TESTIMONY OF REV. CAROL L. SOMPLATSKY-JARMAN, DIRECTOR, INTERNATIONAL JUSTICE, INTERFAITH CENTER ON CORPORATE RESPONSIBILITY (ICCR), BEFORE THE SUBCOMMITTEE ON DOMESTIC MONETARY POLICY OF THE COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS, U.S. HOUSE OF REPRESENTATIVES

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Hello, my name is Carol L. Somplatsky-Jarman, Director of International Justice of the Interfaith Center on Corporate Responsibility, a coalition of United States church investors concerned with corporate social responsibility. Our member agencies include 17 Protestant denominations and agencies and more than 200 Roman Catholic orders and Diocese which seek to have their social concerns reflected in the practices of corporations in which they own stock.

I want to thank Congressman Fauntroy and the Subcommittee on Domestic and Monetary Policy for holding hearings on South Africa. ICCR's membership is much too broad and diverse for me to suggest that I could speak for all of them, but I can state with assurance that the membership is deeply concerned with the situation in South Africa where racism is institutionalized by the white minority government. Thus today I will attempt to mirror some of the thinking, analysis and actions that members of ICCR have taken on South Africa. In doing so, I also believe that I am representing concerns of our partner churches.

ICCR and its member churches have been working on issues related to South Africa for more than 15 years. During that time we have met with and filed shareholder resolutions with many of the U.S. banks involved in South Africa trying to get them to first end their bank loans to the South African government and its agencies, and, more recently, to cease all lending to the South African government.

Loans from international banks have made an important contribution to propping up the South African apartheid regime over the years. In 1972, then South Africa Prime Minister, J. Vorster,stated:

> Each trade agreement, each bank loan, each new investment is another brick in the wall of our continued existence.

In 1984, then Finance Minister, O. Horwood confirmed that loans to his country were becoming of relatively greater importance than equity investments. And, more recently, Gerhard De Kock, governor of the South African Reserve Bank, traveled abroad to attempt to assure the international banking community and American officials that South Africa would be able to handle its internal crisis, and, over the long-term, maintain its standing as a sound investment.

Over the years, we have seen a number of changes in the policies of U.S. banks concerning lending to South Africa. Most major U.S. banks now have a policy prohibiting loans to the South African government. In the churches, we view this as a battle which we have already won and, therefore, believe the action taken earlier this month by President Reagan does not advance us at all.

However, there is increasing evidence of the importance of ending bank loans to the private sector, and this is a matter to which the churches have turned their attention. There are now a number of U.S. banks which have ended their loans to the South African private sector including First National Bank of Boston, Wells Frago, Chase Manhattan Bank, Mellon Bank and Harris Bancorp.

One major reason for the concern over this issue is the tremendous increase in private sector lending since 1980. Between the end of 1980 and 1984, lending by U.S. banks to the South African economy increased 4.5 fold. Lending to the government and government-owned corporations remained relatively stable during this time. It was the bank-to-bank lending which increased most dramatically during this time-- a seven fold increase.

It appears to church observers that the rise in private sector lending is little more than a back door for the banks to lend to the South African government. The concern is that money is "fungible." In other words, money can not be traced directly, but the larger the pool of money, the more capital is available for lending purposes.

In a recent interview with The New York Times on bank lending to South Africa, Harry Taylor, President of Manufacturers Hanover, said:

> "Can the money be on-lent to the public sector? Of course, money is fungible. If you lend money to a bank, even though you may know the purpose of the funds, you're freeing resources that can be lent elsewhere." (sic.)

This same issue was raised by Gerald Miller, former Chairman of Nedbank, during a recent visit with church shareholders. According to Miller, there were two reasons for the radical increase in U.S. lending to South African banks. The first was the low cost of funds, because of the low prime interest rate of U.S. banks. The second was the South African banks were so heavily involved in new lending to government projects, and U.S. bank lending freed up funds for their South African partners to continue. Even their trade-related loans go into this pool of funds.

There is a third reason U.S. church representatives are concerned about bank-to-bank lending. Earlier this year during a meeting with a top-level officer of one of the money-center banks, church leaders expressed concern about lending to South African banks. The bank official indicated that it was difficult to prevent funds for one purpose from being used for another. He cited a hypothetical example of a 180-day trade-related loan where the money was used to finance trade-related purchases for 90 days and could be used for other purposes during the remaining 90 days. At the end of the loan's 180-day term, it could be renewed. From a practical point of view, he indicated there would be no difference between this and a long-term loan.

A recent report prepared by the World Council of Churches indicates the importance of the interbank lending for the South African economy. According to the report, for the period from mid-1982 to the end of 1984, South African banks as a group ranked third among the world's banks in terms of the total dollar amount of loans in which they participated in to South Africa. This is a jump from position number 12 to number 3. The total number of loans during this period was 24; the dollar amount of loan participation was $1382.3 million.

The previous figure for participation of South African banks was $182.2 million, an increase of 658 percent, more than any other national bank group reported. Nedbank was the most important of these banks, with a participation in 19 loans for a total of $1158.1 million.

There have been private reports to church officials indicating that U.S. banks may be lending to European banks, which, in turn, may be lending to the South African government. While I can offer no proof of this allegation as yet, I would like to point out the increases in European lending to South Africa. In the period mid-1982 to 1984, European bank lending to South Africa increased over the previous period (1979 to mid-1982) by the following amounts:

Austria	326 %
Luxembourg	242.8
Italy	225.5
Spain	190
France	90.3
United Kingdom	83.2
Belgium	58
Switzerland	52.3
Federal Republic of Germany	37.4

In addition, some U.S. banks and bank subsidiaries have been involved in lending in Eurocurrency markets to South African banks. A special June 1984 supplement to Euromoney on South Africa indicated Citicorp CMG and Morgan Guaranty Trust Corporation managed one loan (November 1983) and Citicorp CMG alone managed another (date not available) to Barclays National Bank. Barclays National Bank later managed a major loan to the South African Electric Supply Commission (ESCOM). It is this reality of "on-lending", i.e., where money makes its way into the hands of the South African government and its agencies that concerns church representatives.

Over the years, church representatives have expressed concern about a number of loans in which U.S. banks participated. Two reports (covering the years 1979 to May 1984) prepared by researcher Beate Klein detailed loans to South Africa by banks around the world. Both reports indicated a number of loans by U.S. banks that were of a questionable nature. These included loans to state agencies such as the Electric Supply Commission (ESCOM) as well as to companies such as the African Explosives and Chemical Industry which was very important to the South African government.

The reports also listed a number of loans to Volskas Bank from U.S. banks such as Chase Manhattan, Citicorp, First National Boston, Manufacturers Hanover. It is this bank-to-bank lending which church representatives believe may be a way of lending through the back door to the South African government.

It is not clear that this interbank lending has been a good practice either for the South African economy or for the U.S. banks. It appears that the way the lending was handled created a precarious "stack of cards" which we recently witnessed collapse. As indicated in the story earlier about the distinctions between a long-term loan and a short-term loan which is repeatedly "rolled over," it appears that money which South African banks borrowed short-term on the international markets was being loaned in South Africa as long term funds.

It is this practice which has been cited recently as one that led to the rapid deterioration of the South African economic position. It has been estimated that South Africa's short-term debt amounted to $12 billion when the crisis hit, and that between $800 million and $1billion of these loans have not been rolled over in the last two months. The South Africans have been unable to cope with these demands on their capital reserves and have responded with a moratorium on debt principal repayments.

The U.S. bankers made at least two mistakes. First, they did not monitor closely enough the lending practices of their South African counterparts and the end-use of their money. They also did not heed the warnings of church officials and others who warned about the instability of the South African situation, a factor which contributed heavily to the slide of the South African economy.

Due to the fragile state of the South African economy, we in the churches call upon the Subcommittee on Domestic Monetary Policy to require that U.S. banks reveal the size of their outstanding loans to South Africa and identify their borrowers. The SEC recently considered such a requirement, then backed off. Such information would be important for those of us involved in the anti-apartheid movement. It would also be important for any U.S. citizen wishing to evaluate the health of their bank.

Finally, I would like to take note of Citicorp, one of the twelve "focus companies" identified by the churches through ICCR, a subject my colleague Dr. Audrey Smock will discuss in greater detail. Citicorp is the only U.S. bank with a full scale banking operation in South Africa. It is the only U.S. bank which accepts deposits in that country. Citicorp also participated in the most recent loan by an American bank consortium to the South African government. Finally, it has the largest portfolio of loan participation to South Africa of any American bank.

I want to thank the committee for allowing us to testify here today.