour of the IMF and of its members is governed by the Articles of Agreement of the IMF, an international treaty which has been signed by all IMF members and which serves as the constitution of the organization.2/

IMF loans to member governments are not tied to any specific project or otherwise earmarked for a specific purpose but are available to meet the general needs of borrowing governments. Loan programs of the IMF are designed to help nations through short-term and medium-term difficulties in their balance of payments accounts. Accordingly, most IMF loans are to be repaid within five years; recently some programs for repayment over periods as long as ten years have been set up. Having made a loan to help a nation through a difficult period, the IMF wants to collect the loan as quickly as possible to have the money available for use elsewhere. In this way, the IMF preserves its pool of loanable funds and hence preserves its potential to come to the aid of member governments.

Member nations participate in the IMF according to a system of **quotas** which is similar in some respects to the system of **stock ownership in** a corporation. In general, the quota for each member is determined according to its economic size; larger and richer nations have larger quotas, while smaller and poorer nations have smaller quotas. Quotas were initially stated in terms of U.S. dollars but are currently stated in terms of Special Drawing

---

1/ Members in the IMF are listed in appendix I.

2/ Selected portions of the IMF's Articles of Agreement are given in appendix II.

/...

Rights (SDRs), a unit of currency devised by the IMF. 3/ The value of the SDR, which depends on the value of a basket of major national currencies, has fluctuated from around US$1.15 to somewhat over US$1.30 in recent years.

A member's quota in the IMF determines the weight of its vote in IMF councils and plays a part in determining the size of its financial contribution to the IMF as well as the size of its potential loans from the Fund. Within IMF councils, each member is allotted 250 votes plus one vote for every 100,000 SDRs in its quota. For example, the United States, with a quota of 12,607.5 million SDRs, has 126,325 votes. The procedure for determining votes from quotas gives larger nations a slightly smaller share of total Fund votes than of total Fund quotas---and conversely gives smaller nations a slightly larger share of total Fund votes than of total Fund quotas---but the differences are small. The United States, for example, has a quota that is 21.15 percent of total quotas in the IMF and a vote that is 20.01 percent of total votes in the IMF. For smaller and poorer nations, quotas and votes are a much smaller share of Fund totals; for example, Rwanda's quota of 34.5 million SDRs was .06 percent of total fund quotas, and its 595 votes were .09 percent of total Fund votes. 4/

Next to the United States, the largest quota and vote in the IMF are held by the United Kingdom. The United Kingdom's vote is 6.99 percent of total votes. The next largest shares of total votes are held by West Germany, France, and Japan with, respectively, 5.16 percent, 4.60 percent, and 3.98 percent of total votes. In comparison, all the nations in black Africa together have a total vote that is less than the U.K.'s vote and just over a third the vote for the United States.

Most of the socialist countries are not members of the IMF. The Soviet Union and a number of others never joined. Two---Czechoslovakia and Cuba---either left or were forced out. Currently Laos, Vietnam, Yugoslavia, Romania, and China are members. China's vote, worth 2.89 percent of total Fund votes, is larger than total votes for the other four socialist countries combined.

3/ The SDR serves as a unit of account. It may also be a financial asset issued by the IMF. In the same sense a U.S. dollar can be a unit of account (for example, one can say that he has U.S. $5 worth of yen) or a financial asset (for example, a person can have five U.S. $1.00 bills).

4/ The voting power of members in the IMF is given in appendix I.

Members in the IMF exercise their votes in the Board of Governors and in the Executive Board. The Board of Governors of the IMF is the final authority within the structure of the Fund. Each member of the IMF appoints one Governor to the Board of Governors. Each Governor exercises the weighted vote of the country which he represents. The Board of Governors of the IMF meets at scheduled annual meetings. Procedures exist by which the Board of Governors may be convened or consulted at other times as well.

The Executive Board, on the other hand, meets throughout the year at the IMF's headquarters in Washington, D.C. The Executive Board makes decisions for the routine business of the Fund. Since the Executive Board is a working panel, it is more streamlined than the Board of Governors. Whereas the Board of Governors has more than 140 members (one for each member of the Fund), there were in mid-1981 only twenty-two Executive Directors on the Executive Board. 5/ Most members of the IMF are not represented directly on the Executive Board but are rather grouped together with some two to twenty-one other members to elect one Executive Director for the group. 6/ The Executive Director for a group of nations is able to exercise the combined votes of the members he represents. A handful of Executive Directors are appointed by individual members with the largest quotas (United States, United Kingdom, West Germany, France, and Japan) or with large contributions to the Fund (Saudi Arabia). 7/

The Articles of Agreement of the IMF separate transactions between members and the IMF into two general categories: those that are recorded in the General Department, which includes the General Resources Account, and those which are recorded in the Special Drawing Rights Department. The General Resources Account

---

5/ The Executive Board is chaired by the Managing Director of the IMF, who has no vote except when necessary to break a tie. The Managing Director is elected by the Executive Board, is neither a Governor nor an Executive Director, and serves as chief of the operating staff of the IMF.

6/ Voting strengths of Executive Directors representing various nations and the grouping of nations to elect Executive Directors are shown in appendix I.

7/ In mid-1981, China was represented by its own Executive Director. This situation was somewhat irregular since China did not have one of the five largest quotas nor had it been one of the two major contributors to Fund operations.

/...

was the initial channel for aid to members. The first funds were handed out in 1947. The General Resources Account has remained the channel for most IMF aid to date. However, the Special Drawing Rights Department, activated in 1970, has become increasingly important as a channel for aid with the creation and allocation by the IMF of more and more Special Drawing Rights over the years.

Each member's quota in the Fund plays a part in determining its financial contribution to Fund operations through the General Department. The Fund asks each member to deposit with the IMF the value of its quota in the form of its own currency, other currencies, SDRs 8/, and, formerly, gold. Whenever quotas are increased---the most recent general quota increases were in 1978 and 1980---each member increases its deposit at the IMF by the difference between its old and new quota. There is, however, a substantial amount of financial make-believe in quota contributions to the Fund. The IMF permits a member to deposit most of its quota contribution in the form of its own currency. As long as the IMF holds onto and does not use a member's own-currency contribution, the situation for the member is the same as if its own-currency contribution had never been deposited with the IMF. Not until the IMF uses the currency of one member in aid to another has the first member actually contributed its own currency to Fund operations. In general, the Fund has used the own-currency contributions of wealthier rather than of poorer members in its aid to Fund members.

The part of a member's quota contribution that is not delivered in the form of its own currency is deposited with the IMF in the form of SDRs, reserve currencies (that is, freely usable currencies of major nations), or, formerly, gold. Normally, members have been asked to deposit a quarter of their quotas and quota increases in the form of such reserve assets. While the own-currency portion of a member's quota contribution may or may not represent a real contribution to IMF operations, the portion of quota delivered in the form of reserve currencies and, formerly, gold does represent a real cost to each member and

---

8/ SDRs in this context are financial assets issued by the Fund to member governments. Formerly, the IMF asked members to contribute 25 percent of quotas and quota increases in gold.

/...

is hence a real contribution. The portion delivered in the form of SDRs is generally counted as a real contribution but is arguably not a real contribution since the SDRs paid into the IMF were initially passed out by the IMF.

Although quotas help to determine how much each member contributes to IMF operations through the General Department, quotas alone do not tell the full story. The IMF, in choosing which currencies to use in aid to members, allocates the burden of supporting IMF operations among its members; in choosing to make a loan in yen, for example, the IMF, is, in effect, putting the burden of making that loan on the Japanese government. Moreover, the IMF not only uses currencies that are available through quota contributions but also solicits loans. Lately loans from individual member governments and from groups of member governments have provided a large share of useable currencies in Fund coffers. In sum, a country with 1 percent of quotas in the Fund may contribute much more or much less than 1 percent to Fund operations.

Each member is permitted to draw on demand from the General Department of the Fund an amount equal to its net real contribution to the General Department. A member's net real contribution is known of as its reserve tranche or reserve position in the Fund. In the first instance, a member's reserve position is equal to the share of its quota delivered in the form of reserve currencies, SDRs, and gold. When a member's currency is used in drawings by another, the first member's net real contribution---known as its reserve tranche or reserve position---is increased by the value of its currency used. On the other hand, when a member draws from its reserve position in the Fund, its net real contribution is decreased by the value of its drawing. 9/ In drawing from its reserve tranche, a member is withdrawing or reducing its current net contribution to Fund operations. When a member's reserve tranche is drawn down to zero, the member has no current contribution to Fund operations through the General Department; further drawings represent use of Fund credit.

9/ However, use of Fund resources through the Compensatory Financing Facility and Buffer Stock Financing Facility has no effect on a member's reserve tranche.

/...

Members are given free access to their reserve tranche; members can draw from their reserve tranches on demand without having to seek the approval of the Executive Board. Drawings beyond the reserve tranche involve a use of Fund credit; use of Fund credit is more tightly circumscribed and regulated by the Fund than is a member's access to its reserve tranche. Quotas help to determine the amount of credit which a member may hope to obtain in drawings from the General Department of the Fund. The IMF has several sets of rules which define access to several different programs of loans through the General Department. Each set of rules includes a description of acceptable reasons for Fund aid as well as the percent of quota available through one of the loan programs. Under current IMF lending practices, potential aid to any given member through the General Department is 700 percent of quota. 10/ In most cases, the aggregate of loans outstanding to a member would be much smaller. All aid, of course, is to be repaid within some set period no longer than ten years.

All of the contributions to and aid from the Fund described in the above paragraphs are recorded in the General Department of the Fund. In 1969, the Articles of Agreement of the IMF were amended to set up the Special Drawing Rights Department as a second major channel for aid to member governments. Beginning in 1970, the IMF has allocated Special Drawing Rights to member governments in proportion to their quotas in the Fund. Special Drawing Rights are a form of script money which members may save, exchange for currencies with other members, or use to pay international obligations as permitted by the Fund. To date, cumulative total allocations of Special Drawing Rights to members in the Fund have come to roughly 35 percent of quotas. Special Drawing Rights are discussed more fully in Section IIC of this paper.

In addition to loans from the General Department and through the Special Drawing Rights Department, the IMF has extended loans to members through a Trust Fund set up with a portion of the profits from sales of IMF gold. Trust Fund loans have gone to some sixty of the poorest members, including many African nations but not including South Africa.

10/ This 700 percent is comprised of 600 percent available through loans associated with stand-by arrangements and 100 percent available through the Compensatory Financing Facility.

B. UNITED NATIONS RESOLUTIONS CALLING ON THE INTERNATIONAL MONETARY FUND TO CEASE COLLABORATION WITH SOUTH AFRICA

Beginning in 1967 the United Nations General Assembly has adopted a series of resolutions calling on the specialized agencies and other international institutions within the United Nations system to withhold any financial, economic, technical, and other assistance from the government of South Africa until such time as South Africa abandons its apartheid policies at home and restores to the people of Namibia their inalienable right to self-determination and independence.11/

For several years the General Assembly has also repeatedly expressed its regret that the International Monetary Fund continues to maintain cooperation with the racist minority regime of South Africa.12/ More recently, it has also urged the IMF to terminate loans and credits to South Africa, to suspend South Africa from membership,13/ and to grant full membership to the United Nations Council for Namibia in its capacity as legal administering authority over Namibia pending its achievement of independence.14/ In August 1981, the Special Committee on the Situation with Regard to the Implementation of the Declaration on the Granting of Independence to Colonial Countries and

---

11/ See the annual resolutions adopted by the General Assembly in connection with the item: "Implementation of the Declaration on the Granting of Independence to Colonial Countries and Peoples by the Specialized Agencies and the International Institutions Associated with the United Nations" beginning in 1967 with resolution 2311 (XXII) up to resolution 35/29 adopted in 1980. See also resolution 35/206 O concerning the implementation of United Nations resolutions on apartheid by governments and intergovernmental organizations.

12/ See, for example, resolution 35/29 of 11 November 1980. See also resolutions 31/6 H of 9 November 1976, 33/183 H of 24 January 1979, and 34/93 A of 12 December 1979 calling upon all governments concerned to take all necessary action to terminate credits by the International Monetary Fund to South Africa.

13/ Resolution 35/206 C of 16 December 1980.

14/ Resolution 35/227 D of 16 March 1981.

/...

Peoples, after expressing its "grave concern" at the continued collaboration between the International Monetary Fund and South Africa in disregard of relevant General Assembly resolutions, called on the Fund to put an end to such collaboration. 15/

15/ Special Committee resolution of 17 August 1981 contained in doc. A/AC.109/676.

II. IMF AID TO SOUTH AFRICA

A. IMF AID TO SOUTH AFRICA THROUGH THE GENERAL RESOURCES ACCOUNT

In 1981, South Africa had a quota of SDR 636 million worth US$717 million (using the 30 June 1981 exchange rate of SDR 1 = US$1.1506).16/ Over the years, South Africa, like other members, contributed most of its original quota contribution and later quota increases in the form of its own currency. This own-currency contribution by South Africa has not been an actual contribution to Fund operations except for the times and for the amounts that the IMF has passed out South African rand in drawings by other members. Over the years, an aggregate total of South African rand worth US$197 million was used by the IMF in drawings by other members; these drawings were later repaid.

South Africa has also contributed a share of its quota in the form of reserve assets. Through 1970, South Africa contributed US$80 million worth of gold. In the quota increases paid in since 1971, South Africa, like most other Fund members, has not contributed any gold or any foreign currency. The 1978 quota increase was paid in by South Africa as by most countries entirely in the form of its own currency. The reserve asset portion---25 percent---of the 1980 quota increase was contributed by South Africa as by other nations in the form of Special Drawing Rights, a form of IMF script money or credit. South Africa's contribution of 53 million SDRs worth US$68 million 17/ for the reserve asset portion of the 1980 quota increase represents an exchange of one claim on IMF resources (the right to spend SDRs) for another (the right to draw on demand from the General Resources Account).

While South Africa's quota contribution to the IMF through 1981 at first glance comes to US$717 million, its actual contribution has been much smaller. Its actual contribution comes to US$80 million in gold (contributed by South Africa through 1970), plus US$68 million in SDRs (contributed by South Africa in 1980), plus US$197 million in South African rand (the cumulative value of South African rand that have been temporarily used in IMF aid to other member governments). In sum, South Africa over the years has contributed relatively little to IMF operations through the General Resources Account.

---

16 / The exchange rate is from: International Monetary Fund, International Financial Statistics (August 1981), p. 409. South Africa's quota is given on p. 12 of the same publication.

17 / The quota increase was paid into the IMF in late December. Using the 31 December 1981 exchange rate of SDR 1 = US$1.2754 (IMF, International Financial Statistics (August 1981), p. 409), the dollar value of 53 million SDRs comes to US$68 million.

/...

In contrast to South Africa's parsimonious contributions, it has drawn heavily on IMF funds in the General Resources Account. South Africa was among the first nations to draw from the fledgling organization. In 1948, South Africa drew US$10 million from its reserve tranche (or gold tranche, as it was known at the time). Over the years, South African drawings from the IMF have come to US$1,086 million, including US$253 million in 1968-70 and US$543 million in 1975-77.

Much of the total of US$1,086 million drawn by South Africa from the General Resources Account over the years was from its reserve tranche or gold tranche representing South Africa's reserve asset (gold and SDRs) contribution to the Fund plus use of South African rand in IMF aid to others. South Africa's drawings from its reserve tranche are not considered loans from the IMF. Looking only at South Africa's use of IMF credit (that is, drawings beyond its reserve tranche) from the General Resources Account, we find that South Africa received a loan of US$11 million in 1957 and several loans during 1976-77 that reached a value of US$476 million in 1977 (using the 31 December 1977 exchange rate of US$1.215 = SDR 1).18/

South African drawings from the IMF in 1975-77 helped to pay increases in South African defense expenditures. IMF credits to South Africa in 1976 and 1977 nearly matched the increase of US$450 million in South Africa's defense expenditures from 1975/76 to 1976/77. During the mid-1970s, the major component of the South African government's overspending which, through an indirect process, led the government to request aid from the IMF, was a massive and continuing increase in the defense budget. From 1972 to 1975, defense expenditures rose by 97 percent in real terms. For 1976/77 another real 25 percent increase in defense expenditures was budgeted by the South African government. An April 1977 IMF study of economic developments in South Africa noted:

> In order to accomodate an increase of close to 40 percent in defense expenditure /in nominal terms/ and to ensure at the same time that total government expenditure would not increase in real terms, other government expenditure was budgeted to rise in 1976/77 by only 6 percent in nominal terms and thus to decline substantially in real terms.19/

18/ South Africa's use of Fund Credit from the General Resources Account is shown in IMF, International Financial Statistics Yearbook (1980), pp. 18-19, 372-373; and IMF International Financial Statistics (August 1981), pp. 24, 350-351.

19/ James Morrell and David Gisselquist, "How the IMF Slipped $464 Million to South Africa" (Washington, D.C.: Center for International Policy, 1978), p. 1.

/...

For the 1977/78 budget, the same IMF study reported another large increase:

> With defense expenditures budgeted to rise by 21.3 percent to R1,654 million /US$1.9 billion/, the budget provided for other government expenditures to increase in 1977/78 by only 5.1 percent in nominal terms. 20/

"Defense expenditure has been a major cause of the rapid increase in total current expenditure," the IMF accordingly concluded in its April 1977 economic study, and in turn this rapid increase in government spending led to record budget deficits of 6.8 percent of gross national product in 1975 and over 7 percent in 1976. 21/

These massive budget deficits caused by increased defense expenditures fueled inflation in South Africa because the government was in effect printing money to pay for more weapons. From 1971 through 1975, money and quasi-money22/ together increased at about 20 percent per year. In turn, this inflation caused balance of payments problems as South Africa tried to peg its exchange rate and to maintain currency value through foreign borrowing, import taxes, and other restrictions on trade. Although the IMF study mentioned above does not give a figure for South Africa's arms imports---understandably a very sensitive subject---the study does report "increases in expenditures on defense equipment"23/ as a cause of balance of payments and terms of trade problems in 1976. Defense expenditures leading to budget deficits, budget deficits leading to inflation, inflation leading to balance of payments problems---this is the indirect path by which South Africa arrived at the IMF's door; in addition there was the direct increment to the balance of payments deficit caused by rising arms imports.

IMF loans to South Africa in late 1976 and 1977 demonstrated to the world financial community that despite increasingly violent confrontations between the majority black population and the white government in South Africa the IMF would continue to support the status quo and the white authorities. Bloody riots in Soweto in June 1976 had temporarily shaken international confidence in the

---

20/ *Ibid.*

21/ *Ibid.*

22/ Quasi-money includes liquid financial assets such as short-term bonds.

23/ James Morrell and David Gisselquist, pp. 1-2.

/...

stability of the white South African government and in its ability to hold the support of key Western nations. South Africa's ability to borrow on good terms in private international financial markets was in jeopardy. IMF loans helped to restore investor confidence and thereby helped to maintain a flow of private credits to South Africa.

B. COOPERATION WITH SOUTH AFRICA THROUGH THE SPECIAL GOLD PURCHASE AGREEMENT OF 1969

Through the years since its inception, the IMF has maintained a pattern of cooperation with the South African government. The IMF's pattern of cooperation with and support for South Africa is unique among all major multilateral organizations. The special agreement reached in 1969 for South African gold sales to the IMF is a good example of the close cooperation that has characterized IMF relations with South Africa through the years. On 30 December 1969, the Executive Directors of the IMF declared themselves willing in the future to buy gold from South Africa under a number of conditions.24/ This decision was taken with the intention of aiding South Africa and---ostensibly---with the intention of stabilizing the world price of gold. In practice, the decision worked to aid South Africa and to destabilize world gold markets.

As part of the agreement, the IMF undertook to buy gold as offered by South Africa at the official price of US$35 per ounce. This set an effective floor on world gold prices. During the first quarter of 1970, the price of gold in the London market was at or slightly below US$35 per ounce; during this time South Africa sold US$209 million worth of gold to the IMF under this clause in the gold purchase agreement.25/

Other clauses in the agreement permitted South Africa to use the IMF as a partner in its efforts to attain high world gold prices. Had the IMF promised to buy gold as offered at US$35 per ounce if and only if the world price fell below US$35 per ounce,

---

24/ See appendix III for IMF Executive Decision No. 2914-(69/127).

25/ IMF gold purchases from South Africa are discussed in: IMF, 1971 Annual Report, pp. 168-169; IMF, 1972 Annual Report, p. 48; and Margaret Garritsen de Vries, The International Monetary Fund 1966-1971, vol. I, Narrative (Washington, D.C.: IMF, 1976), pp. 409-416.

South Africa would have been forced to seek all its customers on world markets whenever the price of gold rose above US$35 per ounce. This would have helped to keep gold prices from rising above US$35 per ounce. Instead, the IMF also promised in the 1969 gold purchase agreement to buy gold "regardless of the market price" whenever South Africa had a balance of payments need. In addition, through other clauses in the agreement, the IMF promised to buy a share of South Africa's 1968 gold stocks during each quarter of 1970 and to buy gold to the extent that South Africa was to be designated for purchase of SDRs from other members (see below, Section IIC on aid to South Africa through SDRs). Under these clauses in the December 1969 agreement, gold sales from South Africa to the IMF came to more than US$500 million from 1970 through 1972.

For the IMF to agree to buy gold from South Africa at US$35 per ounce when the world market price was lower was clearly a boon to South Africa. But it was also a boon to the South African government for the IMF to agree to buy gold when the market price of gold exceeded US$35 per ounce; exercising its option to sell gold to the IMF, South Africa was able to keep a portion of its production off world markets and to thereby encourage a trend toward higher world gold prices. Cooperation by the IMF with South Africa's strategy for high world gold prices was explained by Representative Henry Reuss in 1972 hearings of the Joint Economic Committee of the U.S. Congress:

> However you arrive at it, the fact is that in the last 3 years time, at a time when gold was supposed to be a diminishing asset in the world monetary system, the International Monetary Fund has in fact bought approximately $800 million worth of gold from South Africa. To the extent that it has done so, South Africa has been able to play its monopolist speculative game. Recently it has withheld gold from the market, and played its part in sending the price of gold up to $70 an ounce.26/

Through the gold purchase agreement of 1969, South Africa was given what was in effect limitless access to funds in the IMF's General Resources Account to finance its chief export at a fixed price. Other nations have had some limited IMF financing to help them hold commodity exports off world markets through the Buffer Stock Facility set up in 1969. At the same time as South Africa was selling gold to the Fund, other member nations were able through

---

26/ U.S. Congress, Joint Economic Committee, Subcommittee on International Exchange and Payments, Gold and the Central Bank Swap Network, 92d Cong., 2d sess., September 1972, p. 25.

some highly restrictive rules to borrow up to 50 percent of quota through the Buffer Stock Facility. In contrast, the IMF in 1970-72 did not merely finance South African stockpiling of gold but actually bought the gold to hold it off world markets. Gold purchases from South Africa under the agreement came to several hundred percent of South Africa's quota, far in excess of the 50 percent of quota that was available at the time to other nations with commodities to sell.

C. IMF AID TO SOUTH AFRICA THROUGH THE SPECIAL DRAWING RIGHTS DEPARTMENT

In 1969, the IMF added a Special Drawing Rights Department separate from its General Department as an additional channel of aid to member governments. The Special Drawing Rights Department was designed to channel foreign exchange from nations with strong balance of payments and strong reserve positions to nations with balance of payments deficits and inadequate holdings of reserves. Although the SDR account was set up in 1969, it was not activated until the first Special Drawing Rights were passed out---allocated is the technical term---on 1 January 1970. Thereafter, successive allocations of SDRs have swelled the total of SDRs in circulation to 21.4 billion worth US$24.6 billion in 1981 (using the 30 June exchange rate between the dollar and the SDR). Plans to allocate more SDRs are under consideration. Over a period of years, the SDR Department is likely to become more important as a channel for IMF aid.

Allocations of SDRs by the IMF to member nations are carried out at specified times according to multi-year agreements by the Board of Governors of the IMF. Member nations are given shares of aggregate SDR allocations according to the sizes of their quotas in the IMF. Under the first allocation plan, South Africa was given 33.6 million SDRs in 1970, 21.4 million SDRs in 1971, and 33.9 million SDRs in 1972. Under the second allocation plan, South Africa was given 44.1 million SDRs in 1979, 44.1 million SDRs in 1980, and 43.3 million SDRs in 1981.27/ The value of an SDR has varied between US$1.00 and a little over US$1.30 since the creation of the SDR. On 30 June 1980, the value of cumulative SDR allocations to South Africa came to US$253.7 million for the 220.4 million SDRs that South Africa had been allocated over the years.

27/ Allocations for any given year are reported in the IMF's Annual Report for the year.

/...

Nations may exchange SDRs for currencies of equal value according to rules set down by the IMF. Some exchanges are by agreement between the exchanging parties. SDRs may also be paid into or out of the IMF General Resources Account. However, the key to making the SDR account work is the arrangement for forced exchange of SDRs for reserve currencies. These forced exchanges are known as transfers with designation. Under transfers with designation, the IMF forces members with strong balance of payments and strong reserve positions to accept SDRs from others. This arrangement ensures that SDRs will always be spendable.

Allocations of SDRs give the recipient nation access to foreign exchange through the right to exchange SDRs for US dollars or other convertible currencies. On the other hand, each recipient of SDR allocations is also obligated to exchange foreign currencies from its reserve holdings for SDRs from other members whenever the Executive Board of the IMF decides to force such an exchange through a transfer with designation. Nations can be forced by the Executive Board to buy SDRs up to the point where their holdings are three times as large as their cumulative allocations. In other words, participation in the SDR Department by accepting SDR allocations gives not only access to aid through the right to spend SDRs but also the obligation to aid others whenever the Executive Board of the IMF asks a member to give up reserve currencies in exchange for more SDRs.

Despite the maze of details and rules, it is fairly straightforward to identify nations which give aid and those which receive aid through the SDR account. The key statistic identifying the direction of aid through the SDR account is a nation's holdings of SDRs as a percent of allocations. Nations with holdings of SDRs larger (smaller) than their cumulative allocations to date have, in net terms, bought or accepted in payment (sold or transferred in payment) SDRs from (to) other members. For example, on 30 June 1981 Libya's holdings of SDRs came to 177 percent of its quota; through that date, Libya had in net terms increased its holdings of SDRs by 77 percent above its cumulative allocation of SDRs and had, in net terms, extended loans of roughly US$60 million to (and through) the SDR Department of the IMF. 28/ Libya had provided roughly US$60 million in aid to

---

28/ Information on cumulative allocations and holdings of SDRs for member nations on 30 June 1981 is given in: IMF, International Financial Statistics (August 1981), pp. 12-13.

/...

others through the SDR account. On the other hand, South Africa's holdings of SDRs on 30 June 1981 came to only 46.4 percent of its cumulative allocations. South Africa had over the years borrowed a net total of US$136 million by running down its holdings of SDRs far below its net cumulative allocations.

Over the years, South Africa has consistently kept its holdings of SDRs far below its net cumulative allocations. The only time South African holdings of SDRs exceeded its allocations was a short period in 1970-71 in conjunction with the 1969 gold purchase agreement between the IMF and South Africa that has already been discussed. In one clause of that agreement, the IMF promised to buy gold from South Africa up to the value for which South Africa was designated to buy SDRs in transfers with designation. During 1970, South Africa was designated to buy 4 million SDRs worth, at the time, US$4 million; in order to get the currencies to exchange for SDRs, South Africa was permitted to sell US$4 million in gold to the IMF. 29/ Designation of South Africa in 1970 under such an agreement permitted South Africa to sell gold outside of private market channels and hence helped to hold up the price of gold to South Africa's benefit.

In general, however, South Africa has found its interests better served by running down its holdings of SDRs. In paying its international bills with SDRs rather than with gold or with reserve currencies earned from the sale of gold, South Africa is holding gold off world markets; holding gold off world markets presumably supports the price of gold. By the same token, South Africa would rather not accept SDRs in transfers; South Africa has to sell gold in world markets to get the foreign currencies it needs to exchange for SDRs in transfers with designation or transfers with agreement. In short, South Africa would rather not sell gold to buy SDRs; South Africa would rather sell SDRs to save gold.

At the end of 1970, South Africa held an amount of SDRs worth 115 percent of allocations to date. At the end of each year since 1970, South Africa's holdings of SDRs as a percent of allocations have been as low as 1 percent and 0 percent in 1971 and 1973 and have never risen above 48 percent, the value recorded at the end of 1975 (see Table 1). South Africa has been able to run down its allocations of SDRs by spending more SDRs than it receives in transfers from others. Over the years, South Africa has both spent and received SDRs in transfers by agreement and has spent and received SDRs in transactions with the IMF General Resources Account. However, in net terms South Africa has consistently spent more SDRs than it has received, thus maintaining a ratio of holdings to cumulative allocations far less than 100 percent.

29/ IMF, 1971 Annual Report, p. 169.

Table 1

Use of SDRs by South Africa, 1970-1981
(all data in millions of SDRs, except where indicated)

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	end of June 1981
New allocations of SDRs to South Africa	33.6	21.4	33.9	-	-	-	-	-	-	44.1	44.1	43.3
Net cumulative allocations of SDRs to South Africa	33.6	55.0	88.9	88.9	88.9	88.9	88.9	88.9	88.9	133.0	177.1	220.4
Holdings of SDRs by South Africa at end of period	39	-	38	1	40	43	42	40	39	25	37	102
Holdings at end of period as a percent of net cumulative allocations	115%	0%	43%	1%	45%	48%	47%	45%	44%	19%	21%	46%
Net debt (-) or credit (+) to the IMF through the SDR Department in millions of SDRs	+5	-55	-52	-88	-49	-46	-47	-49	-50	-108	-140	-118
in millions of US$	+5	-60	-56	-106	-60	-54	-55	-60	-65	-142	-178	-136

Source: International Monetary Fund, Annual Report for 1970, 1971, 1972, 1979, and 1980; IMF, International Financial Statistics Yearbook (1980); and IMF, International Financial Statistics (August 1981).

According to the design of the SDR scheme, nations with strong balance of payments and reserve positions were to have a ratio of holdings to allocations above 100 percent while nations with weak balance of payments and reserve positions would have ratios of SDR holdings to allocations below 100 percent. South Africa has not behaved according to the scheme. Despite periods of large current account surpluses and a consistently strong reserve position (if gold is to be valued at its market price rather than at its official price of SDR 35 per ounce) South Africa has spent SDRs. Spending SDRs saves South Africa from selling more gold and hence is a part of South Africa's continuing policy to work for higher gold prices by holding gold off world markets.

Although the South African government can decide that it is in its interest to run down its SDR holdings, the cooperation of the Executive Board of the IMF is necessary for such a program to be successful. The Executive Board of the IMF quarterly approves a designation plan listing governments that by virtue of strong balance of payments and reserve positions are to be recipients of SDRs in transfers with designation. Each designation plan consists of a list of governments and the amounts for which each may be designated. Each plan is purposely drawn up to accommodate some five times the volume of transfers with designation that is expected during the given quarter. To over-design the plan leaves the IMF with discretionary power to designate one member rather than another within the broad confines of the plan.

Through the years, South Africa has at times been designated to receive SDRs, so it is possible to conclude that South Africa has at times been included in quarterly designation plans. However, the quantities of SDRs which South Africa has been designated to buy with foreign currency reserves have not been large enough to reverse South Africa's net use of SDRs. Although South Africa has been included in designation plans, the IMF has nevertheless been willing to spare South Africa the burden of buying large amounts of SDRs.

South Africa's exclusion from designation plans and designation for small amounts when it is included are curious. The IMF's use of the official rather than market price of gold in the calculation of each member's reserves has probably been an important factor abetting South Africa's exclusion from designation plans. The staff of the IMF with the concurrence of the Executive Board determines the price at which gold is valued in calculating reserves and in setting designation plans. Using the official gold price of SDR 35 per ounce, South African reserves on 30 June 1981 were US$1,231 million, while with the market price of gold South Africa's reserves came to US$5,859 million. 30/

30/ IMF, International Financial Statistics (August 1981), pp. 33, 36-37.

Since South Africa has a much higher share of its reserves in gold than do most if not all other IMF members, use of the official rather than market price of gold understates South African reserves more than it does the reserves of other members.

Whatever the reason---technical or political---South African holdings of SDRs as a percent of allocations have been curiously low in comparison to those of other nations. For example, during the first 5 years of the SDR scheme, South Africa's average holdings of SDRs came to 38.3 percent of its cumulative allocations. Only 27 nations in the world had lower average holdings, while nations such as India (73.5 percent), Senegal (47.5 percent), Niger (99.6 percent), Kenya (101.0 percent), People's Republic of the Congo (58.6 percent), and Upper Volta (99.6 percent) had higher average holdings.31/

At the end of June 1981, South Africa's holdings of SDRs came to 46.4 percent of allocations, less than the figures for Algeria (90.9 percent), Botswana (120.4 percent), Gabon (57.0 percent), Kenya (55.7 percent), Libya (177.0 percent), Niger (79.9 percent), Nigeria (134.0 percent), Rwanda (71.8 percent), Sao Tome and Principe (59.7 percent), Somalia (53.4 percent), Togo (65.3 percent), Tunisia (50.9 percent), Upper Volta (79.7 percent), and Zimbabwe (98.0 percent) among African nations. On a world scale, South Africa's holdings as a percent of allocations on 30 June 1981 were slightly higher than the figure for all non-oil developing countries of 43.8 percent, but this was after several years of South African current account surpluses and despite the fact that South African reserves, with gold valued at its market price, were larger than for any other African, Asian, or Latin American non-oil developing country.32/

Net use of SDRs---which leaves a nation with holdings below allocations---is equivalent to a loan through the IMF. This equivalence is clear from several sections in the IMF's Articles of Agreement. Net use of SDRs gives the member nation a net financial obligation to the IMF payable whenever a member leaves the IMF (see Article XXIV, Section 2(b)) or whenever the SDR Department is dissolved (see Article XXV, Subsection (a), and Schedule I). Under such circumstances, each member affected

---

31/ IMF, Annual Report 1975, p. 77.

32/ South Africa is currently classified within the IMF as a non-oil developing country. The classification has little or no effect on IMF behaviour toward South Africa. Data for SDR holdings are from: IMF, International Financial Statistics (August 1981), pp. 12-13.

/...

owes the IMF the value in convertible currencies of the SDRs held by the member; similarly, the IMF owes the member in convertible currencies the value of the SDRs held by the member. Nations which are net users of SDRs have net debts to the IMF while nations which are net receivers of SDRs have net claims on the IMF through the SDR account.

Arrangements that have been made to pay and receive interest on SDRs also serve to make clear the credit character of transactions with SDRs. Members of the SDR Department pay interest to the Fund on their net cumulative allocations of SDRs and receive interest from the Fund on their holdings of SDRs (see Article XX, Sections 1 and 2). Hence, a net user of SDRs is a net payer of interest, and a country with holdings larger than cumulative allocations is a net receiver of interest.

During 1979-80, the government of South Africa borrowed a net total of US$117 million from the IMF through the SDR account---in other words through net use of SDRs over the period. Net use during 1979 can be figured as follows: At the end of 1978, South Africa held 39 million SDRs, while at the end of 1979 its holdings came to 29 million; in the interim, South Africa was allocated 44 million SDRs on 1 January 1979. During 1979, South Africa therefore started with SDR 39+44 million and ended with SDR 25 million for a net use of SDR 58 million worth US$75 million (using the period average exchange rate of US$1.29 = SDR 1). Similarly, we can figure net use for 1980 as follows: At the end of 1979, South Africa held SDR 25 million, and at the end of 1980 it held SDR 37 million; on 1 January 1980, an additional SDR 44 million was allocated to South Africa. During 1980, South Africa started with SDR 25+44 million and ended with SDR 37 million for a net use of SDR 32 million worth US$42 million (using the period average exchange rate of US$1.30=SDR 1). Over the period 1979-80, South Africa hence used a net total of 90 million SDRs worth US$117 million. 33/

South Africa's cumulative net borrowing from the IMF through the SDR account came to US$179 million at the end of 1980. By the end of June 1981, South African indebtedness through the SDR Department had been reduced to US$136 million. At that time, South Africa had holdings of 102 million SDRs, which meant that there was a potential for South Africa to increase its net use by 102 million SDRs and, thereby, to borrow an additional US$117 million through the SDR account.

33/ Information from: IMF, International Financial Statistics (March 1981), p. 28; IMF, Annual Report 1979, p. 106; and IMF, Annual Report 1980, p. 127.

With any plan to allocate more SDRs South Africa would have increased access to resources through the SDR account. Under such a plan, South Africa would also be liable to lend more by accepting SDRs in transactions with other members, but it is unlikely that South Africa would willingly do so, and, if experience is any guide, it is equally unlikely that the IMF Executive Directors would compel South Africa to accept large amounts of SDRs through transfers with designation. Under the SDR scheme, South Africa would rather be a borrower than a lender; the IMF has acquiesced in such behaviour by the South African government.

D. IMF AID TO SOUTH AFRICA THROUGH POTENTIAL LOANS

Normal IMF practice is to lend for short periods in order to help nations through particularly difficult times. Funds are recovered as quickly as possible, normally over a matter of about five years, but repayment periods as long as ten years have recently been permitted. Quick repayment permits the IMF to maintain a stock of loanable funds to meet crises as they occur.

IMF rules define standard loan arrangements. In 1981, standard IMF practices permit loans to a country of up to 150 percent of quota per year for three consecutive years under an agreement with the borrowing government that binds it to a package of economic policies. With more than one agreement, the limit for a country's indebtedness to the IMF under such loans is set at 600 percent of quota. Funds for such loans are taken from the General Resources Account. The IMF has also established a set of rules and procedures to lend up to 100 percent of quota (up to 125 percent for cereal importers) to help nations with difficulties in international trade due to factors beyond their control. This program of loans, known as the Compensatory Financing Facility, also uses money from the General Resources Account. Under standard lending practices of the IMF, therefore, loans available to South Africa from the General Resources Account add up to 700 percent of quota; the IMF notes, however, that lending limits "may be exceeded in exceptional circumstances."34/

In addition to their access to loans through the General Department, member nations can spend SDRs, a transaction which is equivalent in some respects to acquiring a loan. Cumulative allocations of SDRs as a percent of quota come to about 35 percent for member nations in the IMF (slightly more for some, slightly less for others). For South Africa in 1981, cumulative allocations

34/ "How Members Use Fund's Resources to Meet Balance of Payments Needs," IMF Survey (May 1981), p. 10.

of SDRs come to 34.6 percent of quota. Through the SDR Department, in other words, South Africa is able to borrow another 34.6 percent of quota.

Potential South African borrowing from the IMF---at the discretion of the IMF and under standard IMF practices---came to 734.6 percent of South Africa's quota of 636 million SDRs. Potential borrowing thus totaled 4,672 million SDRs worth US$5,376 million (using the 30 June 1981 exchange rate of US$1.1506 = SDR 1). Of total potential borrowing, South Africa had outstanding loans of US$136 million through the SDR account, leaving another US$5,240 million available for whenever the IMF would agree with a South African request for loans to meet some sort of need. In addition to potential loans from the IMF, South Africa can draw on demand its reserve tranche, a sum equivalent to its reserve asset contribution to the General Resources Account, plus any IMF use of South African rand, and less any South African drawings from the reserve tranche. For South Africa on 30 June 1981, its reserve tranche came to SDR 110 million worth US$127 million.

Potential loans to South Africa of more than US$5 billion reduce the risk to private foreign bankers and bond purchasers contemplating an investment in South Africa. Bankers know that if South Africa were to have difficulty in the future paying its foreign bills through a fall in the price of gold, accelerated arms purchases, an economic boycott, or loss of confidence due to domestic political disturbances, the IMF stands ready with enough money to help the white South African regime and its foreign creditors survive their time of troubles. IMF money thus has political-economic significance to South Africa whether it is extended as actual loans or is merely kept in reserve for potential loans.

Potential IMF loans keep private credits flowing into South Africa. In recent years despite the high price of gold, South Africa has borrowed heavily from foreign banks and bond markets. This borrowing serves at least in part to help South Africa to hold gold off the market. During 1980, South Africa borrowed $850 million on international credit markets, more than in any year since 1976, when South Africa had borrowed US$1,600 million. 35/ Although high gold prices have led to large current account surpluses in recent years, the potential for crisis persists. South Africa has an open economy with large inflows of capital and outflows of profits; inflows of new capital are

35/ Statement by Beate Klein, in United Nations Special Committee against Apartheid, 473rd Meeting (AM) (24 March 1981), press release, p. 10.

essential to the stability of the economy. Without access to IMF credit, borrowing might be jeopardized and South Africa could be precipitated into an economic crisis.

E. THE IMF AND SOUTH AFRICA'S EFFORTS TO PERPETUATE ITS ILLEGAL OCCUPATION OF NAMIBIA

South Africa's occupation of Namibia has been declared illegal by the General Assembly and the Security Council, and this decision has been supported by the International Court of Justice. In the light of South Africa's illegal occupation of Namibia, the General Assembly and Security Council have repeatedly called upon all states to refrain from any dealings with the government of South Africa in which it purports to act on behalf of or concerning Namibia. In 1969, for example, the Security Council called upon "all states to refrain from all dealings with the Government of South Africa purporting to act or behalf of the Territory of Namibia." 36/ Under the advisory opinion of the International Court of Justice of 21 June 1971, governments are under obligation to avoid bilateral or multilateral treaty relations with South Africa "in all cases in which the Government of South Africa purports to act on behalf of or concerning Namibia." 37/

The IMF has so far failed to adjust its dealings with South Africa to conform to the legal situation concerning Namibia. In relations between the IMF and South Africa, the IMF consistently accepts South Africa as the authority in Namibia. IMF documents both public and private consistently give South African data inclusive of data for Namibia; in these sources,

---

36/ Resolution 269 (1969) of 12 August 1969. See also Security Council resolutions 276 (1970) of 30 January 1970, 283 (1970) of 29 July 1970, and 301 (1971) of 20 October 1971. See also General Assembly resolutions 2517 (XXVI) of 20 December 1971, 3111 (XXVIII) of 12 December 1973, and 32/35 of 28 November 1977. Security Council Resolution 276 (1970) of 30 January 1970 is given in Appendix IV.

37/ An exception is made for "general conventions such as those of a humanitarian character" by which the South African government will be held responsible to protect the interests of the people of Namibia; this exception does not apply to the IMF's dealings with Namibia. See appendix V for extracts from the advisory opinion of the International Court of Justice concerning Namibia.

Namibia is often referred to as South West Africa.38/ In evaluating South Africa's need for IMF loans, balance of payments data and government accounts data inclusive for Namibia have been considered by the IMF staff and Executive Board. In making loans to South Africa, the IMF has made no stipulation that its aid not be used to support activities of the government of South Africa in Namibia. The Fund's tacit acceptance of South Africa's illegal occupation of Namibia disregards the position of the international community as expressed by the United Nations and by the International Court of Justice and may be considered another aspect of the Fund's cooperation with and support for South Africa.

Article XXI, Section 2(g), of the IMF's Articles of Agreement provides that governments may accept the Articles of Agreement on behalf of "all territories in respect of which they exercise a mandate."39/ This article provides a mechanism by which the United Nations Council for Namibia, as the legal administrative authority for Namibia, could perhaps seek membership in the IMF as it has obtained with other specialized agencies.

38/ See for example: IMF, International Financial Statistics (August 1981), pp. 352-353, 443; IMF, Government Finance Statistics Yearbook (1981), pp. 545-546; and IMF, Balance of Payments Yearbook (1980), p. 506.

39/ See appendix II for extracts from the IMF's Articles of Agreement.

III. COMPARISON OF IMF RELATIONS WITH SOUTH AFRICA TO IMF RELATIONS WITH OTHER AFRICAN NATIONS

A. COMPARISON WITH OTHER AFRICAN NATIONS

At the end of June 1981, South Africa's quota as a percent of quotas for all nations on the African continent came to 13 percent. In general, South Africa's quota has risen slower than has the total of all quotas for African nations since the number of African nations has increased as colonies have become independent and several oil exporters among African nations have been given special quota increases.

From 1970 through the first half of 1981, South Africa's drawings from the Fund as a share of total African drawings have in 3 years out of 12 exceeded South Africa's share of African quotas in the Fund (see Table 2). Looking at use of Fund credit (according to the IMF's own definition, which omits transactions in the SDR Department and Trust Fund loans), South Africa in several recent years---1976 to 1978---received a disproportionate share of IMF credit to African nations (see Table 2).

A country's current contribution to IMF operations through the General Department is shown by its reserve position in the Fund.40/ During the early 1970s, South Africa maintained a reserve position in the Fund that was respectably large among all African nations. In the late 1970s and early 1980s, South Africa's reserve position in the Fund as a share of the aggregate reserve position for all African nations fell far below what would be expected of a nation with a strong current account and large reserve holdings (see Table 2).

Looking at SDRs, South Africa on 30 June 1981 had holdings of SDRs equal to 46.4 percent of its allocations, up from 20.9 percent at the end of December 1980. By comparison, all African holdings of SDRs as a percent of allocations came to 44.9 percent at the end of June 1981, up from 30.6 percent at the end of 1980. At the end of June 1981, South Africa showed a net use of 118 million SDRs. Among African countries only Egypt showed a larger net use of SDRs. Meanwhile, Nigeria showed a net receipt of 53.5 million SDRs and holdings as a percent of allocations of 134 percent on 30 June 1981. At the same time Libya

---

40/ As noted above, a country's reserve position or reserve tranche is equal to its reserve asset contribution to the Fund plus any use by the Fund of its own-currency contribution and less its own drawings from the Fund.

Table 2

Comparison of IMF Relations with South Africa to IMF Relations with all Africa, 1970-1981 (millions of US$, except % where indicated)

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	end of June 1981
A. All drawings°												
All Africa+	188	93	114	94	337	692	1184	480	403	711	1115	1258
South Africa	125	0	0	0	0	107	453	197	0	0	0	0
South Africa as a % of all Africa	66%	0%	0%	0%	0%	15%	38%	41%	0%	0%	0%	0%
B. Use of Fund credit*												
All Africa+	196	168	155	236	471	728	1657	1963	2303	2351	2460	3158
South Africa	0	0	0	0	0	0	366	476	409	101	0	0
South Africa as a % of all Africa	0%	0%	0%	0%	0%	0%	22%	24%	18%	4%	0%	0%
C. Reserve position in the Fund												
All Africa+	234	280	301	381	326	384	495	510	608	572	1081	1120
South Africa	50	88	88	98	99	0	0	0	0	0	163	126
South Africa as a % of all Africa	21%	31%	29%	26%	30%	0%	0%	0%	0%	0%	15%	11%

°Drawings is a flow concept. These lines give new loans and reserve tranche drawings on a year-by-year basis except for 1981, which is for the first six months. New Trust Fund loans and credits acquired through transfers of SDRs are not shown.

+All Africa is taken to mean all independent countries on the continent of Africa that are members of the IMF (including South Africa).

*Use of Fund credit in this table is given according to the IMF's own definition, which ignores Trust Fund loans and SDRs and does not net out a country's reserve position in the Fund. Use of Fund credit is a stock concept, measuring loans outstanding.

Sources: Same as for Table 1.

/...

showed a net purchase to date of SDR 45 million and holdings as a percent of allocations of 177 percent.41/

B. COMPARISON WITH NIGERIA'S NET CONTRIBUTION TO IMF OPERATIONS

Comparing Nigeria's financial dealings with the IMF to South Africa's dealings one is led to conclude that Nigeria contributes in proportion to its success as an exporter while South Africa does not. Both Nigeria and South Africa have had large current account surpluses and large reserves in recent years. Among African countries, Nigeria is the closest to South Africa in measures of economic size and of international economic strength. Yet where Nigeria in 1981 was a current net contributor to the Fund of US$592 million, South Africa had current net debt of US$10 million.42/

In these calculations, a country's net use of SDRs and net use of Fund credit are subtracted from its reserve position to get current net financial contribution. Nigeria's net contribution was made up of US$531 million in its reserve position plus net receipts of US$61 million worth of SDRs above cumulative allocations. Nigeria had no use of Fund credit outstanding. South Africa, on the other hand, had a reserve position in the Fund of US$126 million but had debts of US$136 million through net use of SDRs. South Africa has been a net debtor to the IMF in every year from 1975 on. On the other hand, Nigeria has been a net contributor to the Fund in every year since 1963, the year Nigeria joined the Fund.43/

41/ IMF, International Financial Statistics (August 1981), pp. 12-13; IMF, International Financial Statistics (February 1981), pp. 12-13.

42/ Data are for the end of June 1981. See Table 3 of this paper and: IMF, International Financial Statistics (August 1981), pp. 292-293.

43/ IMF, International Financial Statistics Yearbook (1980), pp. 316-317.

C. COMPARISON WITH AID TO FRONT-LINE STATES AND OTHER STATES IN SOUTHERN AFRICA

Looking only at southern Africa, IMF aid to South Africa stands out even more sharply than if we look at all African countries or at selected wealthy countries. The IMF gives no aid to Mozambique or Angola, neither of which is a member. Botswana, which is a member, has been, unlike South Africa, a consistent net creditor to the IMF in recent years.

A number of front-line states have received small portions of IMF credit. Lesotho's net debt to the IMF reached US$6 million at the end of 1980. Swaziland's net debt to the IMF reached US$5 million at the end of 1980. Zimbabwe joined the Fund in 1980; as of the end of June 1981, Zimbabwe had a net debt of US$44 million to the IMF.

Tanzania's net debt to the IMF reached US$100 million in 1976 and climbed to US$200 million in 1980. Of the front-line states, only Zambia has received aid in volumes comparable with the aid that was extended to South Africa in the 1970s. Outstanding IMF credits to Zambia exceeded US$300 million in 1978, US$400 million in 1979, US$500 million in 1980, and US$600 million in 1981. In comparison, outstanding IMF credits to South Africa exceeded US$400 million in 1976 and US$500 million in 1977 before subsiding (see Table 3).

Table 3

Net Debt (-) or Credit (+)[o] to the IMF for Front-Line Nations and for South Africa, 1970-1981 (millions of US$)

	1970	1971	1972	1973	1974	1974	1976	1977	1978	1979	1980	end of June 1981
Angola	not a member											
Mozambique	not a member											
Botswana	+1	+1	+1	+1	+1	+1	+1	+2	+2	+3	+5	+11
Swaziland	-2	-2	-2	-2	-2	-1	-*	-*	+1	-2	-5	-4
Lesotho	n.a.	n.a.	n.a.	n.a.	-*	-*	-*	-1	-3	-5	-6	-6
Zimbabwe	joined in 1980										0	-44
Tanzania	+4	+4	-1	+3	-63	-89	-108	-122	-117	-175	-204	-185
Zambia	+20	+3	-68	-98	-86	-99	-117	-132	-336	-498	-516	-602
South Africa	+55	+27	+21	-9	+40	-54	-421	-536	-475	-243	-14	-10

[o] Net debt or credit to the IMF is figured as a country's reserve position, plus net holdings of SDRs above allocations (or less net use), less use of Fund credit by the IMF's definition, and less Trust Fund loans.

* more than -0.5 and less than +0.5

n.a.: not available

Sources: Same as for Table 1.

/...

IV. THE POSSIBILITY OF INHIBITING OR LIMITING IMF AID TO SOUTH AFRICA

Currently the most significant form of IMF aid to South Africa---in fact the most significant element of foreign official financial support for the South African regime---is in the form of potential IMF loans of more than US$5 billion. Potential loans of such volume permit South Africa to borrow on favorable terms in private international capital markets. Efforts to block IMF aid in the form of potential loans---to reduce or to eliminate the possibility of future IMF loans to South Africa---could have an immediate and critical impact on the political options available to the South African government. It is arguable that without potential IMF loans, private foreign creditors would become wary, foreign investors would try to get their capital out of South Africa in anticipation of a crisis, and adjustments would have to be made in South Africa's exports and imports to improve the trade balance. All of these consequences would put pressure on the South African regime and would raise the domestic financial and political costs of its controversial racial policies and of its illegal occupation of Namibia.

Efforts to cut off potential IMF loans will be successful to the extent that private foreign investors are convinced that the IMF will not at any foreseeable time in the future extend credits to help the South African government through any political economic crisis brought on by its own repressive policies. In evaluating the likelihood of IMF aid to South Africa in a crisis, private foreign investors are sensitive to a variety of factors that may influence IMF behavior.

A. PROCEDURES WITHIN THE IMF FOR CUTTING OFF IMF CREDITS TO SOUTH AFRICA

The Articles of Agreement of the IMF give procedures by which a member can be declared ineligible to draw funds from the IMF or to use SDRs. A member may be declared ineligible to use funds from the General Department by a simple majority of total weighted votes in the Executive Board. Similarly, a decision to suspend a member's right to use SDRs can be taken by the Executive Board with a simple majority of total weighted votes of governments which are members of the SDR Department. The Articles of Agreement for the IMF also give procedures by which a member can be required to withdraw from membership in the Fund. Compulsory withdrawal requires votes of "a majority of the Governors having eighty-five percent of the total voting power" (Article XXVI, Section 2b).44/ The grounds to declare a nation ineligible

---

44/ Extracts from the Articles of Agreement are given in appendix II.

/...

are essentially the same as the grounds to force a nation to withdraw. Hereafter the discussion is given in terms of grounds to declare a nation ineligible.

Within the Fund's history there are precedents for declaring a nation ineligible to use funds from the General Department, for requiring a member to withdraw, and for suspending a nation's right to use SDRs. France was declared ineligible in 1954. In 1953, Czechoslovakia was declared ineligible; Czechoslovakia was forced to withdraw in 1954. A vote to declare Cuba ineligible was pending in 1964 when Cuba withdrew of its own accord. In late 1978, the right of Democratic Kampuchea to use its SDRs was suspended.

Votes to deny a country access to funds from the General Department can be made under Article V, Section 5, Article VI, Section 1(a), and Article XXVI, Section 2(a).45/ Each of these three sections gives some grounds---specific or general--- on which a member may be declared ineligible to use Fund resources. There is some redundancy in the three sections. Article V, Section 5, provides for action if "any member is using the general resources of the Fund in a manner contrary to the purposes of the Fund." Article VI, Section 1(a), is the most specific, providing that a member may be declared ineligible to draw if it uses "the Fund's general resources to meet a large or sustained outflow of capital." Article XXVI, Section 2(a), is the most general, stating that a member can be declared ineligible if it "fails to fulfill any of its obligations under this Agreement."

Action under Article VI, Section 1(a), or Article XXVI, Section 2(a), requires a simple majority of weighted votes in the Executive Board of the IMF. Action under Article V, Section 5, requires a simple majority of votes with adjusted weights.46/ With adjusted weights, developing countries would find their voting strength reduced, while OPEC countries and leading industrial countries would in general find their votes increased. Whether with unadjusted or adjusted votes a majority is more likely to declare South Africa ineligible cannot be

---

45/ See appendix II.

46/ The procedure to adjust weights of votes is explained in Article XII, Section 5(b), which is given in appendix II. Members whose currencies have been used in drawings from the Fund are given larger votes, while members who have drawn from the Fund are given smaller votes. The maximum adjustment up or down is 25 percent of each member's original vote.

/...

known before the issues are clarified both in the IMF and through developments in southern Africa. In any case, grounds given in Article V, Section 5, for declaring a member ineligible appear to be a subset of the grounds for declaration of ineligibility given in Article XXVI, Section 2(a).

1. Grounds for Ineligibility in Article V, Section 5

Grounds to declare a member ineligible are very generally stated in Article V, Section 5. The operative clause in this article is based on the key idea of "the purposes of the Fund." Use of resources contrary to these purposes is grounds for ineligibility. The purposes of the Fund, given in Article I, include: "to provide for international monetary cooperation"; "to facilitate the expansion and balanced growth of world trade"; and "to shorten the duration and lessen the degree of disequilibrium in the international balances of payments of members."47/

South Africa's aggressive military build-up and its frequent military forays into neighbouring countries represent, it could be argued, a use of Fund resources contrary to the purposes of the Fund. It would not be hard to argue that South Africa's militaristic behaviour blocks "international monetary cooperation" in the region, disrupts the "expansion and balanced growth of trade" for southern Africa, and serves to increase "the disequilibrium in the international balances of payments" of neighbouring nations forced into their own programs of military build-up. From 1975 through mid-1981, South Africa has used the resources of the Fund---has been a net debtor to the Fund if we look at its dealings with both the General Department and Special Drawing Rights Department together---while in the midst of a multi-year military build-up.

2. Grounds for Ineligibility in Article VI, Section 1(a)

Article VI, Section 1(a), states that a member may be declared ineligible if it uses "the Fund's general resources to meet a large or sustained outflow of capital." This article cannot be applied to South Africa at present. However, the next major racial crisis in South Africa could in all likelihood be

47/ See appendix II.

accompanied with a large outflow of capital. The political crisis would then become an economic one. According to Article VI, Section 1(a), the Fund should not respond in such circumstances. Should South Africa borrow from the Fund to pay its foreign creditors, the Fund could, under this Article, declare South Africa ineligible for any further loans, leaving South Africa's creditors and foreign investors to the mercies of South Africa's political crisis.

3. Grounds for Ineligibility in Article XXVI, Section 2(a)

Grounds to declare a member ineligible are very generally stated in Article XXVI, Section 2(a), to include a member's failure to fulfill "any of its obligations under this agreement." The phrase "any of its obligations" includes a host of major and minor items. However, the failure of a member to perform some obligation with respect to the SDR Department cannot be used as grounds for a declaration of ineligibility to use resources from the General Department (see Article XXIII, Section 2(f)).48/ Some of the obligations that are grounds for ineligibility under Article XXVI, Section 2(a), are discussed in the following paragraphs.

In Article IV, Section 1, members are reminded that "a principal objective [of the international monetary system] is the continuing development of the orderly underlying conditions that are necessary for financial and economic stability."49/ In the light of this "principal objective," each member is obligated to "direct its economic and financial policies toward the objective of fostering orderly economic growth," and "to promote stability by fostering orderly underlying economic and financial conditions." It would not be hard to argue that South Africa's institutionalized system of racism, its military build-up, and its aggressive policies toward neighbouring countries violate its obligations to foster "orderly economic growth" and "orderly underlying economic and financial conditions."

In Article VII, Sections 5(a)(v) through 5(a)(viii), members are obligated to furnish information on exports and imports, international balance of payments, international investment position, and national income.50/ South Africa

---

48/ See appendix II.

49/ See appendix II.

50/ See appendix II.

/...

routinely provides information on South Africa and Namibia together. This does not satisfy the obligation to provide such data for South Africa alone, without Namibia.

Article VII, Section 7, obligates nations "to ensure that the policies of the member with respect to reserve assets shall be consistent with the objectives...of making the special drawing right the principal reserve asset in the international monetary system."51/ It could be argued that South Africa has violated this obligation. During the 1980 Annual Meetings of the Board of Governors of the IMF, Mr. Owen P. F. Horwood, Governor of the Fund for South Africa, presented the argument that "a move forward to a new gold-based monetary system of one kind or another might be a useful, if not essential, step."52/ Fitting deeds to words, South Africa has not contributed to the ongoing operations of the Special Drawing Rights Department as much as could be expected of a country with strong balance of payments and reserve positions. As shown above, South Africa has consistently maintained low holdings of SDRs as a percent of allocations. Such behaviour does not promote the use of SDRs as the principal reserve asset, for South Africa is thereby throwing the burden of accepting SDRs from members in balance of payments difficulties onto others.

The obligations of members mentioned in this section do not exhaust the possible grounds for a declaration of ineligibility under Article XXVI, Section 2(a).

4. Precedents for Declaring a Nation Ineligible

In the past a number of grounds have been given in various Executive Board decisions declaring one or another member ineligible to use Fund resources. In 1948, the decision that France was ineligible was taken on the technical grounds that

---

51/ See appendix II.

52/ International Monetary Fund and International Bank for Reconstruction and Development, Boards of Governors, 1980 Annual Meetings, "Statement by the Honorable Owen P. F. Horwood, Minister of Finance and Governor of the Fund for South Africa, at the Joint Annual Discussions," 1 October 1980, Press Release No. 24, p. 4.

/...

France had changed the par value of its currency without the authorization of the Fund (Article IV, Section 6, of the original Articles of Agreement).53/ These grounds were not the actual grounds on which the action was taken, as the Fund's official history makes clear. According to this history, the IMF's Executive Board objected to a French plan for devaluation and multiple currencies "not because a devaluation of the franc was contemplated---indeed, one view was that an even greater devaluation was needed---but because of the risk to the stability of European currencies threatened by the introduction of differential exchange rates for the franc."54/ Under Article XIV, Section 2 (original articles), France, as an occupied country in the Second World War, claimed the right to introduce exchange restrictions and hence multiple currency practices. The Executive Board of the IMF objected that the multiple currency system proposed by France was not necessary, but based its vote for ineligibility on the narrower grounds of an unauthorized change in par value. Not until 1954 was France declared eligible to use the resources of the Fund.55/

In November 1953, Czechoslovakia was declared ineligible to use the resources of the Fund. The following year, Czechoslovakia was required to withdraw from the Fund by 31 December 1954. These decisions were made on the basis of Article XV, Sections 2(a) and 2(b), of the old Articles of Agreement (analogous to Article XXVI, Sections 2(a) and 2(b), of the current Articles of Agreement), providing for ineligibility and expulsion for a member that "fails to fulfill any of its obligations."56/ Czechoslovakia was charged with six

---

53/ J. Keith Horsefield, ed., The International Monetary Fund 1945-1965, vol. III, Documents (Washington, D. C.: IMF, 1969), p. 190.

54/ J. Keith Horsefield, The International Monetary Fund 1945-1965, vol. I, Chronicle (Washington, D. C.: IMF, 1969),

55/ Ibid., pp. 201-202, 412.

56/ See appendix II for extracts from current Articles of Agreement. Original Articles of Agreement are given in: J. Keith Horsefield, ed., The International Monetary Fund 1945-1965, vol. III, Documents, pp. 185-214.

separate areas of failure in two complaints initiated by the Executive Director for the United States. The decision to declare Czechoslovakia ineligible was formally taken on the basis of a subset of these complaints. The six complaints included a change of par value without consultation with the Fund and without the concurrence of the Fund, failure to provide information so that the Fund could evaluate Czechoslovakia's exchange restrictions, and failure to provide routine information on exports and imports and on other matters. The decision for compulsory withdrawal was based on Czechoslovakia's unwillingness to provide information on exchange practices and on national accounts; Czechoslovakia argued that to supply information on the latter would impair its national security.57/

5. Suspension of a Member's Right to Use SDRs

According to Article XXIII, Section 2(f), a member's right to use its SDRs "shall not be suspended because it has become ineligible to use the Fund's general resources."58/ Grounds to suspend a member's right to use SDRs are limited to a member's failure to fulfill some specific or general obligation with respect to the operation of the Special Drawing Rights Department.

Under Article XXIII, Section 2, the Fund may suspend a member's right to use its SDRs or to use SDRs acquired after the date of suspension. Article XXIII, Section 2(a) provides for suspension if a member that is designated fails to exchange usable currencies for SDRs. A more general clause giving grounds for suspension of a member's right to use SDRs is found in Article XXIII, Section 2(b). According to this clause, "If the Fund finds that a participant has failed to fulfill any other obligation with respect to special drawing rights, the Fund may suspend the right of the participant to use special drawing rights it acquires after the suspension."

A member's obligations with respect to special drawing rights are very broadly stated in the Articles of Agreement. In

---

57/ J. Keith Horsefield, The International Monetary Fund 1945-1965, vol. I, Chronicle, pp. 359-364.

58/ See appendix II.

Article XXII, each participant in the SDR Department is obligated "In addition to the obligations assumed under other articles of this Agreement...to collaborate with the Fund and with other participants in order to facilitate the effective functioning of the Special Drawing Rights Department and the proper use of special drawing rights in accordance with...the objective of making the special drawing right the principal reserve asset in the international monetary system."59/ This very general obligation is clearly intended to run beyond specific obligations written into the Articles of Agreement and to give the Fund an opportunity to judge a nation's performance according to the spirit of the agreement. South Africa's behaviour in maintaining low average holdings of SDRs as a percent of allocations despite its strong balance of payments and reserve positions constitute a violation of its obligations to cooperate with the spirit of the understanding about SDRs. South Africa has consistently used SDRs to withhold gold from world markets, using SDRs, in other words, to change the composition of its reserves.

In December 1978, the right of Democratic Kampuchea to use any SDRs it would subsequently acquire was suspended by a decision of the Executive Board of the IMF for "repeated failure...to meet the reconstitution requirement and its failure to pay charges due on its SDR allocation."60/ Although these causes are not precedents for the South African situation, the vote on suspension is itself a precedent: a nation's right to use SDRs can be and has been challenged and taken away by the Executive Board.

6. Interpretation of the IMF's Articles of Agreement

A decision to declare South Africa ineligible for Fund resources or to suspend South Africa's right to use SDRs may depend on an interpretation of some passage in the IMF Articles of Agreement. Matters of interpretation are referred first to the Executive Board for a vote; a simple majority of weighted votes is required to accept any interpretation. If a member

---

59/ See appendix II.

60/ International Monetary Fund, Annual Report 1979 (Washington, D. C.: IMF, 1979), p. 71.

wishes to appeal the decision of the Executive Board on a point of interpretation, the matter goes to the Board of Governors, which appoints a Committee on Interpretation. There is no standing Committee on Interpretation; each time a question is referred, the Board of Governors sets up a new committee. Decisions involved in setting up the Committee on Interpretation are commonly made by concensus, but, if there were a disagreement within the Board of Governors concerning the membership in the committee or any other matter related to the committee, the decision would be made by a simple majority with weighted votes. In other words, if a group of members with a majority of weighted votes in the Fund intends to vote ineligibility for South Africa on the basis of some section in the Articles of Agreement, their decision cannot be blocked by an effort to interpret the Articles of Agreement in a narrow way on the part of a group of members with a minority of total votes.61/

B. THE POLITICAL ROLE OF THE IMF IN SOUTH AFRICA

The argument is frequently made that action against South Africa in the IMF would, by admitting political considerations, reduce the effectiveness of the Fund. Concern about the intrusion of politics into IMF decisions was expressed in 1980 by the Governor of the Fund for South Africa:

> It is...a matter of concern to me to note the increasing tendency for international politics to rear its ugly head in Fund and Bank circles... If allowed to gain momentum, it will undermine confidence in international financial arrangements and could greatly reduce the effectiveness and future importance of both the Fund and the World Bank Group...62/

Although it may normally be good procedure for the IMF to avoid political issues for a variety of reasons, a Fund decision on South Africa, based in part on political considerations, cannot be avoided; with respect to South Africa, the Fund

61/ See Article XXIX, Subsections (a) and (b), in appendix II.

62/ Horwood, p. 1

/...

either will provide financial and hence political support or it will not provide financial and hence political support.

The Fund would not be operating in accord with its intended role if it were to be totally blind to political conditions in cases of war or other international crisis situations that threatened world order. The design of the IMF permits a declaration of ineligibility or expulsion on the basis of some reasonably vague clauses discussing purposes of the Fund and obligations of the members. These vague clauses can be seen as internal evidence that, when the Fund's Articles of Agreement took shape in World War II, leading governments intended to design a system that would permit them to block credits to member governments for such behaviour as Germany had demonstrated before the outbreak of World War II with its annexation of Austria and Czechoslovakia or Italy had demonstrated in the invasion of Ethiopia. The Fund was not to be blind to such gross political transgressions.63/

During U.S. Congressional hearings on the U.S. government's participation in the International Monetary Fund, concern was expressed by legislators that the Fund would not be able to withhold aid to countries following aggressive militaristic policies. These concerns were presented to the IMF's Board of Governors by the U.S. Governor as a request for "an official interpretation by the Fund as to...whether it has authority to

---

63/ During 1945, the U.S. Senate held hearings on the bill by which the U.S. was to join the IMF. During these hearings, the political role of the IMF and World Bank came up for discussion. The discussion was generally in favor of United Nations influence over the IMF for political purposes; senators had in mind the aggressive behaviour of Japan and Italy during the 1930s. W. Randolph Burgess, president of the American Bankers' Association, testified at the hearings; in his testimony, Burgess quoted Herbert Feis, a noted State Department advisor, as follows:

> Shall we take political questions into account when making loans? It seems plain we must. Our economic prospects, our safety, the chance that decency will prevail in this world---all these will be affected by the use that foreign countries make of the economic strength for which we provide the nourishment.

See: U.S. Senate, Banking and Currency Committee, Bretton Woods Agreements Act Hearings, 79th Cong., 1st sess., 12-28 June 1945, pp. 471, 473-474.

/...

provide facilities for...armaments."64/ The official Fund historian states that "broadly speaking, the answer was clearly in the negative."65/ However, difficulties in drafting a precise answer led to a vague reminder that use of Fund resources was to be consistent with the purposes of the Fund. Both from internal evidence and from legislative history pertaining to early interpretations of the Articles of Agreement, it is clear that early Fund intention was to operate on political criteria if any member's behaviour was so grossly outrageous as to be destabilizing to the world political economic order.

Throughout the history of the Fund, a number of political decisions have been made, though here different observers may reach different conclusions about the Fund's ability to act without taking into account the political context and consequences of its decision in one or another situation. The Fund's unwillingness to restore the lawful rights of the People's Republic of China until 1980 and its maintenance until then of the authorities in Taiwan in the seat reserved for China was a political decision as, it could be argued, is the continued membership of Democratic Kampuchea in the Fund after January 1979. Many of the Fund's decisions to lend or not to lend to various members are considered political by one or another group of critics.

In general, arguments that the Fund is able to operate without attention to political situations are specious. Even the official Fund history debunks such a contention:

> It is not the purpose of this history to anticipate events, but it seems clear that Keynes' essential thesis---that the Fund should be a technician-managed, semi-automatic mechanism---was never in fact feasible. Concerned as it would be with politically sensitive subjects such as exchange rates and exchange restrictions, the Fund was bound to be politically controlled.66/

Although the Fund cannot ignore politics, it is a reasonable objective of Fund operations to avoid political controversy

---

64/ Horsefield, p. 115.

65/ *Ibid.*, p. 149.

66/ *Ibid.*, p. 130

/...

whenever possible. However, some political controversies cannot be avoided. In the case of South Africa, use of Fund resources by South Africa has contributed to its economic strength; South Africa's economic strength has contributed to its ability to destabilize the region through its stubborn insistence on apartheid, through preservation of its illegal occupation of Namibia, and through its aggressive military actions against neighbouring states. Faced with an unavoidably political situation, it could be argued that the legitimacy and authority of the IMF are best preserved through IMF decisons that are based on legitimizing principals such as respect for human rights, opposition to racism, and honest efforts for a peaceful solution to regional and world tensions.

The situation in South Africa involves a close mix of political and economic factors. South Africa's internal policies and its occupation of Namibia create political and military tensions in the region. Such tensions threaten South Africa's ability to borrow on international capital markets and could lead to capital flight from South Africa. Both of these dangers threaten the security of the South African economy. In short, difficulties in the balance of payments of South Africa in the 1970s and presumably in the 1980s have been and will be related to political developments in South Africa and in the region. When the IMF responds to South African difficulties with a loan, both the cause of the difficulties and the effect of the IMF intervention are at least partly to be seen in political terms.

It is clear from internal Fund documents that the staff and Executive Directors of the IMF have looked at political factors in their assessments of South Africa's need for IMF aid. In a 1977 study of the South African economy ("South Africa---Recent Economic Developments") the IMF staff demonstrated an awareness of the impact of political factors on South Africa's capital imports: "private long-term capital inflow in 1976 was much lower than in 1975,...political considerations may have played a role."67/ A 1978 IMF paper on the South African economy ("South Africa---Staff Report for the 1978 Article VII Consultation") noted that in 1977 "the South African economy has faced a major problem of external adjustment, which in 1977 was exacerbated by a pronounced weakening in the capital account of the balance of payments, due in part

---

67/ "IMF and South Africa," (Washington, D. C.: Center for International Policy, 1981).

/...

to political factors." The same report noted "a sharp rise in short-term capital outflow in 1977" and speculated that the outflow was "related to some extent to circumvention of exchange control regulations induced by political uncertainties in southern Africa."68/ Again in 1980, the staff commented ("South Africa---Recent Economic Developments") that "private capital inflows have been discouraged in recent years by political uncertainties in the region..."69/

The political situation in South Africa was noted as well in the Executive Board during discussions of loans to South Africa. For example, in November 1976, one Executive Director supported an IMF loan to South Africa, noting that "the South African economy was passing through a difficult period due to a number of factors including...political uncertainties at home..."70/

In addition to explicit mention of political factors having an effect on the balance of payments, the IMF staff has consistently noted large increases in defense expenditures by South Africa. In 1977, the staff noted "an increase of close to 40 percent in defense expenditures" in the 1976/77 budget and a proposed increase of 21.3 percent in the 1977/78 budget.71/ In 1979, the staff reported that "high levels of spending on defense and strategic stock-piling" contributed to current account deficits during the mid-1970s.72/ In 1980, the staff noted a 26 percent increase in defense expenditures in the 1979/80 budget.73/ It seems clear that at least in the case of South Africa, the IMF has recognized and discussed political issues, arms imports, and defense expenditures in reaching its assessment of South Africa's need for IMF aid.

68/ Ibid.

69/ Ibid.

70/ Ibid.

71/ Ibid.

72/ Ibid.

73/ Ibid.

/...

V. CONCLUSIONS

During 1979-80, the International Monetary Fund lent South Africa the equivalent of US$117 million through its Special Drawing Rights account. Earlier, during 1976-77, it lent South Africa US$476 million, a sum which nearly matched the US$450 million increase in South Africa's military budget from fiscal year 1975/76 to fiscal year 1976/77.

Even more important, South Africa's future potential borrowing from the IMF now stands at US$5.2 billion. This is the amount that could be made available over a period of years under standard IMF lending practices to meet a serious balance of payments crisis. This potential assistance reduces the risk to private bankers and bond purchasers contemplating an investment in South Africa. Without it, private foreign lending to South Africa would be seriously inhibited.

In addition to financial aid to South Africa, the IMF tacitly accepts and hence provides diplomatic support for South Africa's illegal presence in Namibia. The IMF routinely presents statistics for South Africa inclusive of Namibia in public and private Fund documents. The IMF has consistently ignored appeals by the United Nations as the legal administering authority over Namibia that the IMF recognize and support SWAPO as the legitimate representative of the Namibian people.

Among all African nations, South Africa's use of Fund resources was relatively large from 1976 to 1978. Since then, however, the IMF has loaned heavily to other African states. Among African nations, Nigeria is very roughly comparable to South Africa in economic size, reserves, and current account surplus. While Nigeria has been a large and consistent creditor to the IMF, South Africa was a net debtor from 1975 through mid-1981. Looking at southern Africa as a region, South Africa's large net debts in 1976-78 have been matched in volume by Zambian debts from 1978; for both countries debt to the IMF has exceeded US$500 million. Other front-line and regional states have borrowed much less, have been net creditors, or have not been members of the IMF.

IMF aid for South Africa, though sturdy in the past, may be less secure in the future. With the world public becoming more aware of the crisis in southern Africa and of the role of the IMF in supporting South Africa, a growing number of member governments of the IMF may be moved to block future loans. Aside from blocking loans whenever a request comes through, member nations of the IMF can vote South Africa ineligible for loans

/...

through the IMF. Such a decision would require a simple majority of weighted votes in the Executive Board of the IMF.

The United Nations, to which the IMF is related as a specialized agency, has repeatedly and forcefully voiced its opposition to IMF loans to South Africa through numerous General Assembly resolutions. However, the agreement which links the IMF to the United Nations as a specialized agency gives the United Nations no explicit authority over Fund actions. United Nations recommendations have not been followed by the IMF. For example, on 9 November 1976, the General Assembly voted to request the IMF to "refrain forthwith from extending credits to South Africa."74/ On 10 November the Executive Directors of the IMF discussed and approved US$186 million in new loans to South Africa. Despite consistent UN efforts to inhibit IMF loans to South Africa, the IMF continued from the mid-1970s into the 1980s to be a net creditor to South Africa, most recently through South Africa's net use of Special Drawing Rights. Despite its status as a specialized agency of the United Nations, the conclusion must be reached that the IMF has paid no heed to UN wishes.

74/ Resolution 31/6 H of 9 November 1976.

Appendix I

Members, Votes, and Representation by Executive Directors in the IMFa/

A. Membership and Voting Power in the IMF

Member	Member's Weighted Vote as Percent of Total Votes in the IMF
Afghanistan	0.15
Algeria	0.72
Argentina	1.31
Australia	1.92
Austria	0.82
Bahamas	0.12
Bahrain	0.09
Bangladesh	0.40
Barbados	0.08
Belgium	2.15
Benin	0.08
Bolivia	0.15
Botswana	0.06
Brazil	1.62
Burma	0.21
Burundi	0.09
Cameroon	0.15
Canada	3.26
Cape Verde	0.04
Central African Republic	0.08
Chad	0.08
Chile	0.56
China	2.89
Colombia	0.50
Comoros	0.05
Congo	0.08
Costa Rica	0.14
Cyprus	0.12
Denmark	0.78
Djibouti	0.05
Dominica	0.04
Dominican Republic	0.17
Ecuador	0.21
Egypt	0.58
El Salvador	0.14
Equatorial Guinea	0.06
Ethiopia	0.13
Fiji	0.08
Finland	0.66
France	4.60
Gabon	0.11
Gambia, The	0.06
Germany	5.16
Ghana	0.29
Greece	0.48
Grenada	0.05
Guatemala	0.16
Guinea	0.11
Guinea-Bissau	0.05
Guyana	0.10
Haiti	0.09
Honduras	0.12
Iceland	0.11
India	2.76
Indonesia	1.18
Iran	1.09
Iraq	0.41
Ireland	0.41
Israel	0.53
Italy	2.99
Ivory Coast	0.22

a/ Information on members, votes, and executive directors is for 19 June 1981. See: International Monetary Fund, Directory (Washington, D.C.: IMF, 1981), pp. 1-8.

Member	Member's Weighted Vote as Percent of Total Votes in the IMF
Jamaica	0.22
Japan	3.98
Jordan	0.11
Kampuchea, Democratic	0.08
Kenya	0.20
Korea	0.44
Kuwait	0.66
Lao People's Democratic Republic	0.04
Lebanon	0.08
Lesotho	0.06
Liberia	0.13
Libya	0.51
Luxembourg	0.11
Madagascar	0.12
Malawi	0.08
Malaysia	0.64
Maldives	0.04
Mali	0.10
Malta	0.09
Mauritania	0.08
Mauritius	0.10
Mexico	1.31
Morocco	0.40
Nepal	0.08
Netherlands	2.29
New Zealand	0.59
Nicaragua	0.12
Niger	0.08
Nigeria	0.89
Norway	0.74
Oman	0.09
Pakistan	0.72
Panama	0.15
Papua New Guinea	0.11
Paraguay	0.09
Peru	0.43
Philippines	0.54
Portugal	0.45
Qatar	0.14
Romania	0.62
Rwanda	0.09

Member	Member's Weighted Vote as Percent of Total Votes in the IMF
St. Lucia	0.05
St. Vincent	0.04
Sao Tome and Principe	0.04
Saudi Arabia	1.69
Senegal	0.14
Seychelles	0.04
Sierra Leone	0.11
Singapore	0.19
Solomon Islands	0.04
Somalia	0.09
South Africa	1.05
Spain	1.36
Sri Lanka	0.32
Sudan	0.25
Suriname	0.10
Swaziland	0.07
Sweden	1.11
Syrian Arab Republic	0.19
Tanzania	0.17
Thailand	0.47
Togo	0.08
Trinidad and Tobago	0.23
Tunisia	0.19
Turkey	0.51
Uganda	0.16
United Arab Emirates	0.36
United Kingdom	6.99
United States	20.01
Upper Volta	0.08
Uruguay	0.24
Venezuela	1.61
Viet Nam	0.25
Western Samoa	0.05
Yemen Arab Republic	0.07
Yemen, People's Democratic Republic of	0.14
Yugoslavia	0.70
Zaire	0.40
Zambia	0.37
Zimbabwe	0.28

/...

B. Representation by Executive Directors in the IMF

Members Individually Represented by an Executive Director and Grouping of Members to Elect an Executive Director	Voting Power of Executive Directors
United States	20.01
United Kingdom	6.99
Germany	5.16
France	4.69
Japan	3.98
Saudi Arabia	1.69
Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Spain, Venezuela	4.96
Bahamas, Barbados, Canada, Dominica, Grenada, Ireland, Jamaica, St. Lucia, St. Vincent	4.27
Cyprus, Israel, Netherlands, Romania, Yugoslavia	4.26
Greece, Italy, Malta, Portugal	4.00
Australia, Korea, New Zealand, Papua New Guinea, Philippines, Seychelles, Solomon Islands, Western Samoa	3.74
Bahrain, Iraq, Jordan, Kuwait, Lebanon, Libya, Maldives Pakistan, Qatar, Somalia, Syrian Arab Republic, United Arab Emirates, Yemen Arab Republic, People's Democratic Republic of Yemen	3.62
Austria, Belgium, Luxembourg, Turkey	3.61
Bangladesh, India, Sri Lanka	3.48
Denmark, Finland, Iceland, Norway, Sweden	3.40
Botswana, Burundi, Ethiopia, The Gambia, Guinea, Kenya, Lesotho, Liberia, Malawi, Nigeria, Sierra Leone, Sudan, Swaziland, Tanzania, Uganda, Zambia, Zimbabwe	3.23

/...

Members Individually Represented by an Executive Director and Grouping of Members to Elect an Executive Director	Voting Power of Executive Directors
Burma, Fiji, Indonesia, Lao People's Democratic Republic, Malaysia, Nepal, Singapore, Thailand, Viet Nam	3.19
Brazil, Colombia, Dominican Republic, Ecuador, Guyana, Haiti, Panama, Suriname, Trinidad and Tobago	3.17
Afghanistan, Algeria, Ghana, Iran, Morocco, Oman, Tunisia,	2.91
China	2.89
Argentina, Bolivia, Chile, Paraguay, Peru, Uruguay	2.78
Benin, Cameroon, Cape Verde, Central African Republic, Chad, Comoros, Congo, Djibouti, Equatorial Guinea, Gabon, Guinea-Bissau, Ivory Coast, Madagascar, Mali, Mauritania, Mauritius, Niger, Sao Tome and Principe, Senegal, Togo, Upper Volta, Zaire	2.27

/...

Appendix II

Extracts from the Articles of Agreement
of the International Monetary Fund

Article I

The purposes of the International Monetary Fund are:

(i) To promote international Monetary Cooperation through a permanent institution which provides the machinery for consultation and collaboration on international monetary problems.

(ii) To facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy.

(iii) To promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation.

(iv) To assist in the establishment of a multilateral system of payments in respect of current transactions between members and in the elimination of foreign exchange restrictions which hamper the growth of world trade.

(v) To give confidence to members by making the general resources of the Fund temporarily available to them under adequate safeguards, thus providing them with an opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity.

(vi) In accordance with the above, to shorten the duration and lessen the degree of disequilibrium in the international balances of payments of members.

The Fund shall be guided in all its policies and decisions by the purposes set forth in this Article.

Article IV, Section 1

Recognizing that the essential purpose of the international monetary system is to provide a framework that facilitates the exchange of goods, services, and capital among countries, and that sustains sound economic growth, and that a principal objective is the continuing development of the orderly underlying conditions that are necessary for financial and economic stability, each member undertakes to collaborate with the Fund and other members to assure orderly exchange arrangements and to promote a stable system of exchange rates. In particular, each member shall:

(i) endeavor to direct its economic and financial policies toward the objective of fostering orderly economic growth with reasonable price stability, and due regard to circumstances;

(ii) seek to promote stability by fostering orderly underlying economic and financial conditions and a monetary system that does not tend to produce erratic disruptions;

(iii) avoid manipulating exchange rates or the international monetary system in order to prevent effective balance of payments adjustment or to gain an unfair competitive advantage over other members; and

(iv) follow exchange policies compatible with the undertakings under this Section.

Article V, Section 5

Whenever the Fund is of the opinion that any member is using the general resources of the Fund in a manner contrary to the purposes of the Fund, it shall present to the member a report setting forth the views of the Fund and prescribing a suitable time for reply. After presenting such a report to a member, the Fund may limit the use of its general resources by the member. If no reply to the report is received from the member within the prescribed time, or if the reply received is unsatisfactory, the Fund may continue to limit the member's use of the general resources of the Fund or may, after giving reasonable notice to the member, declare it ineligible to use the general resources of the Fund.

Article VI, Section 1(a)

A member may not use the Fund's general resources to meet a large or sustained outflow of capital except as provided in Section 2 of this Article, and the Fund may request a member to exercise controls to prevent such use of the general resources of the Fund. If, after receiving such a request, a member fails to exercise appropriate controls, the Fund may declare the member ineligible to use the general resources of the Fund.

Article VIII, Section 5(a)

The Fund may require members to furnish it with such information as it deems necessary for its activities, including, as the minimum necessary for the effective discharge of the Fund's duties, national data on the following matters:

(i) official holdings at home and abroad of (1) gold, (2) foreign exchange;

(ii) holdings at home and abroad by banking and financial agencies, other than official agencies, of (1) gold, (2) foreign exchange;

(iii) production of gold;

(iv) gold exports and imports according to countries of destination and origin;

(v) total exports and imports of merchandise, in terms of local currency values, according to countries of destination and origin;

(vi) international balance of payments, including (1) trade in goods and services, (2) gold transactions, (3) known capital transactions, and (4) other items;

(vii) international investment position, i.e., investments within the territories of the member owned abroad and investments abroad owned by persons in its territories so far as it is possible to furnish this information;

(viii) national income...

Article VIII, Section 7

Each member undertakes to collaborate with the Fund and with other members in order to ensure that the policies of the member with respect to reserve assets shall be consistent with the objectives of promoting better international surveillance of international liquidity and making the special drawing right the principal reserve asset in the international monetary system.

Article XII, Section 5(b)

Whenever voting is required under Article V, Section 4 or 5, each member shall have the number of votes to which it is entitled under (a) above adjusted

(i) by the addition of one vote for the equivalent of each four hundred thousand special drawing rights of net sales of its currency from the general resources of the Fund up to the date when the vote is taken, or

(ii) by the subtraction of one vote for the equivalent of each four hundred thousand special drawing rights of its net purchases under Article V, Section 3(b) and (f) up to the date when the vote is taken,

provided that neither net purchases nor net sales shall be deemed at any time to exceed an amount equal to the quota of the member involved.

/...

Article XX, Sections 1 and 2

Interest at the same rate for all holders shall be paid by the Fund to each holder on the amount of its holdings of special drawing rights. The Fund shall pay the amount due to each holder whether or not sufficient charges are received to meet the payment of interest.

Charges at the same rate for all participants shall be paid to the Fund by each participant on the amount of its net cumulative allocation of special drawing rights plus any negative balance of the participant or unpaid charges.

Article XXII

In addition to the obligations assumed with respect to special drawing rights under other articles of this Agreement, each participant undertakes to collaborate with the Fund and with other participants in order to facilitate the effective functioning of the Special Drawing Rights Department and the proper use of special drawing rights in accordance with this Agreement and with the objective of making the special drawing right the principal reserve asset in the international monetary system.

Article XXIII, Section 2, Subsections (a), (b), and (f)

If the Fund finds that a participant has failed to fulfill its obligation under Article XIX, Section 4, the right of the participant to use its special drawing rights shall be suspended unless the Fund otherwise decides.

If the Fund finds that a participant has failed to fulfill any other obligation with respect to special drawing rights, the Fund may suspend the right of the participant to use special drawing rights it acquires after the suspension.

The right of a participant to use its special drawing rights shall not be suspended because it has become ineligible to use the Fund's general resources under Article V, Section 5, Article VI, Section 1, or Article XXVI, Section 2(a). Article XXVI, Section 2 shall not apply because a participant has failed to fulfill any obligations with respect to special drawing rights.

Article XXIV, Section 2(b)

The Fund shall be obligated to redeem all special drawing rights held by the terminating participant, and the terminating

/...

participant shall be obligated to pay to the Fund an amount equal to its net cumulative allocation and any other amounts that may be due and payable bacause of its participation in the Special Drawing Rights Department. These obligations shall be set off against each other and the amount of special drawing rights held by the terminating participant that is used in the setoff to extinguish its obligation to the Fund shall be cancelled.

Article XXV, Subsection (c)

Upon liquidation of the Special Drawing Rights Department, interest and charges that accrued to the date of liquidation and assessments levied before that date but not paid shall be paid in special drawing rights. The Fund shall be obligated to redeem all special drawing rights held by holders, and each participant shall be obligated to pay the Fund an amount equal to its net cumulative allocation of special drawing rights and such other amounts as may be due and payable bacause of its participation in the Special Drawing Rights Department.

Article XXVI, Section 2, Subsections (a) and (b)

If a member fails to fulfill any of its obligations under this Agreement, the Fund may declare the member ineligible to use the general resources of the Fund. Nothing in this Section shall be deemed to limit the provisions of Article V, Section 5 or Article VI, Section 1.

If, after the expiration of a reasonable period the member persists in its failure to fulfill any of its obligations under this Agreement, that member may be required to withdraw from membership in the Fund by a decision of the Board of Governors carried by a majority of the Governors having eighty-five percent of the total voting power.

Article XXIX, Subsections (a) and (b)

Any question of interpretation of the provisions of this Agreement arising between any member and the Fund or between any members of the Fund shall be submitted to the Executive Board for its decision. If the question particularly affects any member not entitled to appoint an Executive Director, it shall be entitled to representation in accordance with Article XII, Section 3(j).

In any case where the Executive Board has given a decision

/...

under (a) above, any member may require, within three months from the date of the decision, that the question be referred to the Board of Governors, whose decision shall be final. Any question referred to the Board of Governors shall be considered by a Committee on Interpretation of the Board of Governors. Each Committee member shall have one vote. The Board of Governors shall establish the membership, procedures, and voting majorities of the Committee. A decision of the Committee shall be the decision of the Board of Governors unless the Board of Governors, by an eighty-five percent majority of the total voting power, decides otherwise. Pending the result of the reference to the Board of Governors the Fund may, so far as it deems necessary, act on the basis of the decision of the Executive Board.

Article XXXI, Section 2(g)

By their signature of this Agreement, all governments accept it both on their own behalf and in respect of all their colonies, overseas territories, all territories under thier protection, suzerainty, or authority, and all territories in respect of which they exercise a mandate.

Schedule I, Sections 1, 3, and 4

In the event of liquidation of the Special Drawing Rights Department, participants shall discharge their obligations to the Fund...in a freely usable currency and the currencies of participants holding special drawing rights to be redeemed in any installment to the extent of such redemption, as shall be determined by the Fund.

With the amounts received under 1 above, the Fund shall redeem special drawing rights held by holders...

Any amount that a participant will be entitled to receive in redemption under 3 above shall be set off against any amount to be paid under 1 above.

/...

Appendix III

1969 IMF Decision to Buy Gold from South Africa[a/]

1. The Fund notes the letter from the Minister of Finance of the Republic of South Africa...

2. In this letter, South Africa has stated its intention to offer to sell gold to the Fund only in the following circumstances:

(a) (i) when the price for gold in the market is $35 per ounce or below, up to an amount to meet South Africa's current foreign exchange needs for that period and
(ii) regardless of the market price, up to the extent that South Africa has a need for foreign exchange over a semiannual period beyond the need that can be satisfied by the sale of all its current production of newly mined gold on the market or by sales to the Fund under (i) above;
(b) when South Africa has been designated under Article XXV, Section 5, up to the amount for which South Africa has been designated; and
(c) from the stock held by South Africa on March 17, 1968 up to $35 million in each quarter, beginning January 1, 1970.

3. As a matter of policy, with the understanding that members do not intend to initiate official gold purchases directly from South Africa and without prejudice to the determination of the legal position under the Articles of Agreement, the Fund decides that it will purchase gold from South Africa when South Africa states that it is offering gold in accordance with the terms of this letter. When South Africa offers to sell gold to the Fund under this policy, the Fund will follow a procedure similar to the procedure for gold tranche purchases.

4. In addition, the Fund will accept gold from South Africa in accordance with the Fund's normal policies and practices under Paragraph 3 of Decision No. 7-(648) or under provisions of the Articles other than Article V, Section 6.

5. A charge of one-quarter of one per cent shall be levied on sales of gold to the Fund under Sections 2(a) and (c) of this decision pursuant to Rule G-7 and Rule I-8.

6. This decision shall be subject to review whenever this is requested because of a major change in circumstances and in any event after five years.

---

a/ Executive Board Decision No. 2914-(69/127) of 30 December 1969, taken from: International Monetary Fund, 1970 Annual Report (Washington, D.C.: IMF, 1970), pp. 184-185.

Appendix IV

Security Council Resolution 276 (1970) of 30 January 1970

The Security Council,

Reaffirming the inalienable right of the people of Namibia to freedom and independence recognized in General Assembly resolution 1514 (XV) of 14 December 1960,

Reaffirming General Assembly resolution 2145 (XXI) of 27 October 1966, by which the United Nations decided that the Mandate for South West Africa was terminated and assumed direct responsibility for the Territory until its independence,

Reaffirming Security Council resolution 264 (1969) of 20 March 1969 in which the Council recognized the termination of the Mandate and called upon the Government of South Africa to withdraw immediately its administration from the Territory,

Reaffirming that the extension and enforcement of South African laws in the Territory together with the continued detentions, trials and subsequent sentencing of Namibians by the Government of South Africa constitute illegal acts and flagrant violations of the rights of the Namibians concerned, the Universal Declaration of Human Rights and the international status of the Territory, now under direct United Nations responsibility,

Recalling Security Council resolution 269 (1969) of 12 August 1969,

1. Strongly condemns the refusal of the Government of South Africa to comply with the resolutions of the General Assembly and Security Council pertaining to Namibia;

2. Declares that the continued presence of the South African authorities in Namibia is illegal and that consequently all acts taken by the Government of South Africa on behalf of or concerning Namibia after the termination of the Mandate are illegal and invalid;

3. Declares further that the defiant attitude of the Government of South Africa towards the Council's decisions undermines the authority of the United Nations;

4. Considers that the continued occupation of Namibia by the Government of South Africa in defiance of the relevant United Nations resolutions and of the Charter of the United Nations has grave consequences for the rights and interests of the people of Namibia;

/...

5. Calls upon all States, particularly those which have economic and other interests in Namibia, to refrain from any dealings with the Government of South Africa which are inconsistent with paragraph 2 of the present resolution;

6. Decides to establish, in accordance with rule 28 of its provisional rules of procedure, an Ad Hoc Sub-Committee of the Council to study, in consultation with the Secretary-General, ways and means by which the relevant resolutions of the Council, including the present resolution, can be effectively implemented in accordance with the appropriate provisions of the Charter, in the light of the flagrant refusal of South Africa to withdraw from Namibia, and to submit its recommendations by 30 April 1970;

7. Requests all States, as well as the specialized agencies and other relevant organs of the United Nations, to give the Sub-Committee all the information and other assistance it may require in pursuance of the present resolution;

8. Further requests the Secretary-General to give every assistance to the Sub-Committee in the performance of its task;

9. Decides to resume consideration of the question of Namibia as soon as the recommendations of the Sub-Committee have been made available.

Adopted at the 1529th meeting by 13 votes to none, with 2 abstentions (France, United Kingdom of Great Britain and Northern Ireland).

Appendix V

Extracts from the Advisory Opinion of the International Court of Justice Concerning Namibia a/

111. As to the effect to be attributed to the declaration contained in paragraph 2 of resolution 276 (1970), b/ the Court considers that the qualification of a situation as illegal does not by itself put an end to it. It can only be the first, necessary step in an endeavour to bring the illegal situation to an end.

112. It would be an untenable interpretation to maintain that, once such a declaration had been made by the Security Council under Article 24 of the Charter, on behalf of all member States, those Members would be free to act in disregard of such illegality or even to recognize violations of law resulting from it. When confronted with such an internationally unlawful situation, Members of the United Nations would be expected to act in consequence of the declaration made on their behalf. The question therefore arises as to the effect of this decision of the Security Council for States Members of the United Nations in accordance with Article 25 of the Charter.

...

122. For the reasons given above, and subject to the observations contained in paragraph 125 below, member states are under obligations to abstain from entering into treaty relations with South Africa in all cases in which the Government of South Africa purports to act on behalf of or concerning Namibia. With respect to existing bilateral treaties, member States must abstain from invoking or applying those treaties or provisions of treaties concluded by South Africa on behalf of or concerning Namibia which involve active intergovernmental co-operation. With respect to multilateral treaties, however, the same rule cannot be applied to certain general conventions such as those of a humanitarian character, the non-performance of which may adversely affect the people of Namibia. It will be for the competent international organs to take specific measures in this respect.

---

a/ Legal Consequences for States of the Continued Presence of South Africa in Namibia (South West Africa) notwithstanding Security Council Resolution 276 (1970), Advisory Opinion, I. C. J. Reports 1971, paras. 111, 112, 122-125, 127.

b/ See appendix IV.

123. Member States, in compliance with the duty of non-recognition imposed by paragraphs 2 and 5 of resolution 276 (1970), are under obligation to abstain from sending diplomatic or special missions to South Africa including in their jurisdiction the Territory of Namibia, to abstain from sending consular agents to Namibia, and to withdraw any such agents already there. They sould also make it clear to the South African authorities that the maintenance of diplomatic or consular relations with South Africa does not imply any recognition of its authority with regard to Namibia.

124. The restraints which are implicit in the non-recognition of South Africa's presence in Namibia and the explicit provisions of paragraph 5 of resolution 276 (1970) impose upon member States the obligation to abstain from entering into economic and other forms of relationship or dealings with South Africa on behalf of or concerning Namibia which may entrench its authority over the Territory.

125. In general, the non-recognition of South Africa's administration of the Territory should not result in depriving the people of Namibia of any advantages derived from international co-operation. In particular, while official acts performed by the Government of South Africa on behalf of or concerning Namibia after the termination of the Mandate are illegal and invalid, this invalidity cannot be extended to those acts, such as, for instance, the registration of births, deaths and marriages, the effects of which can be ignored only to the detriment of the inhabitants of the Territory.

...

127. As to the general consequences resulting from the illegal presence of South Africa in Namibia, all States should bear in mind that the injured entity is a people which must look to the international community for assistance in its progress towards the goals for which the sacred trust was instituted.

Appendix VI

Agreement Between the United Nations and the International Monetary Fund[a]

Article I

General

1. This agreement, which is entered into by the United Nations pursuant to the provision of Article 63 of its Charter, and by the International Monetary Fund (hereinafter called the Fund), pursuant to the provisions of article X of its Articles of Agreement, is intended to define the terms on which the United Nations and the Fund shall be brought into relationship.

2. The Fund is a specialized agency established by agreement among its member governments and having wide international responsibilities, as defined in its Articles of Agreement, in economic and related fields within the meaning of Article 57 of the Charter of the United Nations. By reason of the nature of its international responsibilities and the terms of its Articles of Agreement, the Fund is, and is required to function as, an independent international organization.

3. The United Nations and the Fund are subject to certain necessary limitations for the safeguarding of confidential material furnished to them by their members or others, and nothing in this agreement shall be construed to require either of them to furnish any information the furnishing of which would in its judgement, constitute a violation of the confidence of any of its members or anyone from whom it shall have received such information, or which would otherwise interfere with the orderly conduct of its operations.

Article II

Reciprocal Representation

1. Representatives of the United Nations shall be entitled to attend, and to participate without vote in, meetings

---

a/ Came into force on 15 November 1947, in accordance with article XIII, having been approved by the General Assembly of the United Nations on 15 November 1947 and by the Board of Governors of the International Monetary Fund on 17 September 1947.

/...

of the Board of Governors of the Fund. Representatives of the United Nations shall be invited to participate without vote in meetings especially called by the Fund for the particular purpose of considering the United Nations point of view in matters of concern to the United Nations.

2. Representatives of the Fund shall be entitled to attend meetings of the General Assembly of the United Nations for purposes of consultation.

3. Representatives of the Fund shall be entitled to attend, and to participate without vote in, meetings of the committees of the General Assembly, meetings of the Economic and Social Council, of the Trusteeship Council and of their respective subsidiary bodies, dealing with matters in which the Fund has an interest.

4. Sufficient advance notice of these meetings and their agenda shall be given so that, in consultation, arrangements can be made for adequate representation.

Article III

Proposal of Agenda Items

In preparing the agenda for meetings of the Board of Governors, the Fund will give due consideration to the inclusion in the agenda of items proposed by the United Nations. Similarly, the Council and its commissions and the Trusteeship Council will give due consideration to the inclusion in their agenda of items proposed by the Fund.

Article IV

Consultation and Recommendations

1. The United Nations and the Fund shall consult together and exchange views on matters of mutual interest.

2. Neither organization, nor any of their subsidiary bodies, will present any formal recommendations to the other without reasonable prior consultation with regard thereto. Any formal recommendations made by either organization after such consultation will be considered as soon as possible by the appropriate organ of the other.

/...

Article V

Exchange of Information

The United Nations and the Fund will, to the fullest extent practicable and subject to paragraph 3 of article I, arrange for the current exchange of information and publications of mutual interest, and the furnishing of special reports and studies upon request.

Article VI

Security Council

1. The Fund takes note of the obligation assumed, under paragraph 2 of Article 48 of the United Nations Charter, by such of its members as are also Members of the United Nations, to carry out the decisions of the Security Council through their action in the appropriate specialized agencies of which they are members, and will, in the conduct of its activities, have due regard for decisions of the Security Council under Articles 41 and 42 of the United Nations Charter.

2. The Fund agrees to assist the Security Council by furnishing to it information in accordance with the provisions of article V of this agreement.

Article VII

Assistance to the Trusteeship Council

The Fund agrees to co-operate with the Trusteeship Council in the carrying out of its functions by furnishing information and technical assistance upon request, and in such other similar ways as may be consistent with the Articles of Agreement of the Fund.

Article VIII

International Court of Justice

The General Assembly of the United Nations hereby authorizes the Fund to request advisory opinions of the International Court of Justice on any legal questions arising within the scope of the Fund's activities other than questions relating to the relations between the Fund and the United Nations or any specialized agency. Whenever the Fund shall request the Court for an advisory opinion, the Fund will inform the Economic and Social Council of the request.

Article IX

Statistical Services

1. In the interests of efficiency and for the purpose of reducing the burden on national Governments and other organizations, the United Nations and the Fund agree to co-operate in eliminating unnecessary duplication in the collection, analysis, publication and dissemination of statistical information.

2. The Fund recognizes the United Nations as the central agency for the collection, analysis, publication, standardization and improvement of statistics serving the general purposes of international organizations, without prejudice to the right of the Fund to concern itself with any statistics so far as they may be essential for its own purposes.

3. The United Nations recognizes the Fund as the appropriate agency for the collection, analysis, publication, standardization and improvement of statistics within its special sphere, without prejudice to the right of the United Nations to concern itself with any statistics so far as they may be essential for its own purposes.

4. (a) In its statistical activities the Fund agrees to give full consideration to the requirements of the United Nations and of the specialized agencies.

(b) In its statistical activities the United Nations agrees to give full consideration to the requirements of the Fund.

5. The United Nations and the Fund agree to furnish each other promptly with all their non-confidential statistical information.

Article X

Administrative Relationships

1. The United Nations and the Fund will consult from time to time concerning personnel and other administrative matters of mutual interest, with a view to securing as much uniformity in these matters as they shall find practicable and to assuring the most efficient use of the services and facilities of the two organizations. These consultations shall include determination

of the most equitable manner in which special services furnished by one organization to the other should be financed.

2. To the extent consistent with the provisions of this agreement, the Fund will participate in the work of the Coordination Committee and its subsidiary bodies.

3. The Fund will furnish to the United Nations copies of the annual report and the quarterly financial statements prepared by the Fund pursuant to section 7(a) of article V of its Articles of Agreement. The United Nations agrees that, in the interpretation of paragraph 3 of Article 17 of the United Nations Charter it will take into consideration that the Fund does not rely for its annual budget upon contributions from its members, and that the appropriate authorities of the Fund enjoy full autonomy in deciding the form and content of such budget.

4. The officials of the Fund shall have the right to use the laisser-passer of the United Nations in accordance with special arrangements to be negotiated between the Secretary-General of the United Nations and the competent authorities of the Fund.

Article XI

Agreements with other Organizations

The Fund will inform the Economic and Social Council of any formal agreement which the Fund shall enter into with any specialized agency, and in particular agrees to inform the Council of the nature and scope of any such agreement before it is concluded.

Article XII

Liaison

1. The United Nations and the Fund agree to the foregoing provisions in the belief that they will contribute to the maintenance of effective co-operation between the two organizations. Each agrees that it will establish within its own organizations such administrative machinery as may be necessary to make the liaison, as provided for in this agreement, fully effective.

2. The arrangements provided for in the foregoing articles of this agreement shall apply, as far as is appropriate, to relations between such branch or regional offices as may be established by the two organizations, as well as between their central machinery.

/...

Article XIII

Miscellaneous

1. The Secretary-General of the United Nations and the Managing Director of the Fund are authorized to make such supplementary arrangements as they shall deem necessary or proper to carry fully into effect the pruposes of this agreement.

2. This agreement shall be subject to revision by agreement between the United Nations and the Fund from the date of its entry into force.

3. This agreement may be terminated by either party thereto on six months' written notice to the other party, and thereupon all rights and obligations of both parties hereunder shall cease.

4. This agreement shall come into force when it shall have been approved by the General Assembly of the United Nations and the Board of Governors of the Fund.

Appendix VII

Extracts from the Charter of the United Nations

Article 57

1. The various specialized agancies, established by intergovernmental agreement and having wide international responsibilities, as defined in their basic instruments, in economic, social, cultural, educational, health, and related fields, shall be brought into relationship with the United Nations in accordance with the provisions of Article 63.

2. Such agencies thus brought into relationship with the United Nations are hereinafter referred to as specialized agencies.

Article 58

The Organization shall make recommendations for the co-ordination of the policies and activities of the specialized agencies.

. . .

Article 60

Responsibility for the discharge of the functions of the Organization set forth in this Chapter shall be vested in the General Assembly and, under the Authority of the General Assembly, in the Economic and Social Council, which shall have for this purpose the powers set forth in Chapter X.

. . .

Article 63

1. The Economic and Social Council may enter into agreements with any of the agencies referred to in Article 57, defining the terms on which the agency concerned shall be brought into relationship with the United Nations. Such agreements shall be subject to approval by the General Assembly.

2. It may co-ordinate the activities of the specialized agencies through consultation with and recommendations to such agencies and through recommendations to the General Assembly and to the Members of the United Nations.

Article 64

1. The Economic and Social Council may take appropriate

steps to obtain regular reports from the specialized agencies. It may make arrangements with the Members of the United Nations and with the specialized agencies to obtain reports on the steps taken to give effect to its own recommendations and to recommendations on matters falling within its competence made by the General Assembly.

2. It may communicate its observations on these reports to the General Assembly.

. . .

Article 70

The Economic and Social Council may make arrangements for representatives of the specialized agencies to participate, without vote, in its deliberations and in those of the commissions established by it, and for its representatives to participate in the deliberations of the specialized agencies.
