

HILL SAMUEL AND SOUTH AFRICA;

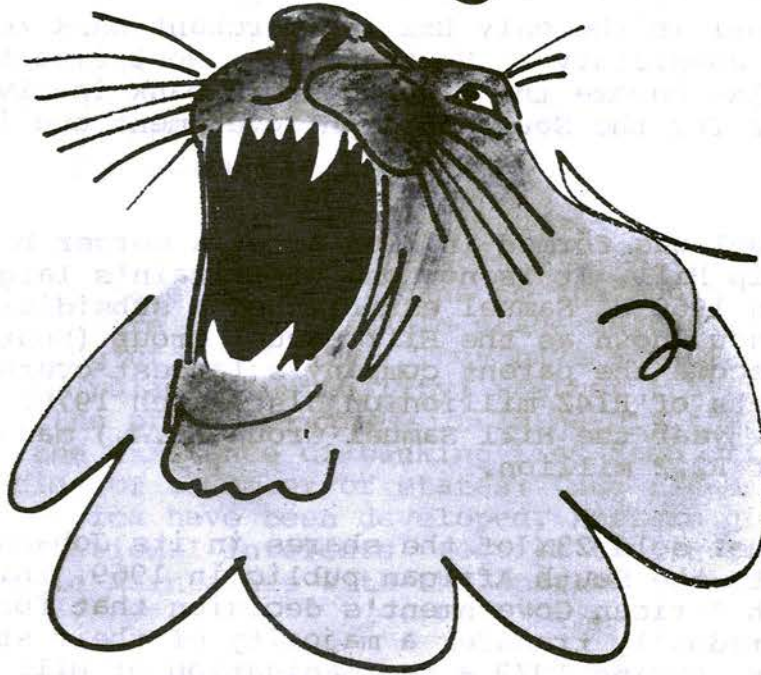
FINANCING APARTHEID

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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.

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THE HILL SAMUEL GROUP

International Merchant Bankers

(Advertisement in 'The Banker')

'END LOANS TO SOUTH AFRICA' (ELTSA)

134 Wrotesley Road
London N.W.10

July 1979

HILL SAMUEL AND SOUTH AFRICA:

FINANCING APARTHEID.

Hill Samuel is the only British merchant bank to have established a subsidiary in South Africa. Most important, however, it has also become the major Western bank involved in arranging loans for the South African Government and its corporations.

Hill Samuel was formed in 1965 after a merger between M. Samuel and Philip Hill. It is now one of Britain's largest merchant banks. In 1960 M. Samuel established a subsidiary in South Africa, now known as the Hill Samuel Group (South Africa) Ltd. It has become the parent company's largest overseas subsidiary, with assets of R142 million on 31st March 1978. In the 1978 financial year the Hill Samuel Group (S.A.) made a pre-tax profit of R2.2 million.

Hill Samuel sold 23% of the shares in its Johannesburg subsidiary to the South African public in 1969. This anticipated the South African Government's decision that foreign banks should gradually transfer a majority of their stock to local investors. During 1979 a reorganisation of Hill Samuel's investments in South Africa was completed. Hill Samuel's insurance broking and consultancy interests were merged with the Alexander Howden Group, and in return Hill Samuel obtained a 25% interest in the new company. Property investment and development activities in South Africa have been transferred to a newly formed company directly owned by Hill Samuel in London. The Hill Samuel Group Ltd has therefore now become the holding company for the Hill Samuel merchant bank - the 5th largest in South Africa. Over the next few years, however, the British parent company will have to reduce its shareholding from 77% to 50% in line with South African Government policy.

Hill Samuel in South Africa, in conjunction with its parent bank in London and its international network, has helped to mobilise vast sums of capital for the South African Government and its corporations.

Two major developments during the last few years have increased the significance of loans to South Africa. First of all, much of South Africa's inflow of foreign capital comes in the form of massive Eurocurrency loans by Western banks. Secondly, the South African state has become the country's largest investor. Bank loans to the South African Government and its corporations have therefore come to represent the most important aspect of Western financial ties with the apartheid regime.

Western banks, when criticised for their involvement in South Africa, frequently claim to abhor the apartheid system. But the provision of capital to the South African Government frees other resources for funding the armed forces, the police, and the state machinery. Large Eurocurrency loans also strengthen white South Africa in a number of other ways. They represent an indicator of investor confidence that helps to bolster the Republic's international credit rating. Loans have an important political dimension by providing the country with a cloak of respectability and breaching the international community's attempt to isolate the apartheid regime.

The banks, once they have extended loans to the South African Government, then acquire a considerable stake in the financial health and well-being of the regime. They have a vested interest in economic and political stability; whether that stability is gained at the price of oppression is hardly their concern. Inevitably the existence of banking ties then affects the foreign policies of a number of states; Once financial links with South Africa have been developed, Western governments claim that 'national interests' require that normal trading relations be maintained with the apartheid regime.

Hill Samuel has become the major Western bank involved in arranging Eurocurrency loans for the South African Government and its corporations.

In 1976, the year of the Soweto demonstrations, the bank reported that it had been "another busy and successful year" for raising foreign capital. Hill Samuel had "negotiated international loans for the equivalent of R360 million (£240m) for public sector borrowers" in South Africa. This figure represented nearly a quarter of South Africa's total net capital inflow during the year.

A new study by the New York-based Corporate Data Exchange has confirmed that Hill Samuel has been the most important British bank involved in loans to South Africa. During the period from 1972 to 1978 it participated in 27 loans worth a total \$1,055 million. In addition wholly-owned Swiss (Bank von Ernst) and West German (Hill Samuel & Co OHG) subsidiaries of Hill Samuel have also been involved in lending to South Africa.

Eurocurrency Loans to South Africa

Hill Samuel & Co

1976-81	£30 m	SA Railways and Harbours
1978-82	DM20 m	Corporation for Economic Development
1976-84	£60 m	Electricity Supply Commission (ESCOM)
1975-80	£25 m	Iron and Steel Corporation (ISCOR)
1972-87	DM100 m	Johannesburg Council
1972-87	DM100 m	Electricity Supply Commission
1973-88	DM100 m	Electricity Supply Commission
1975-80	DM70 m	SA Railways and Harbours
1973-88	DM100 m	SA Railways and Harbours
1976-81	£25 m	SA Government
1978-82	DM40 m	SA Railways and Harbours
1975-80	£100 m	Iron and Steel Corporation
1976-79	£12 m	Xhosa Development Corporation
1973-88	DM100 m	Iron and Steel Corporation
1972-87	£50 m	Anglo-American Corporation
1972-87	DM100 m	SA Government
1975-90	£30 m	Electricity Supply Commission
1976-84	£130 m	SA Government
1975-80	£25 m	Iron and Steel Corporation
1976-81	£15 m	Sasol II
1975-80	DM100 m	Electricity Supply Commission
1975-80	£25 m	Electricity Supply Commission
1972-87	DM100 m	Iron and Steel Corporation
1975-90	£50 m	Iron and Steel Corporation

Bank von Ernst

1973-88	SWF50 m	Posts and Telegraphs
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Hill Samuel & Co OHG

1973-88	DM100 m	Iron and Steel Corporation
1972-87	DM100 m	Johannesburg Council
1973-88	DM100 m	SA Railways and Harbours
1972-87	DM100 m	SA Government
1973-88	DM100 m	Iron and Steel Corporation
1972-87	DM100 m	Iron and Steel Corporation
1972-87	DM100 m	Electricity Supply Commission
1973-88	DM100 m	Electricity Supply Commission

Source: 'Bank Loans to South Africa 1972-1978' by Corporate Data Exchange.

Loans to the South African Government corporations have also strengthened South Africa's grip over Namibia and the Bantustans. One of Hill Samuel's loans to the Electricity Supply Commission was used for the construction of the controversial Kunene Hydroelectric plant in Namibia. The project has been condemned by SWAPO as an attempt to maintain South Africa's illegal occupation of the territory.

In 1976 Hill Samuel arranged a \$12 million loan to the Xhosa Development Corporation for the Transkei. The British Government refused to recognise the Transkei because the territory is wholly dependent on South Africa, and recognition would have represented a legitimisation of the Bantustan scheme. But after the Hill Samuel loan, Paul Hoogendyk, Director of the Xhosa Development Corporation, claimed that it represented proof that the world "accepted the reality" of the Transkei's independence. In July 1978, Hill Samuel helped organise DM20 million loan for the Corporation for Economic Development (formerly known as the Bantu Investment Corporation BIC), a South African Government agency set up to promote investment in the Bantustans. Early in 1979 Hill Samuel's Swiss subsidiary, Bank von Ernst, managed a R3.5 million to the Ciskei. Hill Samuel has therefore voted with its cheque-book to explicitly endorse the concept that 13% of South Africa's land is the legitimate 'homeland' of the black majority.

Hill Samuel has also arranged considerable credit for South Africa's trade with Britain. The table below lists some of the credits which have been arranged by Hill Samuel in London for British exports to the South African Government and its corporations:

Some Export credits to the South African Government and its corporations arranged by Hill Samuel

<u>Date</u>	<u>Amount</u>	<u>Borrower</u>
April 1973	£27 m	SA Posts & Telegraphs
May 1974	£5 m	ESCOM
May 1974	£13 m	SA Railways and Harbours & SA Broadcasting Corporation
April 1976	£60 m	ESCOM
October 1976	£75 m	SA Government

The £75 million credit to the South African Government represented particularly blatant support to the apartheid regime. It was arranged only a matter of months after the Soweto demonstrations, when South Africa was finding it increasingly difficult to attract international financial support. The 'South African Digest', a government publication 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."

Hill Samuel's international links have been a major factor behind its ability to raise capital in the Eurocurrency market. Bank von Ernst (in Switzerland), and Hill Samuel & Co OHG (in Germany) have helped manage loans to South Africa. Hill Samuel Incorporated, the American subsidiary, also plays an important role in strengthening South Africa's financial links with the USA. Most important of all, Hill Samuel is the only

Western merchant bank to have established a subsidiary in South Africa. This provides the bank with particularly close ties with Government corporations and private companies in the Republic which are seeking foreign capital.

Hill Samuel's primary contribution to the South African economy lies in its ability to mobilise foreign capital. This role has been clearly stated by the bank's South African subsidiary:

"We had another busy year, in co-operation with Hill Samuel offices in Europe, raising foreign funds and arranging import credits for South African enterprises. The Republic, ESCOM and ISCOR were amongst those who availed themselves of our special capability in this field. Because of the difficulty and high cost of raising medium and long term capital in the local market we are experiencing considerable demand for international loans and credits and various major facilities are under negotiation."
(1975 Annual Report).

Foreign capital strengthens white South Africa and increases the resources of the apartheid regime. ELTSA ('End Loans to South Africa') therefore makes two demands of Hill Samuel:

- (1) Hill Samuel should immediately cease arranging loans and credits for the South African Government and its corporations.
- (2) Hill Samuel should withdraw from South Africa, by disposing of its interest in its South African subsidiary.

Further reading:

- 'British Banks and South Africa', Christian Concern for Southern Africa, 1979. Obtainable from ELTSA for £1.20.
- 'Bank Loans to South Africa 1972-1978' by Corporate Data Exchange, published by the United Nations Centre Against Apartheid, and obtainable from ELTSA for a donation of £1.00.

ELTSA's quarterly Newsletter for a donation of £2.00 p.a.