

BRITISH BANKS  
AND  
SOUTH AFRICA

Christian Concern for Southern Africa

CCSA

# British Banks and South Africa

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on original research and material provided by  
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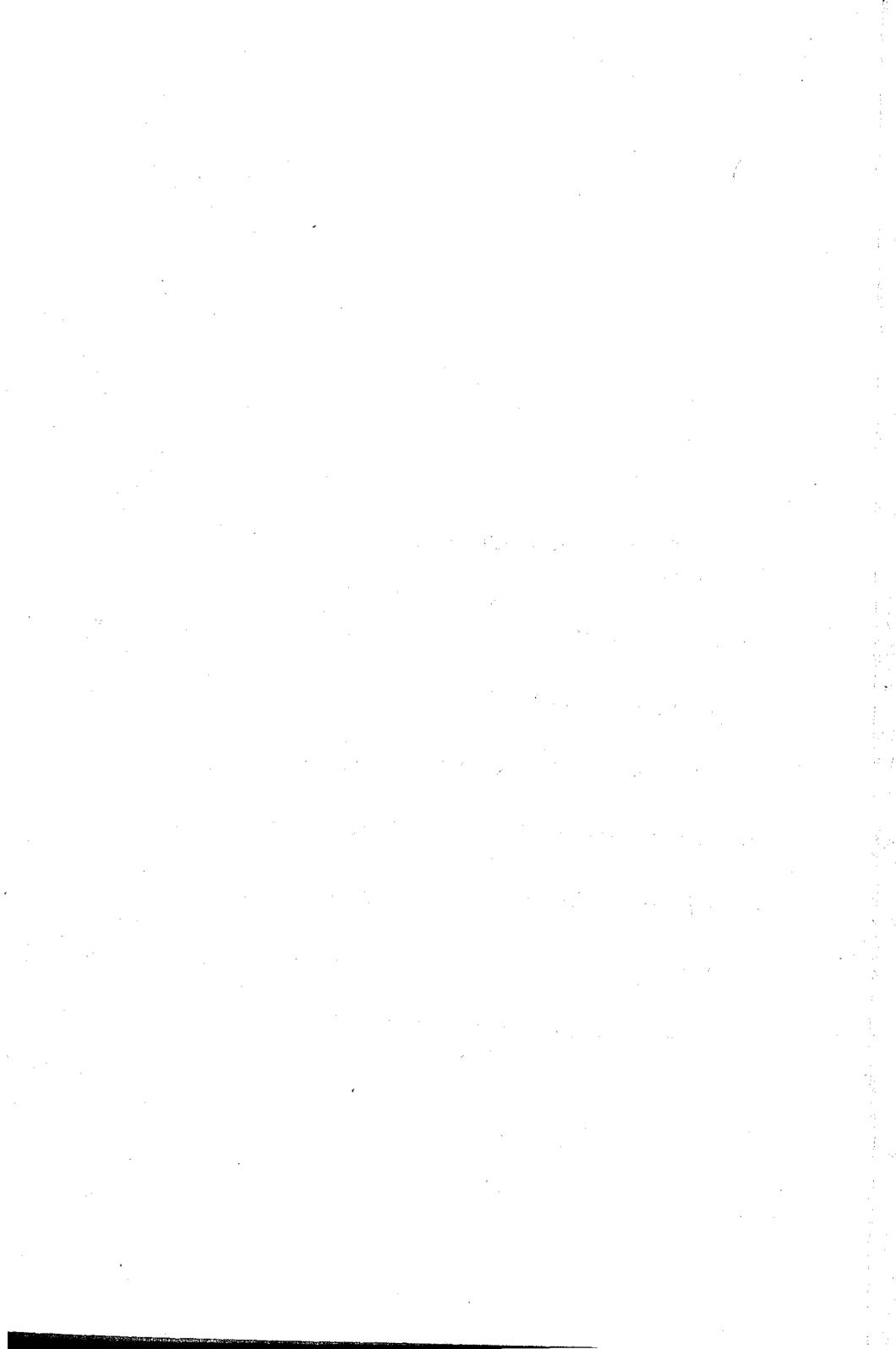
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# Introduction & Summary

## *1. The Aims of the Study*

British banks are involved in South Africa principally in two ways: in the control of subsidiaries there and in the provision of funds, services and expertise. These relationships are examined in the report and the attempt is made to determine their significance for Britain and South Africa. In particular we are concerned to understand the ways in which they serve to maintain white domination and apartheid or in which they may contribute to the achievement of justice for the black community.

Although the role of the banks as employers of labour is not overlooked, the report concentrates on their functional role as financial institutions.

## *2. The Nature of the Banking Relationship*

The report shows that most of the UK clearing banks and leading merchant banks have some degree of involvement in South Africa. Within the Republic British banks occupy a dominant position in all aspects of banking, while in assets and earnings the South Africa subsidiaries account for a significant proportion of the total world operation of their parents.

The scale of loans and credits made available to South African borrowers has not been a large element in total foreign lending by British banks, but it has formed a substantial part of South Africa's borrowings in recent years.

## *3. The Role of British Banks within South Africa*

The relations of British banks with both the black community and the South African state are examined. In the case of the former it is concluded that banks dealing with black account holders act as a vehicle for the re-direction of black savings into the white economy, exacerbating present inequalities. Present efforts to redress this situation cannot alter its deep-seated structural causes.

In the case of the state we see that the banks are obliged to operate more and more as instruments of government policy in channelling funds towards the public sector and to those projects helping white supremacy to survive.

## *4. The Provision of External Credits*

The scale and purpose of loans by British banks are assessed, and published

information on lending to South Africa from 1972-76 is brought together in order to identify important donors and forms of lending.

In that period British banks were involved with credits of more than \$2.7 billion, or nearly 50% of South Africa's market borrowings. The loans went almost entirely to the government and its agencies to help pay for the importation of arms, fuel and capital equipment crucial to the protection of South Africa's position. Thus, economic sacrifices, which would otherwise have been required of the white community in defence of apartheid, did not have to be made since the burden was borne largely by the international banking community.

The level of British bank lending has now fallen and has changed in character. But the channels still exist, are becoming more sophisticated and facilitate less open borrowing by South Africa.

### *5. Promotion of Trade, Investment & Emigration*

The strong, vested interests of British banks in cementing economic ties between Britain and South Africa through trade, investment and emigration are considered in the report, and it is argued that they have acted as a vehicle for South African propaganda. With the pressures on Britain to reduce its involvement with South Africa the report notes that strains between parent and subsidiary will increase as each is obliged to respond to the contradictory imperatives of its own situation.

### *6. The Banks and their Critics*

Attention is given to the campaigns against banking ties with South Africa and to the influence of third world countries. The arguments advanced by critics of the banks and the response of the latter are described. The impression that emerges is that, while banks have tended to bend before the prevailing wind, changes have been symbolic rather than real. In deciding to halt lending to the South African government it is far from clear whether the banks have been influenced by other than normal commercial considerations; the significant aspect of the decision has been that they felt obliged to announce it publicly.

If conclusions are to be reached as to the merits of the arguments and counter arguments on continued bank involvement with South Africa we need to be clear about the ends to be pursued, the most desirable means of achieving them and on the time scale.

It is impossible to ascertain clearly the views of the black majority in South Africa on this question, so we cannot escape from the burden of determining what our Christian values demand of us; this the report seeks to do.

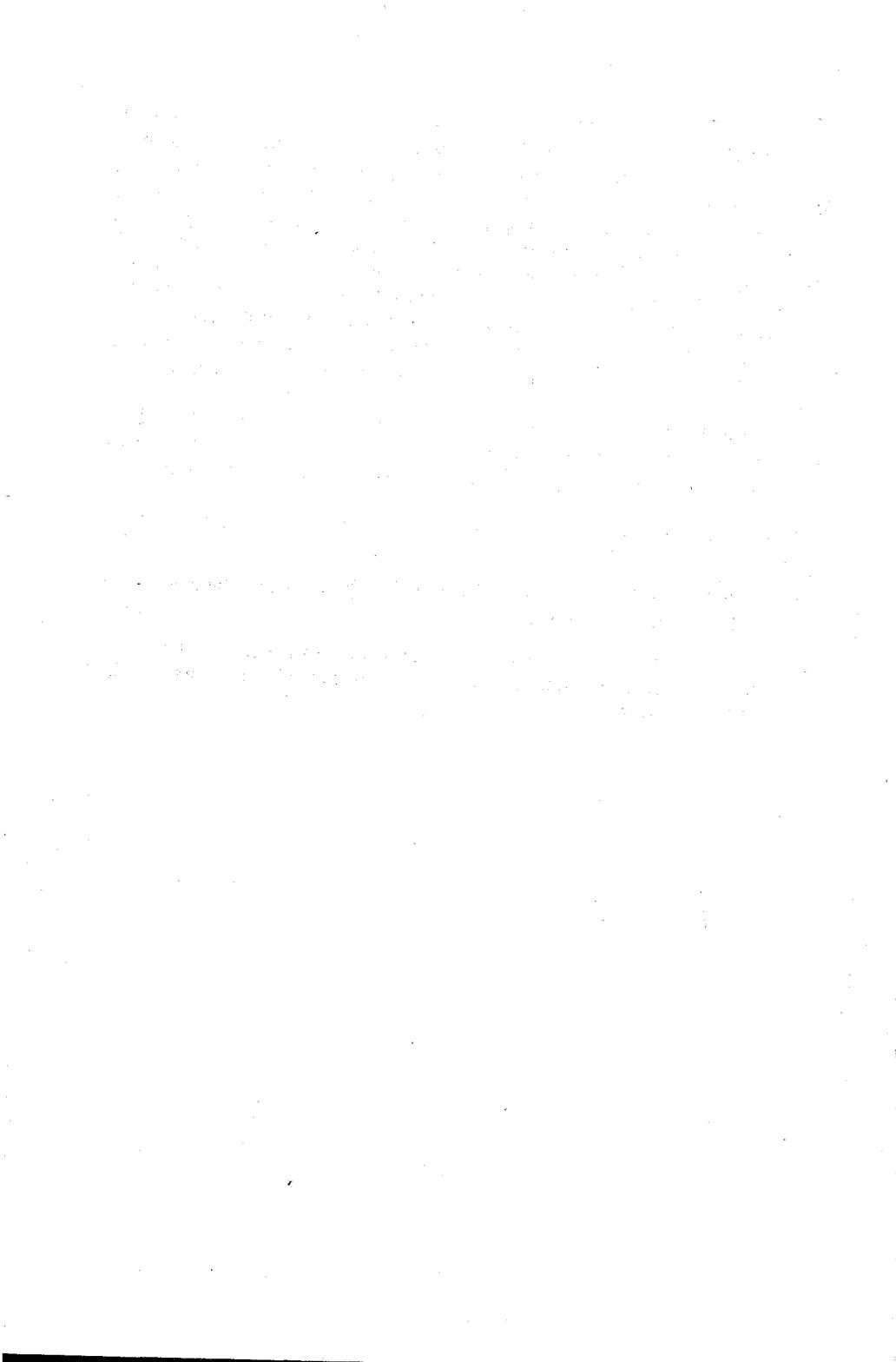
### *7. Conclusions, Policy Options and Recommendations*

We conclude by proposing a frame of reference for British banking in

South Africa on this question, so we cannot escape from the burden of political rights for all by peaceful means over the ensuing decade. The application of this framework to the report's findings leads to the conclusion that British banking relations have done more to sustain the status quo in South Africa than to disturb it. This suggests either that banking efforts to promote change have to be intensified or that British banking relations with South Africa should cease. It is acknowledged that the first option offers the possibility of material advances for certain sections of the black community, but it is argued that it would do little to further rapid political change. While the second option could entail burdens for the black community, it does offer the possibility of generating greater pressure for peaceful change in the short term.

The report therefore ends by setting out recommendations to the British Government, to British banks and to the Churches on the action which would have to be taken in order to give effect to the conclusions. These include:

- \* the termination of guarantees and credits for British exports to South Africa
- \* the halting of loans to South Africa by British banks and the divestment of their South African interest
- \* the promotion of wide debate by and in the British churches so as to stimulate national awareness of the issues and wide support for the proposed actions.



# British Banks and the South African Economy: An Overview

## 1.1 *The Nature of Involvement*

The involvement of British banking institutions in the economic life of South Africa is many-faceted and complex, ranging from commercial banking, the provision of export credits and medium term loans, to operations in the Eurobond markets, bullion dealing and insurance. Two groups of banks can be distinguished on the basis of their relationship to South Africa. In the first group are those which have a direct stake through their control over subsidiaries which provide banking and related services within South Africa. In the second are those which do not operate within South Africa but are indirectly involved either on their own account or as members of international consortia. Although all the banks in the first category are also quite active in providing credits from outside South Africa, the two elements of their involvement are considered separately.

## 1.2 *Banks with a direct involvement*

The three British Banks with the largest direct involvement are listed in Table 1. Part (a) gives an idea of the scale of their operations in South Africa

TABLE 1 (a)

### Comparative Data on Major British Banks in South Africa

	<i>Barclays</i>	<i>Standard Chartered</i>	<i>Hill Samuel</i>
South African Subsidiary	Barclays National	Standard Bank Investment Corporation	Hill Samuel
Financial Year end	30/7/77	31/3/78	31/3/78
% of shares held by British parent	63.8%	59.5%	76.8%
Offices in South Africa	1,000	840 <sup>1</sup>	6
Staff in South Africa	17,197	16,000 <sup>2</sup>	430 <sup>2</sup>
Total Assets Employed	R5,169m	R4,154m	R142m
Shareholders' Funds	R227m	R201m	R15.1m
Pre Tax Profits	R50.2m	R54.5m	R2.2m

1. Includes 32 branches in Namibia.

2. See Appendix II.

and Part (b) of its importance to the controlling British parent.

*Barclays National* and *Standard Bank* are primarily commercial banks, with smaller merchant banking subsidiaries. *Hill Samuel* operates exclusively as a merchant bank.

TABLE 1 (b)

Significance of South African Subsidiaries for the UK Parent

	<i>Barclays (BBI) Standard Chartered Hill Samuel</i>			
Subsidiaries' share of total:				
Pre Tax Profits	12%	(29%)	26%	—
Attributable Profits	11%	(28%)	25%	10%
Shareholders Funds	9%	(25%)	22%	9%
Total Assets	11%	(20%)	25%	7%
Offices	—	(59%)	56%	—
Staff	18%	(45%)	—	—

As can be seen from Table 1 (b) the South African operations of all three banks account for a considerable proportion of their overall resources (shareholders' funds, branches and staff) and a significant element in their total pretax profits. If the South African figures were expressed as a percentage of the corresponding banks' international operations rather than of group totals — which in the case of *Barclays* and *Hill Samuel* include their large UK activities — then the significance of South Africa would be even more pronounced. In the case of *Barclays* it would indicate that 28% of the profits and 25% of net assets of its international arm (*Barclays Bank International (BBI)* — formerly *Barclays DCO*) relate to South Africa.

1.2.1. *The Position of British Banks in South Africa*

Within South Africa, British banks, particularly *Barclays National* and *Standard*, occupy a dominant and highly prestigious position. As can be seen from Table 2 these two rank first and second in size as measured by total assets and, despite the rapid growth of Afrikaner owned rivals such as *Volkskas* and *Bankorp*, they still account for some 62% of all commercial bank deposits.

Their prestige derives from the fact that they hold the accounts of some of the largest companies in the private sector, such as the mining and industrial giant *Anglo-American Corporation (Barclays)* and major British affiliates like *Goldfields of South Africa (Standard)* and *African Explosives and Chemical Industries (Barclays)*.

*Barclays* and *Standard* were initially commercial banks whose main business was to facilitate payments and supply short-term credits. In recent years, however, they have diversified their activities and have formed a number of subsidiaries (See Appendix 1 Tables B and C) to provide a complete range of financial services, including merchant banking, hire purchase, leasing, factoring,

TABLE 2.

## Percentage Shares of Total Commercial Bank Deposits 1977

Barclays National	35.6
Standard	26.6
Volkskas	18.0
Trust (Bankorp)	10.4
Nedbank (Nedsual)	9.4
	100.0

Source: Reserve Bank Quarterly 1977.

credit cards, management services, insurance broking and unit trusts. Nevertheless, commercial banking still represents the bedrock of their operations and provides approximately 70% of their income.

As a result of this diversification the two banks have gained a position of dominance in a variety of fields. These are examined in more detail in Chapter 2. Illustrative of this position is merchant banking where, as can be seen from Table 3, three of South Africa's five largest merchant banks are owned by British parent companies: Hill Samuel (SA) set up in 1960, Standard Merchant Bank, established in 1972 and Barclays National Merchant Bank formed in 1973.

TABLE 3.

## South Africa's five largest merchant banks

Name	Shareholders' Funds (Rm)	Total Deposits (Rm)
Central Merchant Bank (Senbank)	29	149
Union Acceptances Ltd (UAL)	25	126
Standard Merchant Bank Ltd	19	148
Barclays National Merchant Bank	13	136
Hill Samuel	12	76

Source: Financial Mail Supplement: Merchant Banking 31.3.78.  
All figures are from latest annual accounts.

### 1.2.2. Ownership and Control

All three British banks in South Africa operate through local subsidiaries. In 1962 the Standard Bank, which was registered and controlled from London, set up a subsidiary in Johannesburg. In 1970 the parent company in Britain merged with the Chartered Bank to form Standard Chartered Bank. In 1971 Barclays DCO set up a locally-registered subsidiary in South Africa, Barclays

National. That year Barclays Bank increased its 64% stake in Barclays DCO to make it a wholly owned subsidiary under the new name of Barclays Bank International Ltd.

Day to day control of the South African operations of Barclays and Standard has now been transferred to Johannesburg. The banks' chairmen and the majority of their directors are South African citizens. The managing director of Standard (SA) explained the position:

"We have a strong board of prominent South African business people. They would never agree to anything which is not in the interests of South Africa. This is completely accepted in London."

FM 11.2.72

So although formal control of the banks rests with their London head offices, it is only exercised in rare circumstances and the banks are now effectively run by South Africans. Furthermore, as it is South African government policy for foreign banks to become at least 50% locally owned by 1983, it is likely that the British parent banks will continue the current practice of diluting their overall share in their subsidiaries' equity by a process of acquisitions and rights issues.

### 1.3 Banks with an Indirect Involvement

Major British banks which do not operate directly in South Africa yet have an important involvement in other ways are *Midland*, *National Westminster* and the *Royal Bank of Scotland*.

*Midland*, besides having a 16% interest in Standard and Chartered – which gives it representation on the board and allows it to consider the latter as an associate company – is a member of the *European Banks International Company (EBIC)*, a major European consortium bank whose subsidiaries have in the past made substantial loans to the South African government. *Midland* also has a dominant shareholding (45%) in another international bank, *Midland and International Banks Ltd (MAIBL)* which specialises in international financing. In the merchant banking field *Midland* owns *Samuel Montagu* which, in addition to arranging export credits and placing Eurobond issues, is one of the exclusive group of London bullion dealers who make up the international market for gold including that which derives from South Africa. Finally, *Midland* has a significant involvement in the South African insurance broking and re-insurance market via its subsidiary *Bland Payne*.

*National Westminster* has a somewhat lesser involvement which stems from its 25% stake in the *Orion Bank* which has participated in loans to South African government agencies.

*The Royal Bank of Scotland* (part of the *National and Commercial Banking Group*) has been cited as a participant in a syndicated Eurocredit arranged by Hill Samuel for a South African state corporation. In addition, one of its

subsidiaries, *Williams and Glyn's*, has been referred to on several occasions as a participant in publicly offered South African Eurobond issues.

The last of the big four British clearing banks, *Lloyds*, has a major overseas arm (*Lloyds Bank International* – formerly the Bank of London and South America, BOLSA) but it does not operate to any significant degree in South Africa. Lloyds does however have a substantial minority shareholding in *Grindlays Bank* which has a subsidiary in Rhodesia with some thirteen branches.

Some of the relationships within and between the major British based banking groups are given in Appendix 1 Table A.

Among the ranks of British merchant banks, several have had relationships in the past with corresponding bodies in South Africa, and these are briefly noted in Chapter 2, but, with the exception of Hill Samuel, none of them appears to have a direct presence in South Africa. However, many of them have been involved in the provision of finance to South Africa whether as investors or agents. Of the seventeen City accepting houses no less than nine have been cited in connection with South African credits, among them such famous names as Barings, Hambros and Warburgs. The activities of these banks are reviewed in greater detail in Chapter 3 of the report.

Finally there are two other classes of financial institution that have played a key role in providing finance to South Africa; these are the British registered subsidiaries of foreign banks and the stock and bond broking houses, whether British or foreign controlled. Although strictly they are outside the scope of this report their activities as underwriters, investors and placers of bonds are so significant that they cannot be ignored.

#### 1.4 *The Size and Significance of British Bank Lending to South Africa*

According to the *Bank for International Settlements*, the total of South Africa's indebtedness to foreign banks in the Group of Ten countries (excluding Switzerland and Japan) stood at just over \$9bn at the end of 1976. Of this some \$0.4bn was owed to the IMF leaving a debt to private lending institutions of some \$8.6bn. This sum consisted of \$7.6bn in respect of loans and \$1.0bn for bonds. Although private international bank loans to South Africa constituted only 1.3% of their year end world wide total. South Africa was one of the largest debtor countries, ranking fourth after Brazil, Mexico and the USSR. By the end of 1977, as a result of repayments, the total owing to the international banks was somewhat lower at \$7.16bn. Of this by far the greater part was owed by the South African Government and its public corporations.

However the regular BIS figures tell only part of the story since some banks are not included and more importantly it excludes short term debt. A more complete figure is provided by a new annual BIS survey. This indicates that at the end of 1977 the international banks had claims against South African borrowers totalling \$8.6bn. The fact that this figure is some \$1.4bn

greater than the one cited previously is in accord with other estimates that at least R1bn (\$1.15bn) of South African exports and imports are financed by foreign short term trade credits.

Statistics published by the *Bank of England* indicate that British banks and other institutions had gross claims on South Africa in sterling and foreign currencies totalling \$3.16bn at end 1977. This made South Africa the third largest debtor country for British banks after Brazil and Mexico. Depending on whether the British figures include holdings of South African bonds, the British banks share of South Africa's private overseas borrowing would appear to range between 35% and 40%. The remainder of South Africa's indebtedness to international banks was with United States banks (estimated by Congressional sources to be approximately \$2.2bn at end 1976) and those of the larger states of the EEC and Switzerland.

Although it seems unlikely that any one British bank has a significant exposure to South Africa – at least not in percentage terms – it is clear that for South Africa, British sources of international finance have formed a very significant component of its overall borrowing. In addition, as Chapter 3 indicates, the nature and timing of this borrowing have given it an importance over and above that derived from its size alone.

### 1.5 *The Economic Context of British Bank Involvement*

In order to appreciate fully the role and significance of British banking relationships with South Africa it is necessary to sketch out briefly the wider economic framework within which they occur.

As a large and resource rich country controlled by a small sophisticated elite, South Africa has throughout its history experienced two major economic problems. First, the demand for capital to exploit the country's resources and provide the basic economic and social infrastructure has continually outstripped the supply of domestic savings. Second, the high import content of new investment and the propensity of the well off white community to buy expensive international commodities have combined to create a high level of demand for foreign exchange and persistent pressure on the balance of payments.

It is a measure of the exploitative efficiency of the apartheid system that it has enabled the white community to achieve, over long periods, a rate of capital formation almost unique outside centrally planned economies and to do so largely on the basis of domestic savings, with little or no check in the rise in white living standards. Nevertheless outside capital has consistently been required. In part this is because domestic savings, while high, could never reach the level required to finance the country's ambitious plans, but more importantly because outside capital has brought with it new and improved technology. According to Suckling's<sup>1</sup> analysis of the factors under-

1. *The Nature and Role of Foreign Investment in South Africa* – John Suckling in *The Economic Factor* – Africa Publications Trust. London 1975.

lying South Africa's rapid post-war growth the transfer of technology in the form of new capital equipment and processes has accounted for more than 60% of the increase in the GNP. While foreign capital has in percentage terms been a comparatively small part of total capital formation, it has played a role analogous to that of vitamins within the human body; small in quantity but crucial in nature.

Historically the shortfall of investment capital and the need for foreign exchange have been satisfied simultaneously by the flow of direct foreign investment into South African industry. What demand for imports could not be met from the export of goods and services and the sale of gold was financed by the capital brought in by foreign firms. With the capital came new technology, new products and often missing skills. Once brought in, the investment was essentially permanent and self-reinforcing.

During the late 1960s and the early 70s new pressures began to build up to reinforce South Africa's traditional openness to the world economy and dependence on foreign capital. First, the failure of detente with emerging black Africa, and hence exclusion from its natural markets for manufactured goods, meant that the country's exports were required to compete internationally in the more sophisticated markets of Europe and North America. To do so effectively required a level of capital investment and technology comparable to that of other industrialised nations which again had to be imported.

Second, the growing tide of African nationalism increased South Africa's sense of insecurity and led to a massive build-up in defence spending and a firm commitment by the state to achieve national self-sufficiency in a number of strategically vulnerable areas such as energy and arms. A policy of greater self-sufficiency also made good economic sense since it reduced the strain on the balance of payments and hence dependence on outside capital.

With the rise in the gold price in the 1970s conditions appeared favourable for the financing of a massive programme of "strategic investments".<sup>1</sup> This programme, launched principally by the state through its public corporations, combined straightforward economic projects with others whose commercial viability was dubious but whose strategic logic was strong. Both because of its size and nature there were limits to the amount of conventional direct investment that could be obtained to finance this programme, and therefore other sources of international finance had to be found. Given the country's impressive record of economic growth and political stability during the 1960s and its virtual monopoly over the increasingly valuable gold supply, South Africa's credit rating was high and it was able to go to the international capital market for very large sums.

1. The use of the term "strategic investments" is taken from US Corporate interests in Africa, a report to the Committee on Foreign Relations of the United States by the Sub-Committee on African Affairs - US Government Printing Office 1978. As used by the source cited it embraces non-economic infrastructural investments designed to foster self-sufficiency as well as the stockpiling of strategic materials and arms.

During the period 1974 to 1976 South Africa's total indebtedness to the international banks increased from \$3.3bn to \$8.6bn and British banking claims increased by £1.32bn or nearly half of the South African increase.<sup>1</sup> Whereas lending to the rest of the world only increased by 65% British lending to South Africa increased by six times, rising from 0.7% of all UK lending to 2.6%.

As Chapter 3 indicates, the greater part of the borrowing was by the South African government and its agencies and a considerable proportion was of a medium to long term nature with maturities of up to fifteen years. Such was the scale and pace of the state's programme that the raising of foreign capital had to be accompanied by large scale monetary expansion within South Africa. As a result the rate of inflation within the country increased rapidly and the booming economy sucked in large quantities of imports. As the recession in international trade began to affect South Africa's exports and the gold price began to decline, the balance of payments deteriorated sharply creating deficits of unparalleled proportions.<sup>2</sup>

To cope with this crisis the South African government adopted a number of measures. Besides implementing restrictive monetary and fiscal policies it imposed controls on imports by means of an import deposit scheme. By the issue of government bonds and the direction of a greater proportion of the assets of financial institutions into government stock, the state attempted to divert a larger share of domestic resources towards the public sector and the maintenance of its ambitious investment programme. The effect of these policies has been to bring the current account of the balance of payments back into equilibrium but at the cost of severely depressing the economy and creating a high level of unemployment.

On the international front, the events of Soweto and its aftermath made it virtually impossible to make large public Eurobond issues and other credits began to dry up or become more expensive. In order therefore to bolster the reserves and meet the balance of payments deficits the government drew upon its credit facilities at the IMF and conducted "gold swaps" (essentially short-term loans backed by gold) with groups of Swiss banks.

In addition to their importance as sources of investment capital, foreign lenders play a crucial role in financing South Africa's foreign trade.<sup>3</sup> A substantial part of all exports and imports is financed by short-term international bank credit and the South African authorities are at pains to ensure that it is cheaper to borrow abroad rather than domestically. On those occasions when domestic interest rates have fallen below those overseas the massive switching

1. *South Africa, an appraisal - The Sovereign Risk Criteria*: Nedbank South Africa 1977, authors calculation based on tables 100 and 101.
2. Although the final year end deficit for 1976 was less than that of the previous year (i.e. R1,515m compared to R1,832m) prior to corrective action it had been running at an annual rate of R2,529m.
3. Early in 1978 it was estimated that the current value of short-term foreign trade finance to South African importers and exporters was R2bn (*FM* 3/2/78).

that resulted has had very severe effects on the capital account of the balance of payments.

It should be clear from the foregoing that the ability of the South African government to manage the economy and pursue its economic and political objectives is strongly conditioned by the balance of payments and in particular the capital account. External finance for trade and investment has been of crucial importance in the past in providing additional resources and room for manoeuvre and, despite efforts to promote greater self-sufficiency, seems likely to fulfil a key role in the future.

### *1.6 Areas of Concern for the British Churches*

Seen in the context of the wider political economy of South African development there are three facets of the relationship between British banks and South Africa which are relevant to the issue of justice for the black community and hence should be of concern to the British Churches.

These three areas, which are examined in Chapters 2, 3 and 4 respectively, are: the role of British owned banks as collectors and channellers of savings within the apartheid economy; their role in providing or arranging international credits to the South African government and its agencies; and finally the support they give to greater UK-South Africa economic interdependence by their encouragement of trade, investment and emigration.

In Chapter 5 the focus is widened somewhat to consider briefly the involvement of British banks in the economic affairs of three related areas of international contention: Rhodesia, Namibia and the South African bantustans. Chapter 6 surveys the various international campaigns that have been mounted against foreign banking relations with South Africa and describes the ways in which particular banks have responded.

The report concludes by assessing the involvement of British banks in the economic affairs of South Africa in relation to the achievement of social justice for the black majority and puts forward a series of recommendations for action by the British government, the British Churches and the banks themselves.

# British Banking Activities within South Africa

## 2.1 *Historical Roots*

The origins of British banking activities in South Africa lie back in the early economic history of the country. The Standard Bank, founded in 1862, was among the first banks in Sub-Saharan Africa. The British administrations in the Cape and the Transvaal — and subsequently the Union government — chose Standard as the government banker. Barclays involvement dates back to the formation of Barclays DCO (Dominion, Colonial and Overseas) in 1925. One of the three constituent banks that was merged to create DCO was the National Bank of South Africa which had been established in 1890 in the Transvaal with backing from President Kruger.

In 1926 97% of all commercial bank balances were held by Standard (57%) and Barclays (40%), with the remainder in the hands of the infant Nedbank and the other local banks. This position of total dominance only began to be modified during the period 1950-70 when, despite rapid expansion in the British banks, the growth and proliferation of predominantly Afrikaner rivals led to a gradual reduction in the former's share of deposits. Besides Nedbank these rivals were *Volkskas* and *Trust Bank* (now part of Bankorp). By the early 1970s, with one branch for every 2,500 members of the white population, South Africa was increasingly considered to be "over-banked" and the banking sector ripe for rationalisation. With the arrival of the recession and the collapse of the local property market several banks were forced to merge or go into official "curatorship".

## 2.2 *Market Connections and Sources of Strength*

Today, as a result of this process of rationalisation, South African banking is divided into five groups, two British controlled and three Afrikaner. These banking groups have in their turn separate areas of influence, client groups, and associates among other financial institutions. Barclays and Standard tend to be concentrated in the private sector, and in particular to be linked to the major British orientated mining houses (Anglo-American and Goldfields of South Africa [GFS]) and the industrial giants such as AECI. Anglo and GFS have representatives on the board of Standard and in the case of Barclays, Anglo's long-standing representation has been cemented by the taking up of a substantial minority shareholding (18%).

Among the three Afrikaner groups *Volkskas* dominates largely as a result

of its strong connections with the Afrikaner agricultural community, the government and local authorities, of whom over 50% bank with it. Recently it has linked up with the Afrikaner *Rembrandt* tobacco and industrial group which now holds 20% of its shares. The Bankorp/Trust Bank group derives its strength from its association with the principal Afrikaner mining and industrial house *Federale Mynbou* and from its parent, the insurance giant SANLAM. Finally the *Nedbank* group counts on the support of South Africa's largest insurance company, *The Old Mutual*.

### 2.3 Merchant Banking and Other Services

British banks have played an active role in the development of merchant banking in South Africa. Merchant banks are wholesale banks dealing with large corporate clients, whereas commercial banks give more emphasis to serving individual customers. Merchant banks are therefore influential in the longer-term development of the South African economy.

*Union Acceptances* (UAL), South Africa's first merchant bank, was established in 1955 jointly by the Anglo-American Corporation and the British firm *Lazard Brothers*. A senior official from Union Acceptances acknowledged their debt to Lazard: "We relied heavily on that institution to provide us with the skills and training so essential in this specialised field". (*The Banker*, Sept 1969).

*The Central Merchant Bank* (Senbank) was formed in 1966 from a merger of the Central Accepting Bank and the Accepting Bank for Industry. The Accepting Bank for Industry had been set up in the 1950s by the government-owned Industrial Development Corporation of South Africa with assistance from the British merchant bank, *Kleinwort Benson*. Central Accepting Bank had been formed at the same time, in conjunction with another British bank, *Hambros*. Both these banks were established with assistance from British merchant banks, but they are now owned by South African interests.

Although the stranglehold of the British commercial and merchant banks has been loosened and it has been the newer banks that have pioneered the introduction of specialist financial services such as hire purchase, leasing and factoring, whenever the British banks have entered these fields they have rapidly secured a dominant position. Table 4 shows that the British banks' traditional dominance in the commercial banking field has been translated into a commanding position in other areas of finance.

### 2.4 The Nature of the Financial System in South Africa

The banking system in South Africa, as in any country with well developed financial institutions and capital markets, has as one of its principal functions the collection of savings and their channelling towards those ends — both consumption and investment — which provide the best return. The resulting pattern of financial flows can be seen as the product of several forces: the overall structure of the market economy, the operation of government fiscal

TABLE 4.

Ranking of British Controlled Banks in Major Financial Areas

Area	Barclays	Standard	Hill Samuel
Commercial Banking	1	2	—
Merchant Banking	4	3	5
Insurance Broking <sup>3</sup>	3	—	—
Credit Cards <sup>1</sup>	1	2	—
Leasing	1	3	—
Hire Purchase <sup>2</sup>	3	2	—

Data is from Financial Mail Surveys including Top Companies 1977 and 1978.

Notes:

1. Standard Bank besides having its own commercial credit card is a backer of the Diners Club card.
2. Barclays is a recent arrival in the consumer finances field as a result of taking over *Wesbank* from Anglo. Standard owns *City Credit* as of April 1975.
3. Insurance broking in South Africa is further dominated by non-banking British companies such as *C.T. Bowring*, *Sedgwick Forbes* and *Bland Payne*, a subsidiary of the Midland Bank.

and monetary policy, the framework of banking laws and regulations and local conventions of financial prudence. Such factors determine whether urban areas are favoured over rural, industry over agriculture, and public sector over private. In this respect South Africa's financial system and the banks within it are no different from those of other industrial countries.

Where the South African system differs from those elsewhere is not in its procedures or mechanics but in its fundamental nature. It is essentially a mirror image of the wider apartheid economy in which the black majority are denied the full fruits of their labour and are largely excluded from the process of capital accumulation and the economic decision making that goes with it. The financial system cannot do other than respond to the needs and priorities of that economy and in so doing reinforce its basic character. If white consumers are prepared to pay the price of buying cars on hire purchase and white industrialists can afford to purchase machinery or restock on the basis of loans and overdrafts then credit will be provided. If the state is offering attractive rates of return on its stocks and bonds then it too will attract funds.

### 2.5 *The Restrictions on Black Savings, Investment and Capital Accumulation*

Some of the factors that determine the priorities of the financial system as between blacks and whites are worth examining in more detail.

Firstly, and most obviously, the gross inequalities between the black and white community and the very low income levels in the former means that the capacity for domestic saving in the black community is low. Basic essentials must take priority over building up savings and even where a substantial

percentage of income is saved it will generally remain small in total.

Secondly, if savings are accumulated and are not to be held in the risky form of hoards of notes and coins then they have to be deposited in white owned financial institutions whether they be post office accounts, banks or building societies. Blacks are not themselves allowed to establish financial institutions in the urban areas where most of the savings are generated.

Thirdly, the multitude of restrictions on blacks setting up in business and in the areas of greatest potential and, until recently, the prohibition on them using legal forms, such as limited companies and partnerships, have the effect of both artificially limiting the investment opportunities open to them and severely curtailing the possibility of black businesses accumulating capital. By controlling the number of black businesses, their size and hence their ability to reap economies of scale in purchasing and distribution, the government effectively undermines the competitive position of black traders relative to that of the giant white multiple stores. The net effect is that the bulk of black purchasing power – which is concentrated in the urban centres – is appropriated by white shops and goes towards reinforcing the dominant position of white commerce.<sup>1</sup>

Finally in those cases where outside finance is required by blacks, either to take advantage of an investment opportunity or because of an immediate financial crisis, they are at a serious disadvantage as borrowers from white institutions. Ignorance of their background and uncertainty over the permanence of their jobs and incomes make them high risks. This is further exacerbated by their inability to offer the conventional types of collateral such as freehold ownership of property.<sup>2</sup>

The overall effect of these factors is to undermine the possibility of black capital accumulation on any significant scale. On the one hand the demand for investment funds by blacks is restricted while on the other the capacity for saving in both the black domestic and commercial sectors is depressed and access to outside funds is limited. Just as the commercial system operates to recycle black spending back into the white controlled economy and its process of capital accumulation so the financial system recycles black savings back to white investors and consumers.

## 2.6 *Attempts to meet the Banking needs of the Black Community*

Since the early 1970s, the banks, especially Barclays and Standard, have paid greater attention to the banking needs of the black community. Just as white retailers woke up to the greatly increased urban black market created

1. Estimates suggest that between 75%-90% of all black urban purchasing power is channelled through white shops. Conversely 50% of all retail sales made by white shops in Johannesburg and Pretoria are made to blacks. In Natal the figure is 60% (*FM* 1.2.77, p.587).
2. Recent legislative amendments have re-introduced the concept of long leaseholds but under very restrictive terms and it is not yet clear whether the position with regard to mortgage type finance will be in any way altered.

by the wage rises of 1973-5 so too did the banks who saw a new and growing reservoir of savings that could be tapped. As a result both Barclays and Standard began more actively to solicit black deposits and where possible open branches in black areas. Barclays was preparing to open a new full branch in Soweto at the time of the uprising and Standard has also opened one subsequently.

In a statement to the press in January 1971 Barclays National (or DCO as it then was) announced that it had 700,000 "non-white customers". In its evidence to the House of Commons enquiry of 1973 this figure was put in perspective when it was revealed that while blacks held 41% of all accounts the value of their deposits was R88m (£55m). Since that time it is believed that "non-white accounts" have grown to almost one million with an overall value in excess of R200m, about 6% of total deposits.

### 2.6.1

Of the two commercial banks Barclays at least has publicly drawn attention to the restrictions under which black borrowers labour and has attempted to do something to alleviate the problem. In his 1974 annual statement the Chairman of Barclays in the UK referred to the fact that because blacks were barred from owning freehold property outside the Bantustans they were unable to offer good security for loans. More recently the general manager of Barclays National, now General Manager in London, expressed the opinion that:

"a bank has an obligation to lend in the community where it raises its deposits, as far as possible within the concept of good banking."

Frank Dolling – FM Survey of Barclays Nat. 30.1.76

However, he then went on to single out the unsophisticated nature of black businessmen as a constraint on Barclays lending to the black community. It was therefore to deal with this problem that Barclays appointed a number of black Business Development officers to build links with the black community and provide training for black entrepreneurs. Standard has also made efforts in this field by establishing an adult education programme consisting of fortnightly lectures to assist the people of Soweto to learn about banking.

### 2.6.2

Both Barclays and Standard are also involved in the *African Bank of South Africa* which is an attempt by a coalition of black businessmen and white sympathisers to create a separate bank specifically orientated towards the black community. Barclays, Standard and other banks have subscribed part of the capital of the African Bank and have seconded executives to work with it. According to Barclays the bank is "an essential step towards the

achievement in the economic sphere by Africans of true independence”.

While this may be the hope and inspiration of the African bank, its own experience so far has not been encouraging. Firstly, the authorities have only allowed it to be established under the banking laws as a “general bank”. As such it cannot operate current accounts like commercial banks such as Barclays and Standard. Secondly, its branch network can only be extended in the urban areas, where most black savings are located, on the basis of first opening a corresponding rural branch. This “one for one” requirement creates a disproportionate burden of capital costs and overheads relative to the value of the deposits and accounts that can be attracted. Since it began three years ago the African Bank has opened three branches and has attracted deposits of R3.7m (October 1977) compared to a “break-even” target of R9.0m. As a result losses have risen from R65,000 in 1976 to R165,000 in 1977. (FT 2.2.78).

Earlier experiments in ethnic banking in the Indian and Coloured communities have similarly failed to make significant progress. Besides failing to create an ethnic following – and as a consequence having to compete for deposits with larger white banks, they have been unable to find sufficient high income yielding investments in their own communities. As a result they are turning towards mergers with large white banks – Standard has just taken a 50% share of the New Republic Bank (Indian) – and are trying to go “non-racial”.

### 2.6.3

Within the last few years the British banks have also played an important part in attempts by white business interests to improve the quality of life of urban blacks. The most notable project in this area has been the plan to bring electricity to the residents of Soweto. At present only 18% are estimated to be connected to an electricity supply. Initial studies were commissioned by a group of large construction companies and finance was to be provided by a consortium of banks led by Barclays National and including Standard. The scheme envisaged a bank loan of approximately R69m to the West Rand Bantu Affairs Administration Board (WRAB), drawable over three to four years and repayable over a further five years at the prime rate (then approximately 13%). The plans were ready for government approval by mid 1976 but after a series of reviews and lengthy consideration were rejected in November 1977.

The consortium then suggested an alternative financing plan which WRAB then took up with its bankers, Volkskas. This has now received government approval. Under this scheme WRAB is likely to make a twenty-five year bond issue for which the commercial banks will be expected to subscribe. Part of the issue will be retained by them (perhaps R40m) and the remainder will be passed on to other financial institutions. The interest payable on the bonds will be less than on the proposed loan (i.e. 11%-12%) but the bonds will have

the useful status of prescribed investments. (See Section 2.7). Although the use of longer term money to finance the project will reduce the burden of repayment charges on black consumers, the delays since the presentation of the original plan have increased the overall cost of the project by more than 50%.

The electrification project is of particular interest for the insights it provides on future South African development options. Essentially it illustrates how a reorientation of the focus of development towards the needs of the majority of the population can be of benefit to both blacks and whites. Black residents benefit both from savings on their high fuel and light bills and from an enhanced quality of life resulting from the new facilities opened up to them. Black workers could benefit temporarily from the additional jobs created (estimated at some 2,000) and the fact that the shortage of white electricians and artisans will require the training and advancement of black personnel to fill the gap. In the short-term the white construction industry, which is extremely depressed, would benefit substantially as would the suppliers of electric cables and fittings. In the longer term the domestic appliance industry could receive a substantial fillip. It has been estimated that the provision of electricity would open up a market for sales of some 58,000 stoves, 54,000 refrigerators, 67,000 irons, 38,000 heaters and 13,000 washing machines over a period of five years.

#### 2.6.4

The foregoing factors indicate that in their relations with the black community British banks are faced with a major dilemma. On the one hand, commercial pressures dictate that they actively seek out deposits wherever they can be found, and indeed their British links or more liberal image may make them the preferred channel for black funds. On the other hand, they must be aware that the more they tap these funds, in a society that denies blacks equality of access to investment opportunities and credit, the more they are utilising black financial power to reinforce the white economy, the standard of living of the white community and ultimately the political structures that it supports.

Efforts such as those of Barclays, and to a lesser extent Standard, in the field of black entrepreneurial education, while praiseworthy, cannot be considered as more than palliatives. They may earn the company the goodwill of the black business community and possibly additional business but they cannot affect the deeply rooted structural factors that maintain the present discriminatory financial system. Similarly while support for ethnic banks may provide a useful vehicle for on the job black training in bank management it too can never be of more than limited relevance to the black community. To survive on the South African banking scene such banks need to be competitive and to be competitive they must mould themselves closely to the dictates of the market in which they operate. In so doing they merely replicate what already exists rather than provide a useful alternative.

Finally, several questions need to be raised concerning the significance of British bank involvement in financing black capital projects. Although press reports claim that plans to bring electricity to the largest city in Africa still lit by candles and oil lamps have been debated for years but always shelved for lack of money, this is hardly a credible explanation in a country as rich as South Africa. Since government antipathy and overriding white priorities have historically been the dominant considerations, it is of interest that the belated recognition of black needs has come at a time of comparative economic stringency. Is it the case, as one paper has hypothesized, that:

"If banking and construction interests, vociferously backed by the Press had not pressured the Board (WRAB) for so long on the electrification issue would Soweto be on the point of gaining an electricity supply?"

*Johannesburg Star*, 29.4.78

Possibly not, but for the purposes of this study it must also be questioned whether the pressures exerted by the pro-electrification lobby depended on the involvement of the British owned banks. Would not the scheme have been initiated and piloted through even if the British banks had not been involved or if they had not been part of larger international groups?

## 2.7 *Banking Controls and their uses*

Besides the priorities and criteria stemming from the financial market place, banks in South Africa are subject to a variety of statutory and administrative controls. The principal statutory provisions are contained in the Currency and Banking Act of 1920 as amended. An amendment to this Act in 1965 placed all banks under the control of the *Reserve Bank of South Africa* which is the government's banker and has a monopoly of note issue.

As was the Bank of England prior to 1948, the Reserve Bank is a private company with its own shareholders consisting mainly of the commercial banks and other financial institutions. Barclays National is reported to have the largest single shareholding and Standard has a 5% stake. The shareholders can elect members to their board but the government appoints the Governor and the majority of the directors. The Reserve Bank fulfils the function of a central bank, controlling credit (by market operations or directives), monitoring bank assets and ratios and supervising all overseas borrowing in the interests of protecting the reserves.

Two aspects of the Reserve Bank's activities are of particular interest. Firstly it issues guidelines to the banking sector to ensure that preference is given to particular types of borrowers. Three sectors are particularly favoured; commercial agriculture, exporters and industry. Besides the obvious fact that these three classes of activity are almost entirely white preserves it is worth noting other aspects of significance. Agriculture besides being an important source of exports and foreign exchange is dominated by Afrikaner farmers, who, given the disproportionate voting power of rural constituencies, are one

of the bulwarks of the Nationalist party. As has been noted earlier, exporting is of crucial significance if foreign exchange is not to be a brake on domestic investment and growth.

The second area of interest is the use which the government, through the Reserve Bank, has made of its powers over the composition of bank assets. As is the case in many countries the Reserve Bank operates a compulsory system of cash and liquid asset reserves under which certain percentages of the banking sector's assets must be kept in varying degrees of liquidity. These can be altered from time to time to influence the banks' capacity to create credit. Besides cash balances and private stocks the banks are obliged to hold government, municipal and public utility bonds. It was with the money that Barclays was obliged to hold in government securities that it made its much publicised investment of R10m in Defence Bonds. In their last balance sheets (1977) Barclays and Standard had R604m and R551m respectively invested in all classes of public sector stock.

In his 1977 budget the Minister of Finance announced that:

"I have taken steps to mobilise our domestic capital resources by requiring financial institutions to invest a larger proportion of their funds in the public sector."

Owen Horwood, quoted by *The Banker*, July 77, p.47.

This was achieved by increasing the percentage of bank assets that had to be invested in the public sector and in government stock from 10% to 15% and 5% to 8.5% respectively.

## 2.8 Perspectives for the Future

In a situation where the South African economy is being increasingly directed towards the political objectives of economic self-sufficiency and military invulnerability to external sanctions or internal dissent the country's financial institutions cannot help being caught up in the process. As has already been noted, as a result of the difficulty of raising international credits in late 1976 and 1977 the government has turned to domestic sources in order to meet its borrowing requirements. According to the Chairman of Hill Samuel (SA) "the savings of the private sector are being increasingly appropriated by the public sector". Whereas in the past new capital inflow from overseas has averaged 3% of GNP the sum the government expects to receive from increasing the levels of prescribed investments represents an estimated 2.6% of GNP.

A further implication for the banks of the growing dominance of the state is that it becomes less feasible to ignore the attractiveness of government agencies as potential clients and sources of business. This is a problem for the British banks, and particularly Barclays which does not appear to have gone

out of its way to solicit state business in the past.<sup>1</sup> According to a *Financial Mail* Survey of Barclays it may be soon forced to go after government business and,

“the bank’s peculiar ability to serve South Africa in world capital markets should be a strong bargaining counter.” p.63.

The increasingly delicate position of the British banks in relation to the government may well have been a factor in the purchase of the Defence Bonds. It has been claimed in the press that a strong commitment to South Africa by means of the publicised purchase of the bonds was deemed necessary to counteract the adverse political effects of Barclays inability to raise two small foreign loans for South Africa in late 1976 and the injudicious publicity given to the reasons for that failure (See Chapter 3).

In a situation of fervent nationalism and growing state intervention foreign owned institutions like the British banks cannot afford to be seen to be anything less than fully supportive of the government line. If the attractions of a greater share of state business are not enough it must be remembered that the original proposals of the Franzen Commission of Enquiry into banking in 1969, were for 90% of foreign bank shares to be vested in local hands by 1980. These proposals were only reduced to 50% by 1983 for fear that it would scare away potential foreign investors. If further foreign investment becomes a remote possibility the government may feel it has little to lose in changing its mind yet again or at least speeding-up the existing time-tables for divestiture.

## 2.9 Conclusions

Three important conclusions can be drawn from the preceding examination of the role of British banks in the domestic banking system of South Africa.

Firstly, given the restrictions placed on the investment opportunities open to blacks (both domestic and commercial) and their inferior status as borrowers it seems clear that the banking system cannot help but act as a mechanism by which black savings are channelled towards white consumers and investors. Irrespective of whether they are motivated by commercial pressures or a genuine desire to be of service to the black community, the more the banks attempt to tap the flow of savings the more they are likely to exacerbate the already extreme level of inequality in the economy. British banks play a dominant role in this process through their network of branches in the bantustans and black urban centres. Efforts to remedy this situation by black business development programmes or ethnic banking fail to affect its deep seated structural causes. The provision of finance for black capital

1. According to the *Financial Mail* survey of merchant banks in South Africa (31.3.78) Barclays and Standard played a minor role in raising finances in South Africa for public sector borrowers during 1977. The figures in Rm were Senbank 219, UAL 196, Volkskas 56, Finansbank 31 and Barclays and Standard 16 each.

projects is an important departure since it points the way towards new development strategies based on the needs of the majority. However, given the strong economic reasons why white industrial interests should promote such projects in the present circumstances it is not clear whether the banks are leaders or merely followers and whether their specifically British connections have any bearing on their degree of involvement in such schemes.

Secondly, as a result of the operation of banking controls, British banks have no choice but to operate as instruments of government policy in its efforts to redirect domestic (including black) savings towards the public sector and the continuance of projects that are of strategic importance for the survival of white supremacy.

Finally, it appears probable that in the future the British banks will be obliged by a combination of commercial incentives and political pressures to become more closely involved with the South African state, more publicly supportive of its policies and more resourceful in using their expertise and international contacts to procure for it the international credits and financial respectability that it so sorely needs.

# Foreign Loans to South Africa

## 3.1 *The significance of foreign credits*

In section 1.8 it has been noted that from the early 1970s South Africa began to borrow increasingly heavily from the international banks. During the five years from 1972-1976 it is estimated that South Africa borrowed some R5.7bn on the international capital markets. Some R900-1,000m of this borrowing was in the form of foreign bond issues but the greater part consisted of syndicated or bilateral credits. In the last three years of the above period alone international borrowings from private sources rose by R4.566bn, an increase of 155%. Of this sum almost 90% went to the central government, public corporations or local authorities and 85% was of a medium or long-term nature. (i.e. greater than one year in duration.<sup>1</sup>) The significance of this borrowing was three-fold:-

Firstly, it allowed the government to raise the overall rate of investment in the economy by supplementing, to a significant degree, the existing flows of domestic savings and direct foreign investment.<sup>2</sup> Secondly, the vast bulk of the credits went to the state to finance a range of important strategic investments and overseas purchases, such as arms, which ordinarily would not have been financed by the private sector in South Africa or by foreign direct investment. Finally, it filled a potentially dangerous gap in the country's foreign exchange needs caused by the precipitous decline in the gold price from its peak of nearly \$200 per ounce at the end of 1974 to a low of \$103 in 1976.

This massive transfer of resources continued throughout 1975 and the first half of 1976 despite growing concern over South Africa's involvements in Rhodesia, Angola and Namibia. The only outward sign that investors' perceptions of the riskiness of South Africa were beginning to change was a gradual shortening in the average maturity of the credits being advanced.<sup>3</sup> Only with the tragic events of Soweto did the flow gradually abate and it became publicly recognised that not even high rates of return were sufficient to

1. *South Africa: an appraisal*. The Sovereign Risk Criteria. Nedbank South Africa 1977.
2. During the early 1970s the rate of investment (Gross Fixed investment as a percentage of Gross Domestic Product) rose by several percentage points to over 30% and the gap between investments and domestic savings for the period 1969-76 widened to an average of over ten percentage points.
3. The average maturity of the marketable element of South African government foreign debt shortened from 80 months in 1973 to 56 months in 1976. *Ibid* table 102.

compensate for the political odium of being seen to be lending to South Africa and the risks involved.

This change was emphasised by the Managing Director of Barclays National. In November 1976 he returned empty handed from London after trying to raise "two small loans" for South Africa. The reasons, he said, was that:

"Most British and some American banks were all of the opinion that their exposure to South Africa at the present time was as far as they were prepared to go, bearing in mind the recent disturbances in our black townships and, more important, our balance of payments situation."

*Rand Daily Mail 22.11.76*

Since the end of 1976 there has been far less publicised lending or bond placements. Instead South Africa has been able to meet its needs by a combination of IMF credit drawings, gold swaps, rising exports and improving gold revenues. However, in 1978 there have been at least five bond issues which may indicate that foreign banks have now fully discounted the political risks, and with the balance of payments on current account under control are prepared to begin lending once again.

### 3.2 *The British Share*

From the beginning of the programme of strategic investments and throughout its course, British clearing banks, international banks, merchant banks and broking houses were deeply involved in the process of financing and arranging credits for South Africa. While those banks directly involved in the Republic were in a prime position to supply the country's needs, participation was not limited to those few. In all some twenty City banking institutions have been cited as having had an involvement.

The traditional confidential relationship between a bank and its clients means that it is usually difficult to obtain details of foreign loans. In the case of lending to South Africa there is an even greater reluctance to disclose information. Mr Frank Dolling, formerly Barclays General Manager in South Africa, has admitted that major American banks "are highly conscious of the criticism they would risk from their depositors and shareholders if they were seen to be exporting capital to South Africa". (*Financial Mail* - 20.2.76). Nevertheless, this study has assembled details of a number of loans over the last few years to present a first attempt to list the extent of British loans to South Africa. The accompanying tables should, however, be regarded as a preliminary compilation.

In Table 5 an attempt has been made to provide a figure for the total of publicised credits to South African government borrowers from British sources for the five years from 1972-1976 inclusive. In the first column is given the total value of all loans, bond issues and Export Credit Guarantee Department (ECGD) trade credits with which British banks have been associated in whatever capacity whether as managers, co-managers, syndicate leaders,

investors or underwriters. In the second column an estimate is made on the basis of specific disclosures combined with some rule of thumb assumptions, of the actual financial contribution of British banks within the larger total.

The table suggests that something of the order of \$640-\$740m of medium to long-term finance was actually lent to the South African state and its agencies in the period 1972-1976 and that British banks were publicly associated with the raising of a further \$2bn. This is almost certainly a conservative estimate since the figures presented only cover publicised credits. Others have almost certainly been made in confidence or by unidentified subsidiaries or associates. According to Morgan Guaranty, syndicated Eurocredits for the period 1974-1976 were only some 43% of total bank credits. The rest were unpublished direct borrower to lender arrangements. If this percentage were to apply to British bank lending then the total of medium to long-term loans for the period would be in the range \$1500-1700m.

Besides providing medium and long-term funds the banks provided short-term trade finance for South African exporters and importers. Figures for the end of 1977, giving the maturity structure of British banking claims on South Africa, suggest that nearly 40% of all claims were for credits of less than six months duration. Adjusting the estimate of British medium and long-term lending to incorporate short-term loans would give a figure for the overall increase in British bank lending to South Africa for the period of \$2666m. This can be compared with a figure of £1408m in additional UK banking claims accumulated against South Africa during the same period.

In terms of South Africa's overall foreign borrowing from the international banks it would appear that UK sources were directly responsible for approximately half of the total, (\$2666m compared to \$5300m). In addition, to the extent that they acted as managers, co-managers and underwriters, the contacts, expertise and good name of the British banks also contributed to the volume of funds raised elsewhere.

TABLE 5.

Publicised Credits to the South African Public Sector in which there was some form of British banking involvement 1972-6 US\$m

	<i>Total</i>	<i>Estimated UK lending</i>
Eurocurrency Loans	1850	200-300
Eurobond Issues		
(a) Public	489	55
(b) Private Placements	35	
ECGD Backed Credits	385	385
	2759	640-740

Source: See Tables 7, 8 and 9.

Table 6 takes the same data used in Table 5 but expresses it in the form of a league table of Banks and brokers according to the volume of lending with

which they have been associated publicly. Apart from the Midland/European Banking Investment Corporation consortia, the top positions on the list are dominated by banks with domestic operations in South Africa. The sections that follow distinguish between three types of finance: Eurocurrency loans, Eurobonds and ECGD credits; and provide greater detail as to the date and size of the credit and the identity of borrower and lender.

TABLE 6.

Size and Number of Eurocurrency Loans with individual British bank involvement 1972-6

<i>Bank or Bank Group</i>	<i>Value of Involvements</i>	<i>No.</i>
Midland & Associates		
EABC/EBC/MAIBL/Samuel Montagu	484	( 5)
Barclays	400	( 5)
Hill Samuel	263	(11)
Hambros	200	( 2)
Standard	165	( 4)
Union Acceptances (Nedsual SA) <sup>1</sup>	160	( 2)
Morgan Grenfell	100	( 1)
Orion (Nat West)	80	( 1)
Barings (London Multinational)	13	( 1)

1. A London registered South African controlled subsidiary of the Nedsual Group.

Source: As for Table 5 above.

### 3.3 Eurocurrency Loans

The Eurocurrency market consists of bank deposits denominated in a currency other than the national currency of the country in which the bank is located. The prefix "Euro" is used because, at least until recently, the main markets were in Europe. Eurocurrency loans are for multi-million pound sums and are normally syndicated with up to a hundred banks. The lead bank, or banks, is responsible for arranging the loan and receives a management fee for this service. London is the most important centre for Eurocurrency business in the world and an estimated 50% of South Africa's Eurocurrency loans were arranged by British banks.

Table 7 shows that four major banks (Midland, Standard, Barclays and Hill Samuel) with representative offices or subsidiaries in South Africa have been most active in arranging finance for the South African government and its corporations. Involvement by *Midland* and several of its subsidiaries and associates was revealed when a series of confidential documents was leaked to the US National Council of Churches in 1973. These papers showed that the *European-American Banking Corporation*, a multi-national consortium of seven western banks (including Midland) had arranged loans of \$210m to South Africa during the early 1970s. \$35m was provided by British Banks.

These included loans by Midland and its associates directly to the South African government in 1972. Midland's involvement in loans to South Africa also manifested itself through its associate, the *European Banking Company*, which lent \$99m to South African Airways in 1976. (See also Chapter 6).

*Standard* is also active in this field. The bank "not only joins syndicates over there in London but leads them as well", claimed the Managing Director in South Africa, and "it is a large operator in the Eurocurrency field". A *Financial Mail* survey of the bank pointed out:

"Even the largest South African concerns borrowing in the Euromarket need a bank guarantee. And the Standard, with its impressive world connections, is well placed to provide this. Not surprisingly, it handles a large proportion of total Euroloans arranged for South African commercial borrowers."

(11.2.72)

The same source also pointed out that *Standard* managed loans of \$35m for South African Railways and Harbours in 1973 and \$100m for the South African government in 1974.

*Barclays* was involved in at least two major loans to South Africa during the first half of 1976. The bank was one of the contributors to a \$200m loan to the Electricity Supply Commission in January and a \$138m loan to the Richards Bay project (which has 30% SA Government Industrial Development Corporation participation) two months later. These were among the largest known single credits to South Africa. Together they probably represented over a third of the net inflow of foreign capital during 1976.

*Hill Samuel* appears to have become the major bank involved in managing Eurocurrency loans for the South African government. During the financial year 1975/76 *Hill Samuel* (South Africa) claimed that it had negotiated international loans for the equivalent of R360m (£240m) for public sector borrowers. As the Bank's Annual Report commented, it had been "another busy and successful year" for raising Eurocurrency loans.

Other banks involved have been: *Orion* (an associate of National Westminster) which played a part in a \$80m five year credit to ISCOR in 1976; *Hambros* with credits to ISCOR totalling \$125m in 1975 and 1976; and *Morgan Grenfell* again with ISCOR in 1973.

### 3.4 Eurobonds

The Eurobond market has also been an important source of capital for South Africa. A group of banks, usually from several countries, manage the issue and other banks act as underwriters and sellers. Eurobonds may be publicly issued or, alternatively, "placed" with willing investors in one country. Prior to the Soweto uprising most South African issues were on the public market, since then they have been placed with often anonymous groups of

TABLE 7.

## Recent Publicised Eurocurrency Loans by British Banks to the South African Government

<i>Date</i>	<i>Amount</i>	<i>Borrower</i>	<i>Lead British Banks</i>	<i>Other UK Participants</i>	<i>Annual Total</i>
Oct 70	\$20m	ISCOR	BABC (\$3m) Standard (\$4m)		
Oct 70	\$8.5m	METKOR	BABC (\$2.5m) Midland (\$2.5m) MAIBL (\$2.5m)		\$28.5m (\$14.5m)
Jun 72	\$50m	SA Govt.	EABC (\$5m) Midland (\$3m) MAIBL (\$3m)		
Jun 72	\$30m	ESCOM	EABC (\$5m) Midland (\$5m) Samuel Montagu (\$5m) MAIBL (\$5m) Standard (\$5m)		
Aug 72	\$13m	SA Posts & Telegraphs	London Multinational Bank (Barings)		\$93m (\$36m)
Apr 73	\$35m	SARH	Standard		
.. 73	Swiss Fr 60m	SA Broadcasting	Hill Samuel (Bank von Ernst)		
Sep 73	Swiss Fr 50m	SA Posts & Telegraphs	.. ..		
.. 73	\$100m	ISCOR		Morgan Grenfell	
.. 73	\$100m	ISCOR	.. ..	Hambro	
Oct 73	\$200m	ISCOR	EABC		\$500m
1974	\$110m	RSA		Union Acceptance (Nedbank)	
1974	\$100m	RSA		Standard & Chartered	
Nov 74	\$13m	ISCOR	Hill Samuel		
1974	\$100m	ISCOR		Hambro	\$333m
Apr 75	\$40m	ESCOM	Hill Samuel		
75	?	SA Broadcasting	..		
Aug 75	DM100m	ESCOM	..		
Dec 75	\$30m	ISCOR	..		
75	\$30m	SARH	European American Banking Corp (Midland)		

<i>Date</i>	<i>Amount</i>	<i>Borrower</i>	<i>Lead British Banks</i>	<i>Other UK Participants</i>	<i>Annual Total</i>
75	\$50m	SARH		Union Acceptances (Nedsual)	
75	\$25m	ISCOR		Hambro	
75	\$10m	IDC		Barclays Bank Int	
75	\$45m	IDC		.. .. .	\$260m
Jan 76	\$200m	ESCOM		Barclays	
Mar 76	\$135m	Richards Bay (IDC)	..		
May 76	\$7m	Johannesburg City	..		
76	\$80m	ISCOR	Orion		
76	\$75m	SARH		EBC	
76	\$99m	SA Airways	EBC		
76	\$30m	..	Hill Samuel		
76	\$12m	Xhosa Dev Cpn	..		
Oct 76	\$7.5m	Transkei Govt	..		
76	£15m	SASOL II	..		\$663.5m

TOTAL FOR THE PERIOD 1972-6 inc. \$1854.5m

Note: Figures given in brackets denote actual lending as opposed to the value of the loans with which the British institution was associated.

*Abbreviations*

- ESCOM Electricity Supply Commission
- IDC Industrial Development Corporation
- ISCOR Iron and Steel Industrial Corporation
- METKOR Subsidiary of ISCOR
- SARH South African Railways and Harbours
- RSA Republic of South Africa

*Banking Groups*

- EABC (European-American Banking Corporation): a 17.5%-owned associate of Midland.
- Samuel Montagu: a wholly-owned subsidiary of Midland.
- Midland & International (MAIBL): partly-owned by Midland (45%) and Standard (19%),
- Bank von Ernst: a Zurich-registered wholly-owned subsidiary of Hill Samuel.
- Orion: a 25%-owned associate of National Westminster.
- European Banking Company (EBC): a 14%-owned associate of Midland.
- London Multinational Bank: a 25%-owned associate of Baring Brothers.

**TABLE 8.**

**Public Eurobond Issues by the South African Government or its Corporations which were arranged by or involved British Banks**

<i>Date</i>	<i>Amount</i>	<i>Borrower</i>	<i>Lead British Banks</i>	<i>Other UK Participants</i>	<i>Amount Total</i>
1967	\$15m	ESCOM	Kidder Peabody Sec		
1971	\$20m	ESCOM	.. .. . Strauss Turnbull		\$35m
1972	\$25m	RSA	.. .. .		
1972	\$25m	RSA	.. .. .		
1972	SwFr 50m	ESCOM	.. .. .	S.G. Warburg	
1972	DM100m	Johannesburg	White Weld		\$110m
Mar 73	DM100m	ESCOM		Hill Samuel	
May 73	DM100m	ISCOR		.. .. . /Orion	
1973	DM100m	SARH		Orion	\$160m
Nov 73	DM100m	ISCOR		Barclay Bank Int.	
Mar 74	\$15m	ESCOM	Kidder Peabody/Strauss Turnbull		
Jul 74	\$35m	ESCOM	.. .. .	.. .. .	
Jul 75	DM70m	SARH		London Multinational	\$45m
Jun 75	\$25m	ESCOM	.. .. .	Hill Samuel	
Aug 75	DM100m	ESCOM	.. .. . /Hill Samuel/Swiss Bank Corp	William & Glyn's	
Oct 75	\$30m	ESCOM	European Banking Corp (Midland)	Union Bank of Switz	
Sep 75	\$25m	ISCOR	Hill Samuels/William & Glyn's		\$149m
Jan 76	\$25m	RSA	Kidder Peabody/Strauss Turnbull	S.G. Warburg	\$25m

**TOTAL OF PUBLIC EUROBOND ISSUES 1972-76 \$524m**

German or Swiss banks. According to the journal *The Banker* the Eurobond market:

“tends to be regarded as one of the world’s more exclusive financial clubs, conferring prestige on banks and borrowers alike.”

*Eurobonds in Perspective*. November 1976

The key factor determining the level of business done by a bank as a lead manager or co-manager is its placing power with investors and connections with borrowers. During the 1960s both *S.G. Warburg* and *Rothschilds* were prominent in this market but they have been increasingly supplanted by the large Swiss banks. Table 8 shows that the British institutions most commonly cited in connection with South Africa Eurobond issues in the 1970s have been brokers like Kidder Peabody Securities Ltd., (a British based subsidiary of the American brokers, Kidder Peabody), Strauss Turnbull, brokers, and White Weld Securities/Credit Suisse White Weld (a part of the Credit Suisse bank group).

Among the British banks proper *Orion* has been cited as paying agents on two bonds for ISCOR in 1973 totalling DM200m; *William and Glyn’s* has been involved in two issues in 1975, both for \$25m, to ISCOR and ESCOM. Finally, *S.G. Warburg* has acted as paying agent on a \$25m South African Government issue in early 1976.

According to the World Bank, South Africa issued foreign bonds to the value of \$980m between 1972 and 1976. From a comparison of this figure with the total given in Table 8 it can be seen that British banking institutions were involved in some capacity in just under 60% of all bonds involved.

### 3.5 ECGD Credits

Finance is provided by British banks for the export trade between the UK and South Africa and insurance cover against repayment risks has been available for many years from the British Government’s *Export Credit Guarantee Department* (ECGD). More recently the ECGD has developed as a provider of funds by re-financing bank loans and advances to exporters and overseas buyers. At the end of October 1976 out of a total of £3.5bn of export credits, £1.9bn had been provided by the ECGD. In addition the ECGD subsidises the rate of interest charged on the credits, paying the banks the difference between the internationally agreed rate for export credits and the market rate.

The ECGD refuses to provide a figure of total credits to South Africa nor will it release details of individual credits. An estimate based on global credit support for UK exporters suggests that around £700m is now guaranteed for exports to the Republic.

The information available shows that *Hill Samuel* is the major British bank involved in export credits to South Africa. Hill Samuel has also provided direct support to the South African state through a £75m credit to the

government in October 1976. The *South African Digest*, published by the South African Department of Information, commented that "economists and bankers agree that a loan of this size is 'extremely welcome' news and must inevitably have an encouraging ripple effect on the capital market". (29.10.76).

A partial listing of recent ECGD credits to the South African government and its corporations is provided in Table 9.

TABLE 9.

Some recent ECGD credits to the South African government and its corporations

<i>Date</i>	<i>Amount</i>	<i>Recipient</i>	<i>Lender</i>
April 1973	£27m	SA Posts and Telegraphs	Hill Samuel
April 1974	£25m	ISCOR & IDC	J. Henry Schroder Wagg
May 1974	£ 5m	ESCOM	Hill Samuel
May 1974	£13m	SA Railways & Harbours and SA Broadcasting Corp.	Hill Samuel on behalf of a consortium (National Westminster, Lloyds, Midland and Royal Bank of Scotland)
April 1976	£60m	ESCOM	Hill Samuel
October 1976	£75m	SA government	Hill Samuel

### 3.6 *Likely changes in the pattern of foreign credit*

Despite considerable success in achieving self sufficiency and developing "strategic investments" the economy will continue to have a high level of demand for foreign exchange to service past debts and pay for the still virtually unaltered oil requirement. Although the government are making strenuous efforts to stimulate exports, they too face a variety of problems. To be competitive in the international markets for manufactured and industrial goods South African producers must have access to the latest equipment and technology which is still largely imported. Many of the markets for South Africa's primary products and minerals are very depressed and substantial long term gains from those that are buoyant (such as uranium) require capital investment to raise the degree of local value added. This too requires a substantial import content.

In part the need for foreign exchange can be met by gold sales, particularly if the price maintains its upward momentum. Nevertheless it seems probable that the Republic will still require access to international capital markets for several more years particularly if it feels impelled to revive the economy in the interests of combating mounting unemployment. A clear indication of this is the price that South African borrowers are prepared to pay. According to the *International Insider* newsletter (30.1.78):

“South Africa is prepared to pay up to twice the going market rate for funds to gain continuing access to the international money and capital markets. But it is unable to borrow as much as it would like.”

Estimates suggest that South Africa needs to borrow \$1,000m in 1978 but will be lucky if it gets a quarter of that figure. Given the growing overseas concern with the economic and political implications of further large long-term credits to South Africa it seems certain that the government, and the banks within South Africa which act as its advisors and agents, will be looking for alternative means of finance which are less visible, less risky and easier for lending institutions to defend politically.

Such a strategy is likely to consist of the quiet placing of bonds in politically less sensitive markets such as Switzerland and Germany, the “rolling over” where possible of existing credits, attempts to develop more project and trade financing, such as international leasing, and finally efforts to derive the maximum borrowing advantage from national export promotion schemes such as that operated by the British ECGD. In the context of such a strategy credits which are backed by official export credit agencies such as the ECGD are particularly attractive to borrower and lender alike because as the journal, *The Banker*, has noted:

“... the arrangement of Eurodollar loans insured by ECGD to finance UK overseas contracts will not in any way affect the country's credit standing as borrowers in the market or the availability of funds for untied Eurocurrency loans. Tied Eurodollar loans are made under ECGD guarantees and are, therefore, carried on the lending banks' books as part of their UK, not their overseas, risk.”

*The Banker*, December 1977, p.71

In all these endeavours South Africa will require the contacts, expertise and co-operation of international bankers. The British banks in South Africa are uniquely placed to keep open these important links with international capital markets and, as has been indicated, there are strong domestic reasons why they would wish to do so.

In 1976 the *Financial Mail* speculated on the possibility of Barclays National financing equipment abroad for subsequent leasing to South African industry. By 1977 there were reports that South Africa's “largest-ever” leasing package was being put together and in September 1977 a R120m leasing contract to the state steel corporation ISCOR was announced. Subsequent reports indicated that the successful consortium was led by Standard and that the overall value was R150m, the greater part of which was to equip a coal mine. Although no mention was made of foreign finance, all of the equipment leased to ISCOR could be presumed to be new and much of it imported. It therefore seems reasonable to assume that the bank involved obtained overseas credits.

The impression that Barclays National was involved was strengthened by subsequent reports that during 1977 *Barclays Leasing*, a division of Barclays National, was elected a full member of MULTILEASE, an international consortium of equipment leasing companies in twenty-three countries. Sponsored by *Barclay Mercantile Industrial Finance* in the UK, Barclays in South Africa now qualifies to enjoy the benefits of this international network. According to a South African press report:

“The main advantages which accrue to Barclays Leasing from membership are access to international finance and leasing know-how, and an obligation on all members to offer leasing deals.”

*Citizen 9.1.78*

In his annual statement for 1977 the Chairman of Hill Samuel in South Africa stressed that his company was:

“the only international merchant banking group operating in the Republic . . . we enjoy the implicit backing of our overseas parent.”

The fact that Hill Samuel does have a substantial operation within South Africa has meant that the UK parent has come to dominate the market for ECGD backed export credits to South Africa almost completely. The knowledge and contacts of its local subsidiary have given it a major edge over its merchant banking competitors. Every indication suggests that this close collaboration will continue and by so doing provide the South African government with access to a very attractive borrowing facility.

### 3.7 Conclusions

Three aspects of the involvement of British banks in the provision of international credits to South Africa should be of concern to the British churches.

Firstly, British banks have on their own account been substantial direct providers of medium to long-term credits to the South African state and its corporations. Secondly, British banks have by the use of their expertise contacts and good name, arranged and facilitated the raising for the South African state of far larger sums than they themselves have provided. This transfer of resources has helped the South African state through a major crisis occasioned in large part by its own desperation with the country's continued dependence on, and vulnerability to external forces. The economic sacrifices which would otherwise have been required of the white community to finance the investments and imports needed to buttress white supremacy against attack did not therefore have to be made. Instead the burden of defending apartheid and carrying it through the crisis until the gold price began to recover was borne in large part by the international banking community.

Finally, the links between British banks operating within South Africa and their UK parents provide an important point of access to the world capital market for South African borrowers, especially the State Corporations. These links are still being developed and their increased sophistication can only serve to facilitate continued South African borrowing in otherwise difficult conditions and disguise its true extent from public scrutiny.

# The Promotion of Trade, Investment and Emigration

## 4.1 Trade

Like Britain South Africa is highly dependent on international trade with over a quarter of its gross domestic product contributed by exports and imports. During the 1950s and 1960s foreign trade generally added to the country's overall wealth and it became progressively less dependent on trading. During the 1970s, however, both these trends have been reversed and the promotion of exports and the substitution of imports has become a growing concern of the South African government.

In 1972 Prime Minister Vorster underlined the importance of trade when he said,

“Every time a South African product is bought it is another brick in the wall of our continued existence.”

*The Star*, 26.8.72

Historically South Africa has had to rely on foreign capital, in the form of short term credits, to finance a large part of its international trade. Since Britain has until recently been its largest trading partner and the world's principal centre for international finance it was natural that a large proportion of South Africa's trade would be financed by British banks. Given that the British banks are already entrenched in this field, and have extensive branch networks and contacts both South African and international, ordinary commercial considerations dictate that they make every effort to capitalise on their position by promoting further trade links.

In the UK both Barclays and Standard provide extensive information on the trading conditions in South Africa, while in South Africa itself they have established specialist departments to promote foreign trade. Barclays National's Business Development and International Division aims to assist overseas businessmen in South Africa and South African businessmen looking for overseas markets. Similarly Hill Samuel is involved in *Concor*, a company providing export finance for construction projects.

Besides acting on an individual basis Barclays and Standard are involved in the *Credit Guarantee Insurance Corporation (CGIC)*. The CGIC operates as a private company in conjunction with the Department of Commerce and is sponsored by the commercial banks and leading insurance companies. It

provides coverage for export and domestic credits for insolvency, protracted default, breach of contract, political risks, "and discriminatory actions, such as boycotts against South African goods". Besides being able to reinsure political risks with the government, CGIC has agreements with a number of overseas credit organisations to supply joint cover for international medium term contracts.

Certain British banks also have arrangements with the South African government controlled *Industrial Development Corporation* (IDC) whereby they extend medium term credit facilities to South African companies for the purchase of capital goods. These arrangements apparently also exist with French, Italian and Belgian banks and include the IDC acting as a financier and guarantor.

Finally, the interest of the British banks in U.K./South African trade promotion manifests itself in their involvement in UKSATA, the United Kingdom-South Africa Trade Association. Until recently the Chairmen of both the major banks sat on the UKSATA Council; an involvement that caused Barclays to receive a formal protest from the Zambian Government when UKSATA was campaigning for a resumption of arms sales to South Africa in 1970. This pointed out that Barclays was "politically promoting the cause of South Africa in Britain" and went on to add that, "the status of the interests of Barclays DCO in the State of Zambia" was being reconsidered.

#### 4.2 Investment

As was made clear in earlier sections, foreign investment has made a major contribution to the development of the South African economy by simultaneously providing capital and new technology. Compared to foreign loans, foreign direct investment has the major advantage that once established it becomes permanent and reinforcing and constitutes far less of a burden on the balance of payments.

Just as British banks have a major incentive to capitalise on their links and expertise to promote trade so too with investment. Besides the commissions and fees to be earned on helping the newcomer to get established there is the prospect of his becoming a permanent account and hence a regular source of business.

A typical advertisement – this one by Hill Samuel – shows the way in which the banks have in the past encouraged investment in South Africa:

"Project yourself in the South African profit picture. The net capital inflow into South Africa in 1970 was a record 557 million Rand – an indication of the confidence foreign investors have in South Africa's immense growth. Hill Samuel – international merchant bankers, with six South African branches – have the financial expertise and local knowledge necessary to advise you on the best methods of obtaining a lion's share in this profitable market. You'll be a roaring success."

Advertisement in *The Banker*, September 1971

In addition to the work of the previously mentioned International and Business Development divisions in South Africa, both major banks publish detailed guides for foreign investors: *Doing Business in South Africa* (Barclays) and *Guide to Business in South Africa* (Standard).

Since the early 1970s the pace of British direct investment has slackened considerably and with the events of the last few years businessmen are increasingly considering the question of the return of capital rather than the rate of return it can earn. In this situation it seems unlikely that banks in the UK are giving much attention to the promotion of further British investment in South Africa. Nevertheless their South African subsidiaries are almost certainly still involved if only by their participation in seminars and conferences designed to get foreign firms to invest in new opportunities.

### 4.3 Emigration

If new capital and technology are to be fully productive then they must be complemented by sufficient skilled labour. Since historically the demand for skilled labour in South Africa has outpaced the growth of the indigenous white population and since blacks are largely denied access to the education and skills necessary, labour bottlenecks have been emerging since the late 1960s. One approach to this problem has been to try to attract more skilled white immigrants from overseas. To the extent that it is possible to bring in someone from outside it relieves the pressures to make that job available to blacks either by doing more black training, by job fragmentation or some combination of both.

Both Barclays and Standard have in the past actively promoted emigration to South Africa. Barclays' head office in London released an eighty-eight page pamphlet on *Emigrating to South Africa* in 1971. This publication was not only distributed by the bank, but also apparently by the South African Embassy in London, and it presented the official government picture of the Republic. The booklet described the country as a "parliamentary democracy" (although only the white 17% of the population have the vote) and noted that trade unions had been "rationalised" (blacks are forbidden to form registered unions and strikes are invariably broken up). Unconfirmed reports have suggested that the pamphlet was withdrawn after criticism from anti-apartheid groups.

The Standard Bank in London has in the past distributed official South African government publications aimed at prospective immigrants. In addition it published a glossy booklet, *South Africa: Land of Sunshine and Opportunity*, which was "designed for those who are thinking of making South Africa their home and in so doing improving their living standards and increasing their share of the pleasures of life".

The Standard Bank pamphlet claimed to provide "a broad general idea of what South Africa is like and what you may expect to find upon arrival". There was no mention of the apartheid system, however, and the booklet

tacitly endorsed the official South Africa version of the country's history. The statement that "the standard of living in the Republic is one of the world's highest" clearly does not apply to the majority of the population. Thus the promotion of emigration by the two banks also appears to involve the dissemination of South African government propaganda.

Within South Africa Hill Samuel has also been involved in promoting immigration through its participation in an international management selection and recruitment company. Although Hill Samuel has sold a majority shareholding in *Hill Samuel Sanders* to an American group, it retains a 30% interest and the use of the name in the renamed company, *Consulting Partners Hill Samuel Ltd.*

#### 4.4 Conclusions

South Africa has closer economic ties with Britain than with any other country. This economic relationship should in theory give the UK a considerable degree of leverage over South Africa. In practice these links help to sustain the apartheid system by creating strong vested interests in the maintenance and extension of the status quo. Further trade, investment and immigration give Britain a greater stake in apartheid and a correspondingly increased reluctance to see those relationships disrupted. At the same time British involvement adds to South Africa's international respectability and makes it more difficult for others to refrain from becoming involved.

British banks are a key element in this interlocking circle of relationships and one of the most powerful vested interests.

However, it is clear that these vested interests are beginning to express themselves in different ways in the UK parent and its South African subsidiary. On the one hand, while UK parent banks may still be prepared to offer assistance to those who wish to increase our level of involvement with South Africa and are ready to defend their existing level against criticism, they are unlikely to be actively promoting greater relations and could well be beginning to view the future of the relationship with apprehension.

Conversely, as we have seen previously, the South African subsidiaries have powerful economic and political reasons for wishing to mobilise the resources of the whole group in the interests of strengthening existing links for their own and South Africa's benefit. The result, as can be appreciated from a close examination of the Barclays Defence Bond issue, can only be conflict and tension. What one party most wishes to publicise the other wishes to conceal.

Since it is the parent company which is nominally in control and it is on its shoulders that external judgements and sanctions ultimately rest, it seems likely that, as international pressures mount, parent banks in the UK will be increasingly considering means of reducing their exposure to South Africa. Given the size of the stake and the duration of many of the relationships, this will be a painful process, but it appears to be inevitable.

# Involvement in Rhodesia, Namibia and The Bantustans

## 5.1 Rhodesia

The survival of the Smith regime depends on trade and on its ability to finance the flow of strategic imports, such as oil and munitions. Since the closure of Mozambique's border with Rhodesia, in March 1976, virtually all Rhodesia's foreign trade has passed through South Africa. The most significant way in which British banks have helped to facilitate this flow of trade is through relations between their South African and Rhodesian branches.

The branches of British banks control three-quarters of banking business in Rhodesia and offer normal banking services including the provision of credit for foreign trade and foreign exchange dealings. Standard (45 branches) and Barclays (34 branches) are the largest commercial banks in Rhodesia. Grindlays Bank, a 21% owned associate of Lloyds Bank, is the third major bank in Rhodesia (13 branches). Since the Unilateral Declaration of Independence (UDI) in November 1965, Standard has also acquired two wholly-owned subsidiaries in Salisbury, Standard Merchant Bank Rhodesia (merchant banking) and Standard Finance (consumer finance and leasing) and a 13% stake in the Export Credit Insurance Corporation of Rhodesia.

"British banking links continue to be the commercial backbone of Rhodesia", claims 'Tiny' Rowland, Lonhro's Chief Executive.

*Evening Standard, 7.7.76*

The London headquarters of Barclays, Standard and Grindlays claim that their Rhodesian operations have been outside their control since UDI. Nevertheless, both Barclays and Standard are involved in the transfer of funds, on behalf of other customers, between South Africa and Rhodesia.

As the two banks point out, these transfers are not illegal. Under present British law, a South African subsidiary of a UK company is not subject to sanctions legislation. In South Africa there is no law which prevents the transfer of funds to and from Rhodesia providing that such payments are permitted under South African exchange control regulations.

When questioned at the 1977 AGM as to whether he knew if Barclays National in South Africa was involved in transferring funds to Barclays in Rhodesia the Chairman replied that:

"The answer is no, I am not aware of it and if you will give me some

examples I will certainly look into it, though bearing in mind what I have already said, the detail of mind and management and detail of control is inevitably subject to the decision of the South African management . . .”

Unofficial AGM transcript, p.4.

## 5.2 *Namibia (South West Africa)*

Pretoria's mandate to administer the territory of South West Africa was revoked by the UN General Assembly in 1966. Five years later the International Court of Justice advised that South Africa's continued presence in Namibia was illegal and this decision was subsequently endorsed by the UN Security Council.

Standard (32 branches) and Barclays (22 branches) are the major commercial banks in Namibia. Hill Samuel has also become involved in Namibia through a loan to South Africa's Electricity Supply Commission for the construction of the Kunene hydro-electric plant on the Angolan border. The banks, by their presence in Namibia, both recognise – and thus implicitly support – the illegal South African administration.

While the British government has regarded South Africa's occupation of Namibia as “unlawful”, it does not support sanctions:

“We do not accept an obligation to take active measures of pressure to limit or stop commercial or industrial relations of our nationals with the South African administration of Namibia.”

*Hansard* 4.12.74, p.1556

It does, however, believe that:

“. . . there is an obligation on States not to recognise any rights of South Africa to continue to administer the territory.”

*Ibid*

Therefore in keeping with the spirit of the UN resolution on Namibia the government decided to give no further promotional support for trade with that country.

SWAPO, which has been recognised by the United Nations as the legitimate representative of the Namibian people, has argued that the presence of British banks in Namibia shores up the illegal South African occupation of the territory. This view has been clearly expressed by Peter Katjavivi, SWAPO Secretary for Publicity and Information:

“The relationship of Barclays Bank with other foreign investors in Namibia facilitates their operations, the transfer of their profits, and the payment of taxes to the South African regime. SWAPO regards Barclays Bank as one of the foreign investors in our country whose effect is to shore up the illegal South African occupation of Namibia . . . enterprises like Barclays

Bank are colluding with the illegal regime in its efforts to strangle the Namibian resistance . . .

When Namibia is free, the Namibian people will remember clearly who were their friends and who their enemies in the long struggle against South African occupation.”

*Barclays & South Africa*: Martin Bailey, Haselmere Group/Anti-Apartheid Movement, p.5

At the 1977 AGM of Barclays the Chairman gave an assurance that Barclays would not unilaterally take actions that would give a seal of approval to a new administration in Namibia if it were treated internationally in the same way as the Transkei had been. However, in a Barclays Bank International press release dated 11th March 1977, the senior general manager announced that since a date for independence had been set the bank was going to re-organise the Namibian operation as a separate entity. The local bank would be a subsidiary of Barclays National of South Africa. Standard subsequently made a similar announcement.

### 5.3 *The Bantustans*

The Transkei was declared an independent state on 26th October, 1976 but was recognised only by South Africa. In line with the rest of the international community, the British government argued that the Transkei would not be genuinely independent and that recognition would merely legitimise South Africa's Bantustan scheme. Standard Bank of South Africa, however, welcomed the independence of Transkei in an advertisement in the Johannesburg *Financial Mail* offering its congratulations and pointing out that the bank looked “forward to future years of co-operation”. (*FM* 22.10.76).

Two days after Transkei independence was declared the UN General Assembly passed a resolution requesting “all states to take effective measures to prohibit all individuals, corporations and other institutions under their jurisdiction from having any dealings with the so-called independent Transkei or other Bantustans”. This resolution was approved unanimously (with an abstention by the United States). After the vote, an EEC representative pointed out that the resolution raised “specific problems of a practical and legal nature”, but the fact remains that the British government had voted to impose economic sanctions against the Transkei.

British banks are among the few British companies active in the Transkei. Both Barclays (8 branches) and Standard (7 branches) have networks of offices in the Transkei which are administered as part of their South African operations.

British banks are providing capital to the Transkei administration. On 25th October 1976, a day before independence, a £10m loan to the Transkei was arranged by the South African Central Merchant Bank. Underwriters of the loan, included Barclays National and the Standard Bank of South Africa. A few months earlier Hill Samuel, together with the Dow Bank (a US subsidiary

of a Japanese bank), arranged a \$12m loan to the Xhosa Development Corporation. The corporation is a South African government agency which channels private investment into the Transkei.

In August 1977 the Lebowa Bantustan made an issue of R5m of stock. Standard Merchant Bank was one of the underwriters who were obliged to take up 75% of the issue.

With the "independence" of Bophuthatswana at the end of 1977 the Standard Bank again took a whole page advertisement in the Johannesburg *Financial Mail* to offer its congratulations to "Southern Africa's youngest nation" and noted its representation at the capital Mmabatho and in six other centres. So far there is no indication that British banks have loaned money to the new administration.

#### 5.4 Conclusions

The involvement of British banks, particularly Barclays and Standard, in the economic affairs of Rhodesia, Namibia and the Bantustans of South Africa has had a number of significant economic effects for the de facto regimes in those territories.

Firstly, by breaking the spirit if not the letter of the embargo against Rhodesia the banks have played an important role in the survival of the white regime. In the case of Namibia the banks have facilitated South African control of the economy by effectively integrating the financial systems of the two countries. Secondly, the banks have provided the administrations in Namibia and Transkei with a degree of international legitimacy, if not of a political nature, at least in the eyes of western business and financial interests.

By their actions or, in the case of Rhodesia, inaction (in controlling the provision of services by their South African subsidiaries) the banks both condone the continued existence of those regimes and stand to profit from them either immediately in the form of attributable earnings and remittances from South Africa or eventually in the form of balances accumulating in blocked Rhodesian bank accounts.

# Campaigns against the Banks and their Response

## 6.1 Campaigns Overseas

From 1966 to 1969, American churches, community organisations, the United Nations and other groups conducted a "Bank Campaign" against ten American banks that were providing a \$40m revolving credit arrangement to the South African government. The campaign involved letters of protest, delegations to the banks, questions and resolutions, withdrawal of funds, picketing, leaflets and demonstrations. In November 1969 the loans were closed largely as a result of the action campaign.

At Utrecht in 1972 the Central Committee of the *World Council of Churches* decided in the light of its commitment to the Programme to Combat Racism not to deposit any of its funds in banks which maintained direct (i.e. domestic) banking operations in South Africa, Rhodesia and Angola. At Bangalore in 1973 the Finance Committee widened the decision to include banks indirectly involved and the Central Committee directed the staff to research the implications of the decisions.

In mid 1973 the *Interfaith Centre on Corporate Responsibility* (ICCR) obtained confidential internal documents from a source within a US based multinational consortia bank. This material published as the "*Frankfurt Documents*" revealed that forty banks from the US, Canada and Europe, through their participation in the *European-American Banking Corporation* (EABC), had made loans totalling \$210m to the South African government and its agencies since late 1970. The principal British banks involved in these loans were the Midland Bank, its subsidiary Samuel Montagu and associate Midland and International Banks Ltd (MAIBL).

As a result of these disclosures bank campaigns were initiated or stepped up particularly in the United States, Holland and Britain. In West Berlin in 1974 the WCC again considered bank loans and the Central Committee instructed its finance department to communicate with the EABC and its members to solicit assurances of no further lending and if unsuccessful to withdraw its deposits held with them. During the following months the WCC brought its policy to the attention of the EABC banks and they in their turn outlined their position. However, by the next meeting of the WCC executive committee in November 1975 no assurances had been received and it was decided that no WCC funds be deposited with EABC banks and it urged other churches to examine and take up the issue.

By 1976 campaigns in the US had persuaded eight banks to state publicly

that they would not lend further sums to South Africa. In one case (Maryland National) it agreed to divest itself of loans currently on its books. In Europe the work of the Dutch group, Pre-paid Reply, led the Amsterdam-Rotterdam Bank (AMRO) — a member of EABC — to claim in August 1976 that neither it nor its affiliates had granted any credits to South Africa since the Spring of 1973 “other than in connection with the economic relations between the Netherlands and that country”. However the bank would not give an assurance that it would not grant such credits in the future but said that:

“without essential changes in the situation in South Africa, we do not envisage that this policy (of making no new loans to South Africa) followed since 1973 will be modified.”

Letter to WCC 8.9 76

Subsequently AMRO emphasised that “the South African problem will not be brought to a solution by pseudo changes” and stressed that in its statement:

“we have tried to express the vital importance that we also attach to non-commercial considerations.”

AMRO 10.3.77

As a result of these statements Pre-Paid Reply called for an ending of the boycott it had been operating against AMRO.

Subsequent correspondence between the WCC and the *Algemene Bank Nederland* (ABN) — a member of *ABECOR* a European consortia including *National Westminster* — revealed that they too had not made loans to the Republic of South Africa or its agencies since the summer of 1975.

The bank later clarified its policy that:

“The same considerations that have played a role in deciding not to extend loans any longer will influence such a decision in a reverse sense. This implies that, in our view, a real solution must be found for the present racial discrimination, before South Africa will prove an acceptable debtor again, from a political as well as from an economic point of view.”

Letter from ABN to WCC 21.4.77

Later in 1977, David Rockefeller, Chairman of the Chase Manhattan Bank, stated that his bank had adopted a policy of no further loans for a variety of classes of projects and borrowers that were deemed to be supportive of apartheid. The bank was however prepared to make loans to businesses that support widespread growth. More recently it has been reported (*Johannesburg Star* 4.3.78) that the largest Western bank, Bank of America, in response to shareholder activism, has announced that it has not made loans to South

Africa for several months, although there may have been some letters of credit for trade financing.

## 6.2 Campaigns Against Barclays' Involvement in South Africa

Barclays' involvement in South Africa has been the subject of publicly voiced concern by groups like the *Anti-Apartheid Movement* and the *Haslemere Group* since the late 1960s. The company has had a series of AGMs dominated by campaigns for the bank's withdrawal from South Africa. In 1971 it was reported to have lasted six hours. In 1972 and 1973 some protesters were forcibly ejected. Since then the company's style has become more open and less defensive, but its policy has changed little, if at all. According to an article in the *Times* in 1973 the actions of anti-apartheid groups were estimated to have cost the company £10m in lost deposits.

Initially the bank responded to its critics by questioning their motives. This has changed and since 1974 at least it has publicly recognised the legitimacy of their protests even though it has not agreed with their prescriptions. By the public condemnation of apartheid ("an evil doctrine", "morally and economically indefensible") the bank has sought to differentiate between the operation of the overall system and its own particular involvement in it.

In 1976 in response to criticism over loans to South Africa, Barclays gave an undertaking not to lend to the government for balance of payments purposes. However, it has recently been clarified that loans to South African government agencies, such as ESCOM, are not excluded by this policy. According to Barclays' chairman:

"As long as the British Government itself continues to seek exports to South Africa including heavy electric gear or whatever ESCOM were buying, then I think it probably incumbent upon the financial system to support these exports."

Barclays 1977 AGM. Unofficial Transcript

The issue that has generated more heat than any other in recent years has been the heavily publicised purchase by *Barclays National* of R10m (£6.6m) worth of South African Defence Bonds in late 1976. Campaigns against Barclays during 1977 were almost entirely dominated by efforts to get the British parent to agree to instruct its subsidiary to dispose of the bonds at the earliest opportunity. Despite considerable verbal convolutions about the locus of control and authority over such decisions the bonds were sold at the earliest possible juncture in December 1977.

The whole affair of the Defence Bonds has been characterised by conflicting information (particularly as to the attitude of the British government) and a degree of misplaced indignation. The bank has been condemned more for the purchase than for the very explicit publicity with which the purchase was accompanied. In his statement to the press Mr Bob Aldworth, Managing

Director of Barclays National, explained that Barclays had a "social responsibility not only to the country at a particular stage in its history, but also to our staff members who have been called upon to do service on our borders".

At Barclays 1977 AGM, in dealing with Defence Bonds questions, Anthony Tuke, the Chairman, drew attention to the basic issue underlying everything else:

"South Africa needs foreign currency and it remains our policy here in London not to lend currency to the South African Government. What funds they raise within South Africa is beyond our control and defence bonds are only one way of a number of ways governments can raise money. For instance far more important are the taxes paid by companies with investments in South Africa. The key issue therefore is not whether this or that company bought some defence bonds, what is important as I've already said is whether an investor who dislikes the internal policies of a country should withdraw that investment."

Since the sale of the bonds there has been considerable press speculation as to the likelihood of Barclays retaining their majority shareholding in Barclays National. Finance commentators in Johannesburg have argued that Barclays position is untenable. By pushing the decision to sell through its local board it has both antagonised its South African directors and given offence to the South African government. If Barclays were to speed up the existing timetable for divestiture of 50% of the shares into local hands the most likely candidate would appear to be the *Anglo-American Corporation* which already holds an 18% stake. However, Barclays in Britain have in the past stressed that 50% ownership is the minimum they would envisage if the bank is to retain Barclays' name.

Pressure on Barclays was stepped up still further in March 1978 when the government of Nigeria ordered that all public accounts held in Barclays Bank of Nigeria (40% Barclays owned) be closed because of the bank's declared intention to maintain its activities in South Africa. In addition, an immediate reduction in the number of expatriate staff was also demanded. Although third world countries have been angered by the Defence Bonds purchase and, in the case of Ghana and Mauritius are reported to have taken the matter up with the company, Nigeria is the first to operate a policy of sanctions. As a result of this policy, Barclays Bank of Nigeria, which (since the implementation of indigenisation decrees in September 1976) is 52% owned by the Federal Government, has lost over 25% of its total deposits and has had to contract its operations accordingly.

### 6.3 *The Midland Bank Campaign*

As shown by Table 6, Midland, its subsidiaries and associates, has been publicly linked to a larger volume of lending to the South African government and its agencies than any other British bank. The growing awareness of this

fact, particularly since the publication of the Frankfurt Documents, has made Midland a focal point of action in Britain.

In 1974 the *End Loans to South Africa* (ELTSA) group was established to campaign against the participation of Midland in the EABC loans. Two years later, in April 1976, British company history was made when the first shareholder resolution on a moral issue was presented at a company AGM. The resolution called on:

“the Directors to cause the Midland Bank to make no further loans to the South African government or its departments, agencies or state corporations, and not to renew or extend any such existing loans.”

The Midland resolution, which was sponsored by the Central Finance Board of the Methodist Church, was supported by a wide variety of Church shareholders – including the *Church Commissioners* and the *United Reformed Church* – as well as other organisations such as the *Greater London Council*, the London Boroughs of *Camden and Hounslow*, the *County of Cleveland*, *War on Want* and the *Rowntree Social Service Trust*. The final voting figures showed that the resolution had been rejected by 3 million to 47 million votes, principally because most large institutional shareholders, like the insurance companies and pension funds, voted with the Midland management. The 6% vote in favour of the resolution was a considerable success, comparing favourably with figures achieved in actions in the USA.

A similar resolution, proposed by the GLC, was put to the 1977 AGM and received increased support (6.9%) from a wide range of organisations.

Besides the public controversies of AGMs and formal resolutions, private meetings have also been held between Midland management and church leaders. In 1974, as part of the WCC's banking initiatives, leading members of the British Council of Churches met with the company. Lord Armstrong has also debated with Rev. Paul Oestreicher the issues raised by the campaign at a public meeting in the City of London.

With the announcement of AMRO Bank (one of Midland's associates in the European Banking Investment Corporation [EBIC]) that it would be making no further loans and a parallel decision by EBIC itself, additional pressure built up on Midland. This state of affairs culminated in early 1978 when the Chairman of Midland clarified anew the bank's policy. In his 1978 statement to shareholders he declared that:

“for some two years the Bank has not made loans of this nature (general purpose loans to the South African Government or its agencies). Moreover, such new arrangements as we make for borrowers within South Africa are now confined to the finance of identifiable trade with the United Kingdom. This policy does not, however, envisage our ceasing to grant conventional banking support to those among commercial customers who have South African interests.”

The effect of this statement is to bring Midland's policy into line with that of Barclays and means that while government balance of payments financing is excluded it will still be possible for the larger state corporations to obtain equipment credits or project finance.

#### 6.4 *Standard and Chartered*

Because of its very limited network of branches in the UK and its comparatively low profile Standard and Chartered has attracted far less attention from anti-apartheid campaigners. However, during the course of the Barclays Defence Bonds controversy it was revealed that the clerical workers pension fund of the Standard Bank of South Africa had also purchased Defence Bonds. When the chairman was questioned on this matter at the 1977 AGM and asked to give assurances that the bonds would be sold he argued that there was no legal connection between the bank and the pension fund and stated that no attempt would be made to discuss the purchase with the trustees.

When questioned as to the validity of reports that Standard had participated in foreign credits to the South African government the Chairman declined to confirm the existence of such loans. He went on to stress the confidential relationship between borrower and lender and the fact that Standard's actions were in line with UK government policy.

Reports from Johannesburg indicate that Standard has agreed to comply with the 50% local shareholders rule by 1986 and it was anticipated that this would be achieved by a process of acquisitions and rights issues (i.e. expansion of the size of the bank but dilution of the parent company's shareholding).

Early in 1978 Standard reached agreement with UDC Holdings, the South African arm of United Dominions Trust of the UK, to buy its banking company UDC Bank, in return for 3.5m shares in Standard. As a result of this transaction, valued at some R12m, and a rights issue announced in August, for which the UK parent did not subscribe, Standard Chartered's shareholding in its South African subsidiary has been reduced from 67.4% to 59.5%.

#### 6.5 *Hill Samuel*

As in the case of Standard, Hill Samuel have until recently attracted far less attention than the size of their involvement might otherwise have warranted. Questioned at their 1977 AGM the Chairman declared that they had no intention of withdrawing from South Africa and that they were concerned only with business and providing a service to British exports. He further declined to make a statement on the bank's attitude towards apartheid in general. At the 1978 AGM, however, he did say that he did not favour apartheid as a system.

#### 6.6 *Actions by National Governments and the UN*

In the UK, official government policy towards trade and investment in

South Africa is contained in a statement by James Callaghan when he was Foreign Secretary in December 1974:

“So far as normal trade and investment are concerned, firms remain free to carry out existing or future contracts in South Africa. The usual range of export services, including trade missions and ECGD credits, will remain available as for markets of equal commercial standing.”

*Hansard 4.12.74, p.556*

Since that time there has been pressure from within the Labour Party and elsewhere to prevent British banks from providing capital to South Africa. The Labour Party Programme, approved in September 1976, included a call for the government “to ban all further loans by British banks to South Africa” and a proposal that ECGD cover should not be available for South African trade.

Recent statements by ministers suggest that the government’s official position may have to be reviewed in the light of the rapidly changing situation. Speaking to Cumbria County Labour Party in March 1978 the Foreign Secretary reflected that:

“In investment and in trade this country faces a painful dilemma in its relationship with South Africa. We must reduce our overdependence in that country economically. We stand to lose more than most if things go wrong. Prudent businessmen and prudent investors, no less than the British Government, should be taking a hard look at their South African connections.”

More recently the Chancellor of the Exchequer is reported to have made an even stronger statement advocating a policy of discouraging economic investment by British Industry in South Africa. It should be stressed however that neither of these views represents official policy which is still based on the 1974 statement and subsequent parliamentary reaffirmations of that position.

Other Commonwealth countries have not shared the official British views about the desirability of promoting trade and investment links with South Africa. In 1975 *Australia* ended all *official* promotion of trade and investment with South Africa.

In December 1977 the Canadian Government substantially changed its policy concerning commercial relations with South Africa. The Secretary of State for External Affairs announced that *Canada* was committed to “the introduction of the principle of one man one vote” in South Africa and that “Canada is phasing out all its Government-sponsored, commercially-supported activities in South Africa”. Actions under this policy include the withdrawal of its commercial counsellors from Johannesburg and Cape Town, the ending of Export Development Corporation (EDC) support for transactions relating to South Africa (e.g. insurance for export credits, loans and foreign investment)

and the introduction of a Code of Conduct. At some future date South Africans visiting Canada will require visas and the possibility of renouncing preferential tariffs and ending tax concessions to firms operating in Namibia is being investigated. However, it has subsequently been pointed out by sources in South Africa that the withdrawal of EDC support relates only to sales handled by government agencies and that the government is still subsidising export development trips to South Africa by Canadian businessmen.

Among European nations it has been the Nordic countries and the Netherlands who have taken the strongest line. During 1976 the Swedish government took steps to prevent Swedish banks from participating in loans to South Africa, and both *Norway* and the *Netherlands* withdrew official credit guarantees for exports to South Africa.

A communiqué issued following a meeting of Nordic Foreign Ministers in March 1978 committed them to a joint programme covering, inter alia, the prohibition or discouragement of new investment in South Africa, the restriction of production within South Africa and increased support for refugees, liberation movements and victims of apartheid. In addition, they agreed to work together in the UN for the adoption of binding resolutions against investment in and trade with South Africa.

In November 1977 *West Germany* decided to restrict the level of credit insurance available on exports to South Africa. Insurance provided by the government controlled Hermes insurance organisation is now limited to DM50m (£12.5m) per transaction and will only be granted where the exporting company, if it possesses a subsidiary in South Africa, declares its support for the EEC Code of Practice. Moreover only short or medium term business – that is up to five years – will be eligible. The only exception will be where loss of an order will have a substantial impact on West German employment levels.

In the *United States* official attitudes have changed significantly since the Carter Administration came to office. The *Export-Import Bank* (the US equivalent of the ECGD) is no longer extending credits for South African trade and the *Senate Foreign Relations Sub-Committee on African Affairs* has conducted lengthy research and hearings into the desirability of maintaining the US's current policy of neutrality towards the question of investment in South Africa.

In his report to the full Foreign Relations Committee (January 1978) the Sub-Committee Chairman, Senator Dick Clark, concluded that "the net effect of American investment has been to strengthen the economic and military self-sufficiency of South Africa's apartheid regime, undermining the fundamental goals and objectives of US foreign policy". Accordingly, he recommends that further US investment and loans should be actively discouraged in three ways: by withdrawing government promotion facilities, by denying tax credits to companies or banks involved in certain undesirable activities, and by withholding official endorsements to all private groups that promote US-South African relations unless they subscribe to an official code of

conduct.

Finally, it should be noted that the United Nations has taken a strong stand against loans to South Africa. An important clause in the recent Programme of Action Against Apartheid – passed by the UN General Assembly on 9th November 1976 by 119 votes – called for governments “to take effective action to prohibit all loans . . . to South Africa by banks and corporations within their national jurisdiction”. A special section of the Programme on the role of churches and religious organisations also called for an expansion of “campaigns against banks and transnational corporations collaborating with South Africa”.

### 6.7 *The Banks and their Critics: Arguments and Counter Arguments*

In responding to their critics, whether they be arguing for withdrawal as in the case of banks with direct investments like Barclays, or for a moratorium on lending in the case of Midland, the banks have deployed a variety of arguments.

In his annual report for 1972 Anthony Tuke, then Chairman of *Barclays Bank International*, provided the following defence of his bank's continued presence in South Africa.

“I wonder if our critics ever pause to consider what the practical effect would be of Barclays withdrawing from South Africa. It would mean selling our business to a South African concern but, apart from this change of ownership, the local bank would remain exactly as it was and would carry on its operations just as it does now. All that would have happened would be that Barclays who are recognised as a liberal and international organisation would have given way to a South African owned company possibly with a narrower outlook. It is difficult to understand how such a change of ownership could be of advantage to the under-privileged in South Africa; in fact, there are clear indications that the view of the great majority of them is that such a step would be a retrograde one and I do know that among quite a number of leading figures in other African countries the news would be greeted with dismay. It is therefore right that the stockholders of Barclays Bank Limited should be aware that we do not propose to withdraw, that we believe our policy of maintaining, not burning, bridges is the right one and that we are confident that this policy has the support of the overwhelming majority of them.”

#### 6.7.1

The case for a continued presence for British banks in South Africa is therefore based on four related arguments:

- a. The withdrawal of British banks, involving the sale of their assets to South African shareholders, would fail to have a positive impact on apartheid.

Critics of the banks' involvement accept that the sale of shares would have little or no effect on the support that those banks give to apartheid in

the course of their operations within South Africa. Instead they stress that the severing of banking links between Britain and South Africa would undermine the status quo in two critical ways; it would constrict the flow of financial, political and psychological support that the white minority and the South African government derive from overseas and it would reduce Britain's stake in apartheid thereby making it easier for the British Government to take the painful decisions that are seen to be increasingly inevitable. Critics therefore see the maintenance of banking contacts not as a bridge across which influence and persuasion can pass but as a prop that allows the South African regime to continue with its present policies.

- b. Withdrawal could mean that control would pass into less enlightened hands to the detriment of the black community.

Critics respond that such an argument presupposes that the British banks are more enlightened than their competitors and that the initiatives that they have made have derived from their ultimately British ownership rather than from local factors such as the changing competitive position. Since they see little evidence to support either of these assumptions they give little credence to this argument. Currently the fact that the largest outside shareholder in Barclays – and hence the institution with the best chance of gaining a dominant say in any post-disposal situation – is the Anglo-American Corporation would also tend to support the critics' case that the likely effects of withdrawal on the black employees have been overstated. Less tangible however is the possible effect of the resulting reduction in the circle of "reformist" or "liberal" employers on the efforts made by those that remain.

- c. A corollary of the argument that blacks will be adversely affected by a policy of withdrawal is that the British banks can be a force for change. In the words of one Barclays spokesman, "we hope that our presence in the country serves to rot the foundations on which apartheid rests".

When pressed for details of the changes their presence has produced they tend to refer to examples in the field of banking services for the black community and their employment policies towards their black employees. In the banking field reference is made to the black business development managers, their support for the African Bank and the efforts being made to channel funds towards black needs whether singly as in the case of house loans or collectively by participation in schemes such as the proposed electrification of Soweto. It is also claimed that the segregated entrances and counters have now been abolished in their branches.

While few would deny the existence of these changes – with the possible exception of the extent to which segregated entrances and counters have been abolished in practice – there is less agreement as to their causes and more particularly their significance for helping to redress the fundamental grievances of the black community. As has been concluded

in Chapter 3, there must be grave doubts as to how far many of the measures taken in the banking field can possibly touch the roots of the disadvantaged status of black borrowers or investors. Similarly, it is also open to doubt whether the role played by the British banks in the Soweto electrification proposal would have been any the less positive had they been owned and controlled exclusively by South African interests.

In the field of employment practices it has been said that the British banks in South Africa have a better record than their South African-controlled counterparts. The banks point out that they introduced the concept of "equal pay for equal work" in 1971, that all employees are now paid above the Minimum Effective Level, that there has been a substantial increase in the number of black clerical workers and that in the case of Barclays and Standard, black union recognition has been granted.

The nature and extent of these and other changes in employment practices are reviewed in Appendix 2.

The employment record of the banks has been criticised, however, on a number of counts. Firstly, it has been argued that relative to the size of the problem the advances achieved have been negligible. Even now, the vast majority of the black employees of the three British banks in South Africa are cleaning staff in menial positions. Less than 15% of the clerical staff of the banks are blacks. Considering that *Standard* has been in the country for over a century, and *Barclays* for more than fifty years it can be argued that the steps that have been taken have been too few and too late.

Secondly, it is pointed out that the capacity of the banks to promote changes in their employment practices is circumscribed in a number of ways. Besides the plethora of government regulations there is the problem of white customer resistance and the risk of alienating important clients if change is pushed "too fast". Finally, it is argued that the banking sector is highly unrepresentative of black employment situations generally; hence, whatever improvements are made in this sector they are unlikely to spill over into other areas, thereby creating the broad based improvement which the banks presumably seek.

- d. It is contended that the continued presence of British banks in South Africa commands the approval of leading black South Africans and major African statesmen.

Clearly it is difficult to gauge public opinion in a country that outlaws political activity and denies freedom of expression to the overwhelming majority of the population. As a result defenders and critics of the banks have each put forward black spokesmen in support of their position. Barclays has frequently quoted Gatsha Buthelezi, the KwaZulu leader, who for many years condemned the call for a boycott against South Africa, as being a strong supporter of the bank's involvement. However, more recently Buthelezi's position appears to have become more ambiva-

lent with his emphasis shifting markedly according to the nature of his audience and the immediate needs of his 'homeland'. Other 'homeland' leaders would in all probability still endorse the continued presence of British banks.

On the other hand, although it is a treasonable offence in South Africa to advocate the withdrawal of foreign investment, many black organisations have felt so strongly on this issue that they have been prepared to accept the consequences. These include the Black People's Convention (BPC), the Coloured People's Labour Party, and the South African Students' Organisation. The two liberation movements – the African National Congress (ANC) and the Pan-Africanist Congress (PAC) – have also both issued special statements demanding the withdrawal of Barclays. Reg September, representative of the ANC in Britain, has clearly expressed the viewpoint of the liberation movements:

“Companies like Barclays are playing a predominant role in creating and sustaining the institutions of apartheid and cheap labour . . . The African National Congress strongly condemns the involvement of Barclays in South Africa and demands their immediate withdrawal.”

*Barclays and South Africa, p.5*

Critics have also cited press reports to the effect that when the riots first erupted in Soweto, one of the first targets was the township branch of Barclays and that this was because the bank was seen as a symbol of white authority. Although the bank alleges that it was only its temporary Soweto branch that was damaged and the unfinished new building was untouched – it does appear to have suffered extensive damage to another branch in Garankuwa during fresh riots later in the year.

#### 6.7.2

While Barclays has provided the principal case for continued direct involvement, banks like Midland, Standard and Hill Samuel have concentrated on defending their lending policies.

The case for continued bank lending to South African borrowers is based on three main arguments:

- a. Banking institutions cannot allow partisan political or moral viewpoints to influence their lending to any particular country. To do so they claim would make their position untenable since South Africa is not unique and for every country there would be some group raising objections. Accordingly, banks like Midland argue that it is the role of the government of the day and the properly constituted monetary authorities to provide the necessary guidance.

Several counter-arguments have been made against this view. Firstly,

and most fundamentally, the idea that bank lending is politically neutral can be criticised as both economically unsound and politically naive. A recent article in the *Banker* on the Politics of Banking argued that "banks assume a political role . . . through the mere act of lending on any scale". September 1977, p.21.

It went on to elaborate that the provision of international finance is always a form of aid to exporters; as such it determines the priorities of supplying and purchasing country alike.

Secondly, irrespective of whether the banks exclude political or moral considerations from their lending policy the political implications of that pattern of lending are clearly apparent to many observers. To the extent that these observers, be they black African states or concerned students, act on the basis of their perceptions of the political content of bank lending they create a whole second wave of political implications. In the context of international embargoes and domestic political controversies this is a far from academic consideration.

Finally, there are strong reasons for seeing the situation in South Africa as being unique. The World Council of Churches in formulating its policies towards South Africa has always stressed two factors that distinguish apartheid from abuses of human rights elsewhere. Firstly, South Africa is the only country in which racial discrimination is institutionalised. Secondly, it is a country in which the western powers have a major economic stake and which claims to uphold the principles of Christianity and the Western democratic tradition.

- b. The loans provided are for socially useful projects, such as electricity generation equipment or railway rolling stock, that will benefit the black community through the employment and services they provide. Barclays, for instance, justified its participation in a \$200m loan to ESCOM in 1976 by pointing out that "electricity is naturally a 'product' which benefits both black and white."

In the case of balance of payments financing it is difficult to see how this would be so given the very low import content of black spending and the percentage of such loans that necessarily went towards paying for oil and arms imports. Loans for investment projects are also subject to many reservations. None appear to have been specifically directed towards the black community, most went towards industries that are highly capital intensive – and hence low employment creating – and most provide products or services to which blacks have little or no access. Even where there is some conceivable benefit to the black community, critics argue that this is far and away outweighed by the effect the loans have had on strengthening the white controlled economy. Above all else it is argued that whatever the avowed use of such loans may be, they supply foreign exchange to the state which can then allocate it according to the priorities dictated by its own need to survive.

- c. An embargo on further finance for South Africa would be ineffective or counter-productive. This view has been expressed most forcibly by the South African industrialist, Mr Harry Oppenheimer, at an international monetary conference in Mexico City:

“Those who seek to bring about change in South Africa’s racial attitudes and policies by cutting us off from the capital markets of the world should understand clearly that in practice, if not in intent, they are aiming at change by violence.”

*The Times* 24.5.78

However press reports suggest that not all international bankers see the drying up of foreign credits as being ineffective in producing political change:

“Inflow of funds for South Africa is thus crucial to offset the normal deficit on the current account. Without the inflow the reserves will remain low and the economy will stagnate at the current depressed level. This implies rising unemployment, lower overseas confidence, much lower capital inflows – a vicious circle. In these circumstances, the bankers believe that political change will be forced on South Africa.”

*Rand Daily Mail* 27.5.77

It is interesting to note in this context one of the effects on the black community of the lower level of foreign loans experienced during the last year or so. According to recent reports the South African government has decided to stimulate the economy by using spare capacity in the construction industry to combat a programme of capital works in black townships.

It is ironic to think that while South Africa had access to plentiful foreign capital white property development was a favoured sector for bank lending, now that foreign capital has become scarce, banks are almost for the first time beginning to consider the finance of large scale black housing developments.

## 6.8 Conclusions

Several conclusions emerge from the foregoing examination of changes in the public awareness of the involvement of British banks in South Africa.

First, it seems apparent from the data contained in Chapter 3 that the international campaigns against bank lending to South Africa largely failed in their objective of stemming the flow of assistance to the South African state. South Africa was able to borrow largely without restriction until the grave deterioration of its balance of payments in early 1976 and the events of Soweto during June that year.

Second, the moratorium on lending to South Africa announced by certain

banks is far less wide-ranging in its effects than is often portrayed, and in fact does not exclude the possibility of financing exports destined for use by South African public bodies. Furthermore, it is arguable whether such restraint owes more to straightforward economic considerations than to any change in political or moral conviction.

Third, however, the campaigns achieved two less tangible but nevertheless notable results; they obliged the banks publicly to disassociate themselves from the principles of apartheid and to attempt to justify their continued involvement in that system. Perhaps more significantly the existence of a debate cannot fail to have affected the thinking of the increasingly influential group of third world countries about the nature of western involvement in apartheid and the ways in which it might be terminated.

Fourth, the marked shift in economic power towards black Africa, and in particular Nigeria, has profoundly altered the context within which governments and banks alike must view their South African connections. For the British banks this has meant balancing the value of existing relationships in South Africa with those developing in the rest of black Africa. Similarly for governments the relative merits of the two markets from the point of view of their export potential has had to be reassessed. For those banks, like Barclays, with a major South African subsidiary this reappraisal has led to painful tensions between parents and subsidiaries as are illustrated by the case of the Defence Bonds purchase and subsequent sale. For governments the key question has been the degree to which they felt they could move towards dismantling their trade promoting activities with South Africa. The British Government, conscious of its large trade and investment links has moved the least on this issue, and the continued existence of a positive official attitude to trade with South Africa and in particular the availability of ECGD backing for exports has become one of the principal props maintaining the flow of British bank lending to South African borrowers.

Finally, it would appear that the arguments deployed by critics and defenders of British banking relationships with South Africa are substantially different in their nature and level of generality. As such they reflect very different perceptions both of the ends and means of social change in South Africa and the timescale in which they can or should be achieved.

Since, in the present situation, it is impossible fairly to ascertain the views of the black majority on these questions — and both sides of the debate can quote credible spokesmen in support of their case — concerned outsiders cannot escape from the burden of making up their own minds on the issues raised. They are therefore obliged to strike a balance between the competing arguments and make essentially subjective judgements in the light of their own particular values and experience.

The concluding chapter of this report attempts to make explicit such a process of assessment on the basis of the values espoused by CCSA and in the light of its experience over the past few years.

# Conclusions, Policy Options and Recommendations

## 7.1 *The Problem of Assessment*

As has been shown in previous sections, the nature and role of British banking relationships with South Africa are many faceted and complex. As such they are a microcosm of the wider problem of British involvement in general. Not only are there many areas to be considered (internal, external, trade, investment, etc.) but they interrelate one with another and each in turn can have at least two dimensions (political and economic). Since there is no common currency which will comfortably arbitrate between these competing arguments and we cannot duck the issue by relying on the statements of so called spokesmen of black opinion, we are obliged to state the premises upon which our own analysis and judgements are made.

In CCSA's view two such elements are fundamental. The first is that the basic focus of our concern should be the liberation of all South Africans from the system of apartheid and white supremacy. In political terms this means a commitment to a solution that is acceptable to the majority of the population within a unitary South Africa. In economic terms it implies supporting efforts to preserve the widest range of choices as to the form of economic system adopted by the incoming majority administration. The second premise is that all non-violent means of furthering these ends should be pursued.

The crucial factor determining whether the transition to majority rule occurs peacefully or not is the timescale over which it occurs. The longer the legitimate aspirations of the black population are denied the more violent the transition, the narrower the range of acceptable options available at the changeover and the more limited the likely role of the white community. Accordingly it seems both morally dubious and politically dangerous to assume a period of transition to majority rule in South Africa which would take longer than ten years.

It is therefore in the light of these objectives and within this timescale that the report approaches the question of assessing the actual and potential contribution of British banking relationships. The following sections draw together the findings arising in Chapters 2 and 6 and in the light of the overall judgements expressed above attempt to derive an overall research conclusion. On the basis of this conclusion two main policy options for the future are examined and some policy conclusions are derived. The report ends by presenting to the banks, the British Government, and the churches a

series of recommendations that CCSA believe will give operational effect to the report's conclusions.

## 7.2 *The Research Findings*

On the basis of its analysis of the material presented on the size, nature and significance of British bank involvement in the economic life of South Africa, CCSA concludes that:

- a. *The relationship between British banks and South Africa, both from within that country and from outside, has provided and continues to provide a very significant degree of support for the status quo in South Africa.*

The political economy of South Africa is so structured that the British banks operating there cannot avoid progressively diverting black savings into the process of white capital accumulation and thereby acting to exacerbate the already extreme level of inequality between the black and white communities. Nor can they avoid being instruments of government policy in the channelling of funds to those ends most conducive to the defence of white supremacy.

During the last five years British banks have lent substantially on their own account and, through their expertise, contacts and good name, have encouraged others to lend large sums of money to the South African state. These credits have had the effect of carrying the central institution of apartheid through a period of undoubted crisis and have helped it to emerge strengthened in many vital areas. Little substantive evidence can be found that this transfer has been of benefit to the black community let alone been of a magnitude commensurate with that obtained by the whites.

At the political level British banking connections with South Africa have had the effect of tying Britain to the regime in South Africa. The South African government uses these connections to imply British support for the policies of the Nationalist Party; other countries also see these connections as involving Britain in apartheid.

- b. *British banks operating in South Africa have in recent years taken steps to increase substantially the flow of benefits derived by certain sections of the black community from the banks' presence in that country.*

The banks on the whole have acted as responsible employers although their achievements could not be judged notable within the overall time-scale of their involvement in South Africa. Substantial efforts have been made in the field of educational provision both for employees and their families and the wider black community. Furthermore they have recognised the limitations placed on their ability to serve the black community as bankers and have launched initiatives to try to overcome some of these obstacles. Efforts by a consortium of banks led by Barclays (and including Standard) to finance the electrification of Soweto is perhaps the largest

and most significant initiative of this type.

Inadequate information makes it impossible to determine whether the performance of British banks is consistently better than that of their locally owned competitors or whether their actions have been critical in pioneering new policies and practices that have subsequently been taken up by others. Nevertheless, it cannot be denied that change is being sought and that in varying degrees it has been achieved.

### 7.3 *The Research Conclusion*

If, as they claim, the banks abhor the policies and practices of apartheid then they can only justify their continued presence if their involvement in it does more to create conditions for changing the status quo than to give support to it. While at least one of the banks has explicitly recognised this as its underlying goal, there is little indication that the greater flow of benefits to certain members of the black community represents a contribution to the well-being of that community commensurate with that received by whites, let alone constitutes a challenge to the status quo.

The improvements achieved derive their significance from a comparison with the banks' past performance or that of other British firms rather than in relation to the extent of their contribution to the present goals of the black community. The argument that a gradual process of economic improvement may percolate through into political liberalisation, while conceivable in theory, presupposes a timescale ("It will not include one-man one-vote in our lifetime" – Anthony Tuke of Barclays, January 1978) that increasingly neither South African blacks nor the world community are prepared to accept.

Viewed in the light of the premises and timescale outlined in section 7.1 (majority rule within a period of ten years) the findings of this report lead to one overall conclusion.

This is that the current contribution made by British banks to meeting the needs of the black community in South Africa, whether in their primary role as bankers or their subsidiary capacities as employers or public benefactors, does not constitute a sufficiently significant challenge to the status quo to compensate for the very considerable level of actual and implied support that their involvement provides for the maintenance of white supremacy and its apartheid policies. *In short, British banking relations do more to sustain the status quo in South Africa than to change it.*

### 7.4 *The Policy Options to be Considered*

On the basis of the research conclusion two policy options can be identified, each having its own consequences. The first would require British banks to increase very substantially their efforts for change in order to ensure that their involvement does more to bring about a speedy and orderly transition to majority rule than it does to strengthen the white community

against such a process. The second would be to sever all existing banking links and thereby end the flow of support for the existing system. The pros and cons of each option are considered in turn.

#### *a. Intensifying Constructive Engagement*

If British banks are to become contributors to change within the sort of timescale contemplated in Section 7.1 they would have both to intensify drastically existing policies and to initiate action in hitherto untouched areas. In the field of bank lending from outside South Africa this would imply a vigorous policy of positive discrimination in favour of projects (capital goods exports) or products which were of direct and immediate benefit for the black community and the avoidance of loans which sustained the white economy. For banks operating in South Africa it would mean intensifying their efforts to improve their economic and social contribution to the black community as bankers and employers and taking the initiative in mobilising business pressure on the government for fundamental political change.

Several questions need to be raised about the viability of such a policy option. In particular, is it likely to be in the interests of the British banks to push further for change and is there much more that they can legitimately do? Moreover, does further foreign business pressure hold out hope for changing the basic character of the system rather than its superficial manifestations?

A policy of greater selectivity in international lending to South Africa in order to benefit the black community suffers from two main drawbacks: it strengthens the white community *pari passu* with the black and it condones and reinforces the South African government's discriminatory pattern of resource allocation. As argued previously, all foreign loans provide foreign exchange which is critically important for the balance of payments. Since many of the black community's basic needs do not require imports to be satisfied, such loans provide a means of financing those imports that are of highest priority for the white community, namely oil and arms (or, if the UN embargo is effective, the means of manufacturing arms).

If foreign lenders finance the provision of basic facilities for blacks they are of course, assuming a responsibility that is more properly that of the government. In many third world countries it might be argued that the state's resources are too limited but this is patently not the case in South Africa. Facilities for blacks are a consistently low priority compared to those for whites.

Greater efforts by British banks to meet the banking needs of the black community could take a variety of forms: making the strongest political representations for changes in the plethora of laws and regulations restricting black business opportunities and the accumulation of capital; and adopting a policy of positive discrimination in their lending policies by providing finance to black individuals and groups whose level of risk or paucity of collateral would otherwise have rendered them unacceptable.

Such an approach would take the banks outside their conventional modes of operation and could cause them a variety of problems. Besides the obvious political content of proposals to open up commercial opportunities to blacks, there are the more direct economic implications for the banks' white customers, many of whom, as has been made clear earlier, are very dependent on black custom and would be threatened by a thriving black commercial sector. To be seen to be promoting such a development, let alone financing it on preferential or privileged terms, would be commercially damaging. In addition, a policy of positive discrimination in lending could encounter considerable operational problems. Not only does it introduce a difficult grey area into lending decisions but it might not command widespread support among the white managers who would be ultimately in charge of running it. While such a policy has been adopted in certain areas of the USA for some years, it is not clear that it would be possible in the altogether different climate of South Africa.

In the field of employment policies a strengthened commitment to change would imply a far greater level of black recruitment, enlarged training programmes and the rapid advancement of blacks within the organisation so that their level of representation was commensurate with their numerical position within the labour market. (Details of the efforts made so far in these fields are given in Appendix II). Such crash programmes have been instituted elsewhere in Africa where the transition to majority rule has become a political reality, hence in theory they should be equally possible in South Africa. However, the pace of progress so far does not give us strong grounds for hope in the future.

Last but not least among the pressures for change that could be mounted by the banks is the mobilisation of British business interests in general to press the government for a progressive redistribution of economic and political power. Since it seems likely that British controlled companies would tend to bank with British controlled banks, the latter undoubtedly occupy a focal position and would be the natural candidates to supply leadership for such a campaign. In addition, the multiplicity of their involvements gives the banks a breadth of understanding of developments which may be lacking in more specialist companies.

In assessing the likelihood of a strong political stand being taken by the British banks in South Africa it should be recalled that they are becoming increasingly vulnerable to economic and regulatory action by the state. Besides the various legal and administrative means available to the government to signal its displeasure, the growth in the size and importance of the state's banking needs have themselves provided it with a further policy instrument. As has been noted before, if anything was significant about the Defence Bonds purchase by Barclays it was the strong pro-South Africa, and hence implicitly pro-Government, publicity with which it was accompanied. That the bank felt obliged to do this is indicative of either very considerable naiveté on the part of local management or a strong sense of insecurity in relation to the state. As international pressure on South Africa

intensifies, patriotism will be ever more closely identified with support for the state and the costs of dissent may become unacceptably high for institutions such as foreign owned banks.

From the foregoing it is clear that even in those areas which are their own particular province – banking and employment practices – the banks could be subject to a variety of counter pressures or constraints imposed by white customers, employees and ultimately the government itself. It is a matter of conjecture as to how the local managements (who after all take the bulk of the basic decisions) view these factors but it seems reasonable to assume that since it is their careers, status and reputation, rather than those of UK directors, which would be affected by adverse reactions, they will err on the side of caution. Such an interpretation is reinforced by the fact that the banks are involved in a process of South Africanisation of ownership with the prospect of control residing in South African hands within at least five to eight years.

These considerations suggest that the banks may be unwilling to raise the pace of change or to increase what they already see as a significant degree of exposure particularly where, as is the case with black business and tenure rights, the issue is both economically and politically sensitive. Useful initiatives may continue to be taken at the margin and the banks may sponsor or promote large schemes (like that for Soweto) where they can either count on widespread business support or limited adverse reactions, but the probability that the banks will either unilaterally, or in concert with others, challenge the status quo more directly does not appear to be high.

### *b. Severing all Links*

The second policy option to be considered is the severance of all British banking links with South Africa. This would entail three things: not granting new loans to South African borrowers and the non-renewal of existing loans as they fell due; the sale of British banking affiliates in South Africa, and thirdly the termination of all contacts with ex-affiliates or other banks in South Africa and of their access to British banking resources. Such a policy is radically different from that envisaged by the South African government whereby control of the affiliate will gradually shift towards South African nationals but the parent bank's stake will remain (and in fact may continue to grow) and the crucial points of access to the international group that go with it continue unbroken.

Whereas the first policy option aims to counteract the support for the status quo which is inherent in banking relationships, the second option attempts to eliminate that negative contribution entirely.

Since the South African affiliates will continue to exist after being sold off they will continue to fulfil the role in the economy for which they have been criticised in Chapter 2. The crucial difference will be that they can no longer capitalise either financially or symbolically on their access to the resources

and contacts of major British banking groups. Although it is possible that other lenders might step into the breach left by British banks, it appears unlikely that they would be either willing or able to provide a comparable service.

The scale and level of sophistication of British financial contact could not quickly be replaced and the withdrawal of British lenders would of itself strongly influence market sentiment against becoming more deeply involved in South African lending. Some finance would undoubtedly be forthcoming but on shorter maturities and at higher rates of interest. It is further argued that what is tantamount to a financial embargo is not just an exercise in hand-washing but will generate powerful economic and political pressures on the South African government to change its policies. At the very least it could well precipitate a significant change in the development path within South Africa in ways more favourable to the black community than those currently being pursued. In particular capital scarcity might reverse the trend towards greater mechanisation, and exclusion from foreign markets (through lack of trade finance) could stimulate greater interest in meeting the needs of the country's black consumers.

There are a variety of problems associated with this option some of which have been raised in Section 6.7. Two in particular relate to the likely costs of such a policy for the black community. If British banks were to divest themselves of their South African interests they might be obliged to sell to purchasers who would follow less enlightened practices than might otherwise have been the case. Many of the existing positive policies may be discontinued or the progress that would otherwise have been achieved would be lost. Furthermore if British banks unilaterally take such a step and no one else follows suit then it will have been a symbolic gesture at the expense of the black community.

However, since little evidence has been found to indicate that the employment practices of British affiliates are markedly different from those of other banks or that useful initiatives have gone ahead principally because of the British ownership of the bank rather than through other factors it would be dangerous to push this argument too far.

The second reservation is, however, far more serious. It stresses that if a financial embargo is effective then its impact could be traumatic and the blacks, being the weakest section of the community, would be the first to suffer. The severity of the impact on black employment and incomes would depend on the extent to which a reorientation of the South African development process towards domestic resources and markets offsets the adverse effects of a reduction in the overall level of economic activity.

The duration of the impact on the black community would depend on the speed with which the white minority appreciated the radically altered nature of their position and began to take new political and economic initiatives. Since the fear of large scale black unemployment in the urban areas has been the spectre haunting South Africa's planners for nearly two decades it could

reasonably be expected that the more severe the impact on the black community the more swiftly the government would be obliged to react. While it can be argued that the black unemployment problem will merely be exported to the so-called homelands, there are obvious limits to such a policy if it is not to destroy the precarious economic and political stability of those areas and with it the government's entire bantustan strategy.

From the above it should be clear that the two policy options differ markedly in character. The first offers the possibility of further material advances for certain sections of the black community but far less likelihood of furthering a process of political change within an acceptable timescale. The second could entail substantial extra burdens on the black community in general but offers the possibility of generating far greater pressures for fundamental change. Making a reasoned choice between them is difficult and cannot be achieved on the basis of the available data without placing it within a wider frame of reference which, by its very nature, will reflect the dominant values and perceptions of the individual or organisation concerned. It must also be noted that notwithstanding the arguments pointing towards this second course there will be some people, including members of church bodies supporting CCSA, who are firmly and sincerely convinced that, in broad terms, policies of withdrawal should be avoided in favour of continued involvement, with the leverage this seems to offer.

### *7.5 Recommendations*

It has been argued that the likelihood of British banks exerting further pressure, whether from the UK, or within South Africa, to change the status quo in politically significant areas is small, whereas the banking links that they provide are, and will continue to be, essential for the continuation of the present policies of the South African government.

As we introduce the recommendations of this report it is recognised that at present the official policy in most churches favours constructive engagement. However, the conclusions and recommendations of the report were overwhelmingly approved at a Special Council Meeting on 27th November 1978. They focus the issues discussed in the document and are intended to assist further debate both in the church and more widely. CCSA concludes, in the light of the evidence presented, that there is a very strong case for complete disengagement from all banking ties with South Africa as an effective means of furthering change within an acceptable timescale with the minimum of violence. It must be acknowledged that such a policy will impose heavy costs on the black community, but it is preferable for those costs to be in the form of unemployment and loss of income in the short run rather than in a widespread loss of life spanning perhaps several decades which could be the long-term consequence of a continued denial of basic human rights to the black community.

In view of this conclusion the following recommendations are made to the British Government, to the banks and to the churches.

### *a. The British Government*

If there is continued involvement by British banks in South Africa the damage to Britain's reputation and economic interests overseas is likely to be so significant as to warrant steps being taken by HM Government to ensure that it is not further prejudiced by their actions, whether acting unilaterally from the UK or via overseas subsidiaries and associates. So long as government policy positively encourages continuing economic ties with South Africa, British banks will continue to finance them and Britain's contribution to apartheid will be maintained. This being so, HM Government should:

- i. Implement a policy of discouraging economic relations between Britain and South Africa in line with the statement of intention made by Mr Denis Healey, Chancellor of the Exchequer, in November 1977. This would entail the termination of official support or sponsorship for trade and investment in all possible ways, including the ending of export guarantees and credits by the ECGD for British exports to South Africa.
- ii. Instruct British registered banks to cease lending (including trade, project and leasing finance) to South African borrowers, or to other borrowers for use within South Africa.
- iii. Reinforce this policy by using its best endeavours to deny South Africa access to credit from international organisations, of which Britain is a member, such as the IMF.

### *b. The Banks*

- i. Banks having outstanding lines of credit to South African borrowers should undertake not to make further advances and not to renew existing advances as they fall due. Similarly they should refrain from participating in whatever capacity in the raising of credit or the issuance of bonds on behalf of South Africa by third parties.
- ii. Banks having indirect relations with South Africa should undertake not to open offices or representations in South Africa and where they exist already should terminate their activities.
- iii. Banks having subsidiaries and affiliates in South Africa should change their present objective of limited divestment, in order to meet the wishes of the South African Government, to one of complete and speedy divestment of their holdings in South Africa.

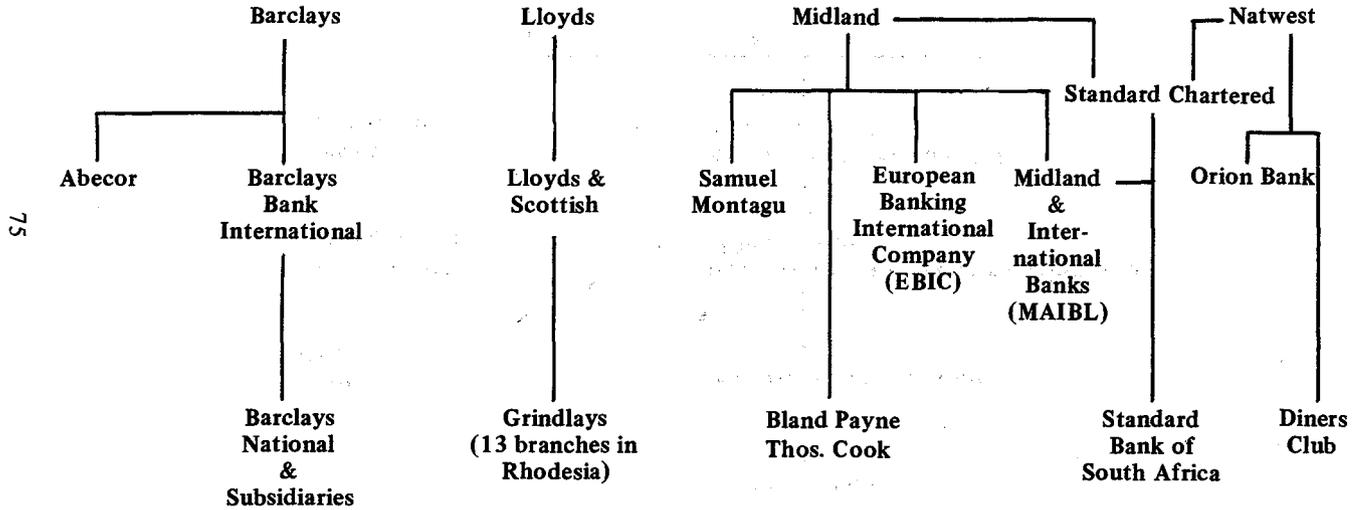
### *c. The Churches*

CCSA believes that the issue raised by the involvement of the banks is so central to the problem of social justice for the black community that the appropriate committees of the British churches should:

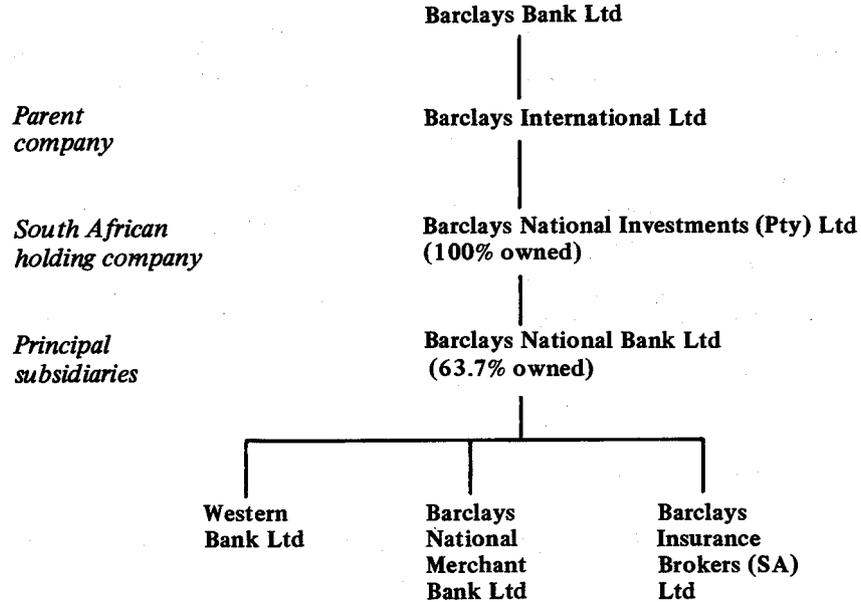
- i. Bring the recommendations made in (a) and (b) to the attention of the parties concerned and press for their adoption.
- ii. Take steps to stimulate a national awareness of the conclusions reached by CCSA about Britain's banking and commercial relations with South Africa so that there might be the widest public support for the implementation of a policy of complete disengagement by British banks from South Africa.

## APPENDIX I

*Table A. Principal British Banks in South Africa: Subsidiaries and Associates*



*Table B. Barclays*



*Table C. Standard*

**Standard Chartered Bank Ltd**

**Standard Bank Investment Corporation Ltd**  
(59.5%-owned)

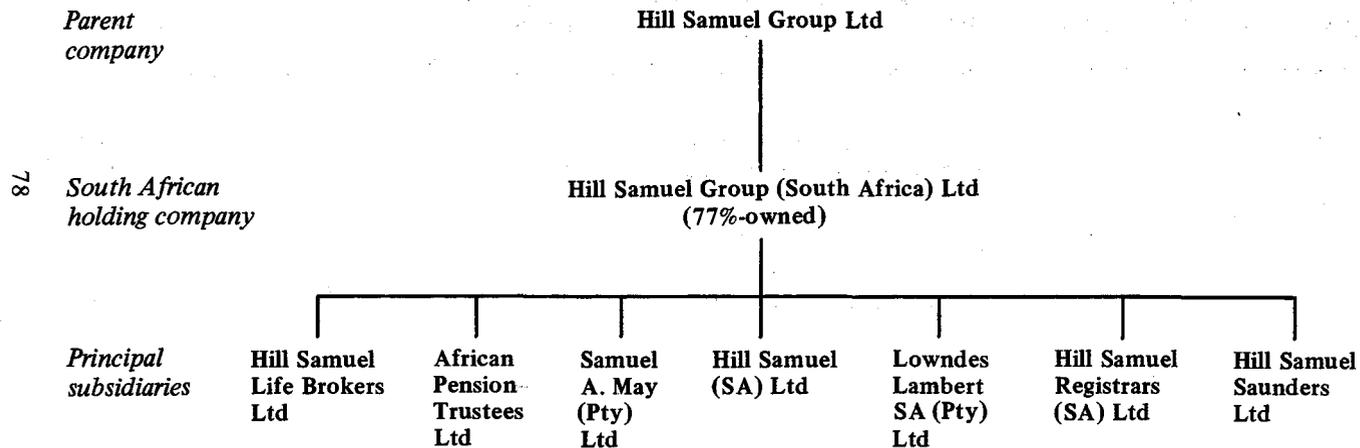
<b>Standard Bank Insurance Brokers (Pty) Ltd</b>	<b>SBIC Management Services (Pty) Ltd</b>	<b>City Credit Ltd</b>	<b>Diners Club SA (Pty) Ltd</b> (59%-owned)	<b>Standard Bank of SA Ltd</b>	<b>Standard Merchant Bank Ltd</b>	<b>Standard Bank Import &amp; Export Finance Co. Ltd</b>	<b>Standard Bank National Industrial Credit Corp. Ltd</b>	<b>Standard Bank Financial Services Ltd</b>	<b>Standard Bank Fund Managers Ltd.</b>
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*Parent company*

*South African holding company*

*Principal subsidiaries*

*Table D. Hill Samuel*



## APPENDIX II. THE EMPLOYMENT RECORD OF BRITISH BANKS IN SOUTH AFRICA

### *1. The Disclosure of Relevant Information*

Under the terms of the 1974 White Paper (Cmnd. 5846), British companies operating in South Africa were requested to supply, on a regular basis, answers to a number of specific questions regarding the minimum wage levels of their African employees. In the three and a half years since December 1974 reporting by British banks has been sporadic and uneven. Two of the three banks involved (Barclays and Hill Samuel) appear to have concluded that once they had demonstrated that they were in compliance with the minimum wage provisions of the Code there was no need to continue to report and that a general assurance in the annual report that the situation was unchanged would suffice. It was the absence of such specific reporting that led the Department of Trade, when it did a survey of company disclosure on this issue, initially to classify Barclays among the companies who had yet to supply information as requested by the Code. In the case of Hill Samuel, apart from general references in the company's annual reports, the information available to CCSA refers to the end of 1975 and even then did not cover all the items specified by the British Code's reporting format.

The formulation of an EEC Code of Conduct has prompted Barclays to issue, in conjunction with its 1978 annual report and accounts, a special response to the various provisions contained in that Code. The information provided, which is almost entirely qualitative, has been incorporated in the relevant sections of this Appendix.

### *2. The Size and Composition of the Workforce*

As can be seen from the accompanying table, the majority of employees in the British banks, unlike those in other sections of South African industry and commerce, are white. Black employees represent at most a third of the entire workforce, and, if Barclays is typical, Coloured and Asian employees are disproportionately represented.

Several points about the distribution of employment by grade and race are worth noting:-

- i. While nearly all Whites are to be found in the clerical grades, the majority of Blacks are in the non-clerical jobs such as cleaners, chauffeurs etc.
- ii. Of those Blacks employed in clerical grades the Coloureds and Asians outnumber the Africans by over three to one.
- iii. Although the table does not indicate the location of employees it is recognised that the bulk of the African clerical employees work in branches in black areas, either urban townships or bantustans.

(a) Numbers Employed

	Coloured/Asians	African	Total Black	Total White
Barclays <sup>1</sup>	1725	2289	4014	13451
Standard <sup>2</sup>	—	—	3500	12500
Hill Samuel <sup>3</sup>	26	78	104	326

Sources:

1. Barclays 1977 Report — Fig. for total Whites as at 31.12.77.
2. Standard 1977 AGM — *Guardian* 12.8.77.
3. Letter to Adam Raphael dated 31.12.75.

(b) Composition by Grade and Race

i. Barclays (31.12.77)

	Coloured/Asians	Africans	Total Black	Total White
Clerical	1482	430	1912	13192
Non-Clerical	243	1859	2102	259
Total	1725	2289	4014	13451

ii. Standard (CCSA estimates 31.12.77)

	Black	White	Total
Clerical	1500	12500	14000
Non-Clerical	2000	—	2000
Total	3500	12500	16000

iii. Hill Samuel. No Data Available

At the time of the Trade and Industry sub-committee hearings in 1973 both Barclays and Standard were shown to have a small number of employees on wage rates which fell below the Poverty Datum Line (PDL). Both banks, however, responded rapidly to public pressure and in April 1974 Barclays was able to claim that as from 1 Jan 1974 the minimum scales for clerical, messenger and driver staff were all in excess of October 1973 Minimum Effective Levels (MEL) and that all cleaners and tea ladies were paid above the PDL, the minimum cleaners' wages in rural areas having been nearly doubled. By February 1975, Barclays was reporting to the Department of Trade that all African employees were paid above the MEL. The Standard

### 3. Minimum Wage Levels

	<i>Barclays</i> <sup>1</sup>	<i>Standard</i> <sup>2</sup>	<i>Hill Samuel</i> <sup>3</sup>
Total Africans	2126	1521	
No. in lowest grade	1540	1280	
Main Activity	Cleaning Staff	Service Staff	
Hours Worked	40	42½	
Pay Rates	R194.02 to R252.33 incl. clothing allowance of R5.00	R169.75 to R292.75 inc. R18.75 for travel, quarters & clothing allowance	
Pay Yardstick	UPE <sup>4</sup> No.18 Oct 76 Joburg family of 6 HSL R134.67 HEL R202.01	UNISA <sup>5</sup> Aug 76 MLL R125.56 SLL R162.32	
No. below PDL/MEL	NONE	NONE	

#### Notes

1. End 1976
2. January 1977.
3. No comparable data available since 1973.
4. University of Port Elizabeth.
5. University of South Africa.

Bank reported in January 1976 that all its African employees were paid above the University of South Africa's Supplemented Living Level (SLL) a measure which falls short of the MEL target set in the code of practice which is 50% more than the PDL. It is not known whether Standard is now paying above the MEL or continues to use the SLL as its yardstick.

The 1977 annual report of Hill Samuel Ltd states that all its South African employees are paid above the recommended level, but no data is presented and what has been provided since 1973 does not allow a comparison to be made with other banks.

#### 4. Advancement and Training

##### a. Advancement

From the figures presented for Barclays and Standard it is clear that there has been a substantial improvement in the percentage of black workers employed in the clerical grade. From a position where only 2% of clerical workers were black the figure is now between 11-14%. Two features of this process should, however, be noted: first, as shown earlier, the principal beneficiaries of this process have been Coloureds and Asians rather than

Africans and progress for Africans has been largely confined to township and bantustan branches. Despite the progress achieved, Vincent Nkosi (president of the black bankers union, Sabeu) believes that it has not been rapid enough. "The only advances we see are in township branches, members have complained to the union that the movement is too often horizontal rather than vertical".

**(a) Trends in Employment Composition**

*i. Barclays*

	<i>Total Clerical</i>	<i>White</i>	<i>Black</i>	<i>% Black</i>
1972	10570	10335	235	2.0
1973	11035	10547	488	4.0
1974	11700	10717	983	8.0
1975	12140	10840	1300	11.0
1977	15047	13135	1912	12.7

All figs except 1977 from *FM 12.5.78*, p.458 – 1977 Figs CCSA computation

*ii. Standard. Estimates for 1978 only are available and are given in the table below*

*iii. Hill Samuel No data available*

**(b) Comparative Performance: % of black clerical staff in top 5 South African banks**

	<i>1972 %</i>	<i>1978 %</i>	<i>Rank</i>
Nedbank	10	15	1
Trust Bank	—	14	2
Barclays	2	12.7	3
Standard	2	11	4
Volkscas	—	0.6	5

*Source: FM 12.5.78, p.458.*

The underlying causes of this upward process appear to have had more to do with economic necessity than philanthropy. According to Barclays' managing director in South Africa, "In the boom years of the early Seventies, the shortage of whites led us to look for blacks to do the job".

This is echoed by Philip Bacchioni, assistant general manager for personnel at Nedbank, who stresses that, "The increase was dictated by supply and demand".

(c) Comparative Performance: Senior Positions for Blacks

	<i>Black Bank Managers</i>	<i>Black Business Development Managers</i>	<i>Black Senior Executives</i>
Barclays	1 Coloured 4 Africans	20	13
Standard	N/A	4	23
Trust Bank	No branches in black areas	YES (Figs N/A)	N/A
Nedbank	.. .. .	N/A	1

Source: *FM* 12.5.78, p.458/9.

Barclays anticipates a shortage of 3,000 male employees by 1982 and expects to need 152 black executive officials by 1982 and 250 by 1987.

Compared with others of the big five banks the performance of Barclays and Standard appears to have been about average. On the one hand, their scale makes the challenge that much bigger in absolute terms, while, on the other hand, it provides them with more opportunities, particularly since they both have growing urban township and bantustan networks.

*b. Training Programmes for Blacks*

	<i>Programme</i>	<i>No. Involved</i>	<i>Cost to Company</i>
Barclays	Bursaries to children of black staff only	499 awarded 443 current	R27,000 (1977)
	Accelerated Training scheme for black staff	N/A	N/A
Standard	Bursaries	—	—

According to the *Financial Mail*, Barclays has taken the lead in training, and in giving the children of its black employees a special bursary scheme over and above those given to whites, with the guarantee of a job for those who obtain their matriculation. Efforts have also been made to reduce the long time period needed to train bank managers.

“Unfortunately we did not start our programmes early enough. We should have started five years ago.”

Bob Aldworth, Barclays MD, *FM* 12.5.78

It is known that Standard operates a bursary scheme for the children of all employees but no details are available of it or other training schemes.

Nedbank and Trust Bank do not currently operate bursary schemes for secondary school education.

While it is clear that British banks are making progress in this field, the unstructured nature of the information available makes it difficult to assess its true size and significance.

### *5. Black Representation*

Three unions exist in the banking sector: the (white) South African Society of Bank Officials, with 18,000 members; the (Coloured) National Union of Bank Employees of South Africa, with about 2,000 members, and the (Black) South African Bank Employees Union, with about 600 members. The general secretary of all three is Andre Malherbe, who is also second vice-president of TUCSA. The SABEU is sometimes instanced as a fairly typical "parallel" union. All three unions are recognised by Barclays and Standard (the Standard Bank of South Africa), where all clerical staff are members. The two other major banks, Nedbank and Volkskas, have company unions.

At present, only clerical grades are organised, but SABEU is now contemplating bringing in service grades.

In its response to the EEC Code of Conduct, Barclays reaffirms its commitment to dealing with Black trade unions and states that:

"it is the Bank's view that no useful purpose would be served by formation of statutory works/liaison committees."

Trade union officials have free access to staff to enrol members and members are granted special leave without loss of pay to attend to official union matters. The unions may display their notices on Bank premises.

Finally, Barclays has been one of the supporters of the Institute for Industrial Relations which attempts to improve industrial relations by means of research, education, training and arbitration services.

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## CCSA EXECUTIVE

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|--|---|
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| Roman Catholic: Catholic Institute for International Relations.                        | Anglican: Formerly visiting Professor at Witwatersrand University, Johannesburg.            |
| *Treasurer: Aubrey Curry   | Rev. Hugh Bishop  |
| United Reformed Church: Chartered Accountant.  | Anglican: Formerly Chairman, Race Relations Unit of the British Council of Churches.        |
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| Sydney Bailey  | Rt. Rev. B.C. Butler  |
| Quaker: Past Director, Division of International Affairs, British Council of Churches. | Roman Catholic: Auxilliary Bishop in Westminster, President of the Social Morality Council. |
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| Church of Scotland: Former Convener, Church and Nation Committee.                      |   |

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- \*Margaret Cornell  
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- George Cox  
Unitarian: Secretary, Social Responsibility Department.
- Brian Davies  
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- \*Leonard Dove  
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- \*Rev. Brian Duckworth  
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- Rev. Charles Elliot  
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- Rev. Derek Farrow  
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- John Harding  
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- Cecil Hargreaves  
Anglican: Divisional Secretary, Conference for World Mission.
- \*Rev David Haslam  
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- \*Rev John Johansen-Berg  
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- \*Rev. Paul Oestreicher  
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- Rev. Dr. Earnest Payne  
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- \*Rev. John Reardon  
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- Rev. Edward Rogers  
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- Rev. George Sails  
Methodist: General Secretary, Home Mission Division.
- Rt. Rev. Kenneth Skelton  
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- \*Dr. Christopher Sworn  
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- Rev. Michael Till  
Anglican: Dean of King's College, Cambridge.
- Rev. John Waddell  
Church of Scotland: Convener of the Church's Overseas Council.

**Philip Wade**

**United Reformed Church: Administrative Secretary, Council for World Mission.**

**\*Rev. James Wilkie**

**Church of Scotland: Africa Secretary, Division of International Affairs, British Council of Churches.**

**Donald Wood**

**Roman Catholic: Catholic Institute for International Relations.**

**Rt. Rev. Kenneth Woollcombe**

**Anglican: Asst. Bishop, Diocese of London.**

**\*Executive Committee Member.**

