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How Foreign Banks Have Invested in South Africa's  
Military Expansion

Foreign banks have been accomplices in South Africa's military build-up by allowing funds owed to them to be re-lent to the Pretoria regime and used to finance defence expenditure.

This situation has arisen out of the agreements reached in 1986 and 1987 between the South African government and its creditor banks<sup>1</sup> which covered partial repayment of the foreign debt frozen by South Africa in 1985 following its serious debt crisis.

Under the rescheduling agreement known as the Second Interim Arrangements agreed in March 1987 monies owed to foreign banks and frozen in South Africa can be re-lent to the South African government itself instead of being used to repay foreign banks.

Two particular clauses detail how this mechanism works. Clause 7.2 of Appendix A of the Second Interim Arrangements stipulates that funds owed to foreign banks by South African borrowers are to be deposited with a body called the Public Investment Commissioners (PIC) in a 'Special Restricted Account' as they fall due for repayment, unless banks specify that they remain in the hands of the original borrower.

Clause 7.01(c) of the main body of the agreement allows for these funds held by the PIC to be lent, in turn, to the South African government by way of purchasing South African currency, government securities (bonds, gilts etc), or deposits with the South African Reserve Bank.

In other words, unless banks agree to extend loans to the original borrower, debt which is owed to foreign bank creditors is accumulated in a special account held by the PIC which may lend it to the Pretoria regime to use on anything it chooses, including military or security expenditure.

There is no doubt that the Pretoria regime has used these funds for such purposes. The 1987-88 budget, announced in June 1987 just three months after the debt agreement, included a 30% or £180 million increase in official defence expenditure, and a 50% or £165 million increase in expenditure on the police, compared with an increase in overall government expenditure of only 15%. According to The Guardian (4.6.87),

'The budget would be financed partly by borrowing money from funds due to foreign creditors but blocked under the debt.

"It is intended to apply £400 million of these funds for exchequer financing in 1987-88...About £300 million of these funds had already been used to finance the 1986-78 budget" [Finance Minister Barend du Plessis] said'.

The official budget for defence, which omits substantial spending on security-related areas, rose again by 22% in the 1988 budget.

The arrangement which allows the regime to borrow from monies



held by the PIC, is a vital source of finance. The regime's spending is out of control, and the public sector deficit reached record proportions during 1988. The regime is desperate for additional sources of revenue.

South Africa's creditor banks argue that they had no alternative but to agree to the debt rescheduling terms laid down by Pretoria in 1987. However, there is little evidence that banks took part in serious negotiations with Pretoria or attempted to use the leverage they possess to either obtain higher repayments from South Africa or to preclude South Africa from using their funds for military purposes. According to the Second Interim Arrangements, banks had only to acknowledge receipt of the documentation from South Africa in order to agree to all the terms, a device which allowed banks to present the deal as a fait accompli engineered by South Africa.

Banks also argue that they have no position from which to negotiate with South Africa, when in fact they have the power to stop vital trade-related lending on which South Africa currently relies.

The AAM wrote to the main British financial institutions involved protesting at the arrangements. Among the replies, Barclays claimed that Pretoria could have raised the funds it diverted from the PIC by other means if necessary, and that Barclays cannot 'interfere with the executive powers of a sovereign nation'. Standard Chartered took a similar line arguing that as South Africa puts a high priority on 'internal security', it is 'probable that the expenditure would have been incurred in any event, whether or not South Africa had imposed an arrangement on its creditors, and that other more socially orientated parts of the budget would have suffered.'

It is clear that although most banks ban specific new lending to the South African government, they are quite willing, at the very least, to turn a blind eye to the redirection of money owed to them to central government funds where it is used to subsidise the military budget. In this respect, South Africa's creditor banks must bear significant responsibility for not only the draconian repression exercised by Pretoria since 1986, but also the regime's military build-up witnessed during the past year. The apartheid regime simply would not have had the money to finance such expenditure if foreign banks had not acquiesced to Pretoria's terms for the debt rescheduling.

1. The main banks involved in agreeing the rescheduling terms in 1987 and which comprised the banks' 'Technical Committee' were: Barclays, Standard Chartered, National Westminster, Credit Suisse, Union Bank of Switzerland, Swiss Banking Corporation, Dresdner Bank, Commerzbank, Deutschesbank, Citibank, Manufacturers Hanover, Morgan Guaranty, Banque Indo-Suez, Credit Lyonnais.